Dalriada Trustees – Industry Changes

Your Quarterly Pensions Update

June 2016

Dalriada. A better way

Private and Confidential

What's inside

Introduction

The purpose of this report is to update sponsoring employers and trustees with recent pension industry changes up to June 2016.

For your convenience Dalriada Trustee Limited (Dalriada) has summarised the key points and highlighted the necessary actions sponsors and trustees may need to take.

The format combines brief written comment with links to any further relevant information and any deadlines you should be aware of.

We trust you will find the update useful and informative. If you require further information about how any of the topics covered might impact on your scheme specifically, please contact your usual Dalriada contact.

NOTE

This document is aimed at providing you with generic information about recent developments in the pensions industry.

You should not take any action as a result of information included in this document without seeking specific advice in relation to the impact these matters might have on your scheme or company. Dalriada accepts no liability for actions taken or not taken as a result of this document.

If you require specific advice about any of the matters mentioned in this document please get in touch with your usual Dalriada contact.

BUDGET 2016

Tags: Budget George Osbourne

The Chancellor of the Exchequer, George Osbourne, gave his Budget to Parliament on Wednesday 16 March 2016. As was heavily trailed beforehand, no changes to pensions tax relief were announced.

There was a focus on ensuring that information and advice about retirement is available to the public. Below is a summary of the main points to come from the budget, some of which we will expand on in this report.

- Lifetime ISA announced.
- In response to the Financial Advice Market Review (FAMR) published early March, the Government has said it will be "implementing all of the recommendations for which it is responsible" to "restructure the delivery of public financial guidance to make it more effective".
- There will be a consultation on the introduction of a Pensions Advice Allowance to allow DC Pension members to withdraw £500 tax free from their fund before the age of 55 to pay towards financial advice.
- The Government will "ensure the industry designs, funds and launches" a "Pensions Dashboard" by 2019, to provide the public with a clear, easy to use facility to keep track of all their pension savings.
- The Government intends to introduce measures to reduce the use of disguised remuneration tax avoidance schemes and to move forward with actions to ensure those who have used these schemes will pay what they owe in National Insurance and Tax.
- There will be minor changes in tax rules following the introduction of pension flexibility in 2015.

Helpful Links:

- George Osborne's speech - https://www.gov.uk/government/speeches/budget-2016-george-osbornes-speech
- Blog - http://dalriadatrustees.co.uk/archives/the-budget-is-always-good-for-throwing-up-a-surprise/

LIFETIME ISA

Tags: Budget LISA

The Chancellor announced, in his 2016 Budget, the introduction of a new Lifetime ISA, to be available for people aged 18 to 40 from April 2017. The main facts about how this will work are:

- Up to £4,000 can be saved in each tax year.
- At the end of each year the Government will provide a 25% bonus on the savings, for these savers up to age 50.
- Funds can only be used, before age 60, to purchase a first home or when diagnosed with a terminal illness. If used for any other reason, the Government bonus is lost and a 5% charge is applied.
- Investment returns and withdrawals are tax free.

The Government is considering if any other life events should allow the funds to be used before 60 with no charge. They are also considering if borrowing from the account should be allowed.

There has been speculation from members of the pensions industry that the new savings vehicle will replace personal pension schemes. However, one thing everyone can agree on is the need for clear and easily accessible guidance.

Helpful Links:

- Fact sheet from government https://www.gov.uk/government/publications/lifetime-isa-explained
- Blog - http://dalriadatrustees.co.uk/archives/did-anyone-back-lisa-at-1001-in-the-budget-2016-handicap-stakes/

ACTION

Employers and trustees should ensure their younger workers/members are aware of this as an option for retirement savings. It should be noted that a LISA is not suitable as an auto-enrolment product.

FAMR

Tags: Budget Financial Advice

The Financial Advice Market Review (FAMR) was published on 14 March 2016 by the Financial Conduct Authority and HM Treasury. The aim of the report was to explore ways to stimulate the development of a market to provide clear, independent and affordable financial advice.

