

Pensions – Out On a Limb?

As the legacy of the last government begins to come into play, and a new government takes over, it will be interesting to see whether occupational pension schemes become pushed out further on a limb by their sponsors.

In the wake of the recovery, employers now face implementing the next raft of legislation that challenges existing pension schemes even further, through increased taxation, and the additional administrative burden and ongoing monitoring required by the government's pensions saving initiative, which is set to be introduced from 2012 onwards.

Already under pressure to manage their pension schemes in line with existing requirements, pension managers and trustees will face the additional demands of implementing changes whilst continuing to manage and align the ever present conflicts between members and the scheme's sponsor. It all makes interesting reading.



Anne Lechley, Editor

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Π Pi Consulting

“Professionalism and independence in occupational pension and corporate business consulting”

Pensions Show

Pi is pleased to announce that it will be taking a stand at the Professional Pensions Show which will be staged at ExCeL London on 17th and 18th November 2010.

We will be on Stand 22, so please come and visit us!

The Servant Of Two Masters

By Morag Williams

It is clear from the increasing formality of the Pensions Regulator's governance framework for trustees that there is no way to avoid some element of conflict of interest arising somewhere along the line.

While the Guidance issued by the Pensions Regulator details the management of conflict within the trustee body, it does not recognise some of the other parties that may regularly be in a position of conflict. While no man (or woman!) can realistically be the servant of two masters, the Pensions Manager is often called to do just that.

To understand more about the issues, Pi Consulting conducted an online survey of those responsible for the delivery of company pension arrangements to employees. In most cases this was the Pensions Manager and the results of the survey showed a clear level of conflict. In almost all cases, it is the Pensions Manager who

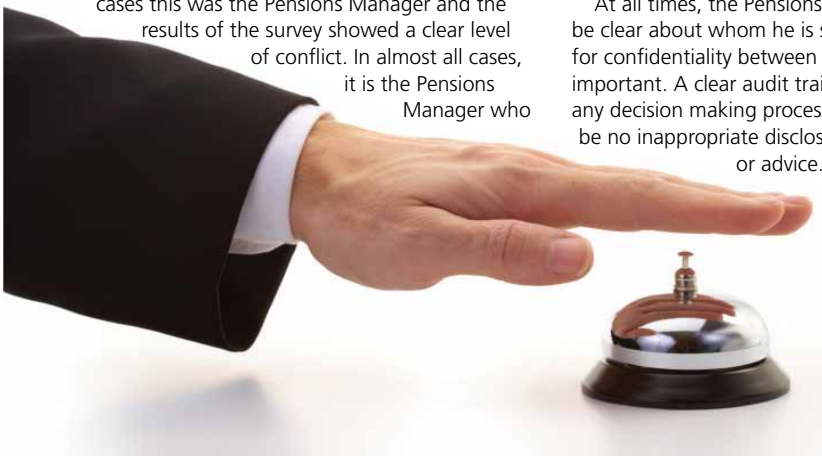
manages the contact with pension advisers of both the company and the trustees, making the task of separating information between the two parties difficult, at best; impossible, at worst.

In addition, although all those who answered the survey were company employees, they were often also acting as secretary to the trustees. The extent of the potential for conflict in these circumstances is clear, as there can be no 'chinese walls' within a single head, no matter how professional the individual!

At all times, the Pensions Manager must be clear about whom he is serving. The need for confidentiality between the parties is very important. A clear audit trail must exist through any decision making process and there should be no inappropriate disclosure