The report concluded that it was necessary for regulatory intervention in the financial advice market. It recommended:

- A "single, clear definition of financial advice" to be produced to reduce uncertainty and make it easier for firms to provide this service.
- An introduction of a pensions advice allowance for DC members.
- To increase the use of technology in the industry by establishing a unit to help firms develop their automated advice models, in the hope of creating a more engaging, cost-effective advice market.

Helpful Links:

- Full report download link - https://www.fca.org.uk/your-fca/documents/financial-advice-market-review-final-report
- Press release - http://www.fca.org.uk/news/reforms-will-make-financial-advice-and-guidance-work-better-for-consumers

BREXIT REFERENDUM

Tags: EU Referendum

The Government revealed that the UK's in-out referendum on EU membership will take place on 23rd June.

The impact of the referendum will be seen, regardless of the outcome, as the uncertainty of the result will cause a lot of volatility in the financial markets.

- Scheme funding levels are likely to be volatile in the run up to the referendum as concerns over the impact of the result on the economy will affect gilt yields, inflation and investment markets.
- Schemes should continue to monitor sponsor covenant as this is likely to be a volatile time for businesses, especially those who are heavily exposed to the EU through exports, imports or subsidies.
- Members of Money Purchase Schemes approaching retirement around the referendum date may see the amount of pension they can buy in the form of an annuity fall due to the volatility in annuity and investment markets.
- Cross border schemes will be affected by an exit vote, currently EU legislation imposes stringent restrictions on cross border scheme funding that may fall away in the event of an exit vote. This may make the UK an attractive place for multinational organisations to base their pension scheme.

Helpful Links:

- Blog – http://dalriadatrustees.co.uk/archives/brexit-short-term-considerations-for-long-term-investors/

ACTION

Trustees should continue to monitor scheme funding and sponsor covenant throughout this period. In the event of an exit vote, trustees should consider how the change in the landscape will affect their scheme and whether they need to take any action to protect members' benefits.

Members of Money Purchase Schemes should take financial advice when they come to retire to ensure they fully understand the options available to them and make an informed choice.

REGULATOR ENFORCEMENT UPDATE

Tags: Auto Enrolment

The Pensions Regulator (tPR) publishes quarterly updates confirming the use of its Regulatory Powers. With the development of micro employer staging, it seems like an important time to update regarding the regulation of auto enrolment.

TPR has recorded 6,746 instances of Regulatory action to 31 December 2015. The impact of this action on micro employers is clear with 3,732 of these instances occurring from 1 October 2015 to 31 December 2015. We have linked the full report below.

The Regulator has also published reports, including the high profile case of Swindon Town FC, to highlight the work in this area.

Helpful Links:

- Guidance –http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-use-of-powers-january-2016.pdf

ACTION

Employers should be mindful of their duties, and take heed of the Regulatory warnings.

CONSULTATION ON LLP PARNTERSHIPS AND COMPANY DIRECTORS

Tags: Auto Enrolment

The auto enrolment of Directors and Partners ("Controlling Parties") has been an area of significant discussion. The Controlling Parties often have individual arrangements outside of the Qualifying Scheme. They also often have issues with Lifetime Allowance Protection. Therefore advisers and employers have often had to find workarounds to bounce Controlling Parties in and out of the Qualifying Scheme, whilst treading carefully around the regulations.

The consultation suggested that for Company Directors, the employer duty is changed to a power, which can be exercised using discretion. For Partners, the same change would apply to "genuine Partners", the definition taken from the HMRC's Salaried Members Rules.

The consultation on these points was accepted, and the response and updated regulations are shown linked below.

Helpful Links:

- Response - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/506593/government-response-auto-enrolment-technical-consultation.pdf
- Updated regulations - http://www.legislation.gov.uk/uksi/2016/311/contents/made

THE UNDER-PENSIONED 2016 REPORT

Tags: Under-Pensioned

The Under-Pensioned 2016 is a report that explores differences in pension income over the last two decades and how these differences may change in the future. The last Under-Pensioned report was produced in 2008. The Under-Pensioned report looks at how women, disabled individuals, and ethnic minorities tend to have many of the characteristics that are associated with lower pension incomes, compared to a median-earning, traditionally employed male pensioner. Carers and the self-employed are also considered in the 2016 report.

The 2016 report revisits the earlier work and explores how state and private pension incomes have changed for people from these groups since the 2008 report. The report measures whether, and by how much, differences in pension income have reduced and how these differences might evolve in future, in light of recent policy developments. Generally, there is evidence that the pension income differences between individuals considered to be Under-Pensioned and a median-earning are decreasing, due to past changes in state pension policy. The report states that the New State Pension and the National Living Wage are expected to reduce the difference further. The report also concluded that various negative social and labour market factors affect people from Under-Pensioned groups.

The report is sponsored by Age UK, the Joseph Rowntree Foundation, The People's Pension and The Trades Union Congress.

Helpful Links:

- Report – https://www.tuc.org.uk/sites/default/files/TheUnder-pensioned.pdf

ACTION

Individuals and customers who fall in to the under-pensioned category should be aware of and educated in regards to the options available to them.

Employers should attempt to take actions to reduce any pension income gap developing between their employees, and educate employees to raise awareness of pension income gaps.

BANK OF ENGLAND WARNS AGAINST INVESTING IN PROPERTY RATHER THAN PENSIONS

Tags: Bank of England | Investment

Fuelled by the continued low base rate and the resulting low annuity rates, savers have increasingly turned to property as a means of saving towards their retirement. Such an option has been made even more appealing in the face of soaring property prices.

Andrew Bailey, the outgoing CEO of the Prudential Regulation Authority ("PRA"), has warned that there would be a widespread loss of retirement savings if the UK economy was to experience a housing market crash. Given the cyclical nature of the housing market, it is not inconceivable that we will experience such a crash in the foreseeable future.

In a bid to reduce yields on buy-to-let property, and so make investing in property less appealing compared with more traditional pension products, PRA has issued a consultation paper that proposes a minimum underwriting standard for the buy-to-let sector. These proposals include requiring lenders to consider all of the costs involved in renting property when considering buy-to-let mortgages.

Helpful Links:

- Consultation Paper – http://www.bankofengland.co.uk/pra/Pages/publications/cp/2016/cp1116.aspx

ACTION

This story is more concerned with individual members of a scheme as opposed to a scheme as a whole. Trustees may find it useful to advise members of their schemes of the proposed restrictions on buy-to-let mortgages.

EIOPA PENSION SCHEME STRESS TESTING

Tags: EIOPA

EIOPA revealed the results of their first pension scheme stress test in January. This follows previous stress tests of the banking and insurance industries. The results of this stress test revealed that pension schemes are unlikely to have a negative impact on financial stability under extreme scenarios. The report highlighted the risks and vulnerabilities posed to pension schemes by a continuing low interest rate environment combined with volatile investment markets.

Under the market stresses examined, which included sharp falls in investment values and interest rates, UK schemes saw deficits rise by 15-20%. A mortality stress event saw deficits increase by around 7%.

Helpful Links:

- Relevant link description – https://eiopa.europa.eu/Publications/Surveys/2016-01-26%20Pensions%20Stress%20Test%20Press%20Release.pdf

ACTION

Trustees may wish to revisit their investment strategy and consider the use of stochastic modelling techniques to ensure it is set up to help them meet their objectives, whilst remaining robust in the event of poor market performance.

IORP II PROPOSAL PASSES ECON VOTE

Tags: IORP II

The European Parliament are currently negotiating the final provisions of the IORP II directive following the approval of a draft of the legislation by the Economic and Monetary Affairs Committee of the European Parliament. It is expected that the directive will be finalised before the European Parliament's summer recess as all parties involved try to reach agreement on the wording of the law.

The revised directive aims to improve pension scheme governance and disclosure along with increasing cross border activity. The most recent version of the directive gives much more flexibility to member states to regulate in a manner they see as effective and removes the solvency requirements that had been included in previous drafts. It also includes a lot more flexibility for national regulators to tailor aspects of the directive to make them as effective as possible for pension schemes under their jurisdiction.

Helpful Links:

- http://www.theactuary.com/news/2016/01/european-parliament-approves-iorp-ii/

UPDATES TO FRS 102 AND SORP

Tags: SORP FRS102

In 2012 and 2013 the Financial Reporting Council (FRC), which is a prescribed body for issuing accounting standards in the UK, revised financial reporting standards in the United Kingdom and Republic of Ireland with effect from 1 January 2015. Existing accounting standards were replaced with five Financial Reporting Standards – FRS 100 to 104. FRS 102 contained specific references for pension schemes therefore introducing changes to pension scheme accounting and disclosures.

As a result the Pension Research Accounting Group published a revised Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes (revised 25 November 2014) providing guidance and recommendations applicable to the Trustee's Annual Report and Financial Statements. This is applicable for accounting periods commencing on or after 1 January 2015.

The key changes introduced in the new SORP include:

(i) Valuation of annuities.

(ii) Fair value hierarchy.

(iii) Investment risk disclosures.

(iv) Cost analysis of transaction types.

(v) Disclosure of pension liabilities.

A defined benefit scheme is required to disclose certain actuarial information in a report alongside the financial statements.

Other additional disclosures are recommended in relation to the presentation of scheme assets on the face of the Statement of Net Assets, concentration of investments, special purpose vehicles, auto-enrolment, taxation, related parties and employer related investments.

UPDATES TO FRS102 AND SORP CONTINUED

Helpful Links:

- PRAG guidance http://www.prag.org.uk/
- Fair Value Hierarchy: https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Amendments-to-FRS-102-Fair-value-hierarchy.pdf

ACTION

Trustees and employers must ensure they are compliant with the new regulations.

UPDATED CODE OF PRACTICE FOR INCENTIVE EXERCISES

Tags: Incentive Exercises

An updated version of the Code of Good Practice for Incentive Exercises for Pensions was released at the beginning of February 2016, following a review of the Code by the Incentive Exercises Monitoring Board.

Incentive Exercises (IE) are projects typically instigated by a pension scheme employer in which members are offered the opportunity to amend their benefits or to transfer their benefits out of the scheme. These exercises often include the provision of Independent Financial Advice for the members, paid for by the Employer, and can also include an enhancement to the members' benefits. Employers with the support of the Trustees will often run these exercises with the aim of reducing their scheme liabilities, and also to give members the opportunity to reshape their benefits to suit their lifestyle rather than being constrained by the structure of the scheme's rules.

The Code of Good Practice for Incentive Exercises was introduced in 2012 and provided a framework for advisors and those running such exercises to ensure best practice. The Code provides comfort that appropriate guidelines are being followed and that exercises are carried out fairly and transparently. Its aim is to ensure that incentive exercises are communicated in a balanced way that members can understand.

There are a few changes from the original 2012 version of the Code but these changes are largely to clarify existing points within the Code, rather than to introduce any new requirements. A short summary of the key changes can be found in the blog link below.

Helpful Links:

- Blog – Incentive Exercises Code of Good Practice
- Guidance – incentiveexercises.org.uk/the-code-of-practice

CORPORATE TRUSTEES: PERSONS WITH SIGNIFICANT CONTROL REGIME

Tags: PSC

From 6th April 2016 all UK companies must maintain their own register of people with significant control (a 'PSC register') and share it with Companies House from 30 June 2016, as part of the filing of the Confirmation Statement. If significant control is exercised through a Relevant Legal Entity ("RLE") which itself has to keep a PSC register or which is listed on certain stock exchanges, details about that entity must be registered instead of the individual's details. That way the same information does not have to be recorded on multiple registers but significant control can be tracked through chains of entities.

How does this affect pension schemes?
Corporate trustees are generally UK registered companies and have the same governance requirements as any other such company including, now, the need to have in place a PSC register and to keep it up to date. Most corporate trustees will have a single RLE, its Principal Employer. However, consideration should be given to powers within the scheme rules, articles of association and any related agreement (e.g. shareholder agreements) to confirm PSC(s) and RLE(s).

Helpful Links:

- Guidance - https://www.gov.uk/government/publications/guidance-to-the-people-with-significant-control-requirements-for-companies-and-limited-liability-partnerships
- Blog - http://dalriadatrustees.co.uk/archives/trustee-companies-and-psc-registers/

ACTION

All corporate trustees need to have an up to date register in place NOW. Failure to comply is a criminal offence.

If you are in the process of identifying your PSCs you still need a register saying exactly that, using the prescribed phrases.

SIMON COHEN APPOINTMENT

Tags: Dalriada

Simon joined Dalriada in February 2016. He entered the pensions industry in 1994 and became a Fellow of the Institute and Faculty of Actuaries in 2000. He has worked for three major benefit consultancies holding senior roles in both investment consulting and management positions. He also worked for an asset manager in their Liability Driven Investment team.

Simon is an experienced pensions investment actuary and is the Chief Investment Officer at Dalriada. Simon deals with a range of pension scheme clients with assets of up to around £250m on investment matters, including asset strategy and manager selection.

He has experience of a wide range of investment work including strategy setting, manager selection and liability hedging. He has been involved with implementing asset-backed contribution structures and liaising with companies on integrated de-risking.

Simon has a particular focus on investment strategy and the use of asset liability modelling when setting such strategies.

Helpful Links:

- Simon's Profile - http://dalriadatrustees.co.uk/about/team/simon-cohen/

VASSOS VASSOU APPOINTMENT

Tags: Dalriada

Vassos joined Dalriada in May 2016. Working as a Trustee Representative within our London office, Vassos uses his 21 years' experience industry experience to assist schemes in London and the South East.

He entered the pensions industry in 1995 and is a Fellow of Institute of Actuaries. Before joining Dalriada Trustees in 2016, Vassos worked with two leading consultancies helping trustees and employers to deliver pensions solutions covering funding, investment strategy and risk management issues.

Vassos has worked on a wide range of schemes from £5m assets to multi-billion pound industry-wide arrangements.

Helpful Links:

Vassos' Profile - http://dalriadatrustees.co.uk/about/team/vassos-vassou/

12 Pensions Legislative changes coming into force on the 6th April

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1	**Abolition of DB contracting-out and introduction of the new state pension**
2	**Changes to the annual and lifetime allowances**
3	**Auto-enrolment: technical changes concerning** a. Discretion to auto-enrol b. Easements for formerly contracted out scheme
4	**Governance and charges in DC schemes**
5	**DC pension flexibility changes**
6	**Pension scheme funding and accounting**
7	**Qualifying Recognised Overseas Pension Scheme requirements**
8	**Corporate trustees: persons with significant control regime introduced**
9	**Auto-enrolment earnings thresholds - increase in the qualifying earnings band**
10	**Pension Protection Fund (PPF) compensation cap and levy ceiling increases**
11	**National Insurance contributions (NICs) - Upper Earning Limit increases**
12	**State pensions and public-sector pension revaluation figures**

Dalriada. A better way

Belfast	Glasgow	London	Bristol	Manchester
Chamber of Commerce House	The Culzean Building	46 New Broad Street	Castlemead	Pall Mall Court
22 Great Victoria Street	36 Renfield Street	London	Lower Castle Street	61-67 King Street
Belfast	Glasgow		Bristol	Manchester
BT2 7BA	G2 1LU	EC2M 1JH	BS1 3AG	M2 4PD

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Dalriada Trustees Limited is a company registered in Northern Ireland with registered number NI 38344 whose registered office is at 22 Great Victoria Street, Belfast, BT2 7BA. VAT number 974 8252 79.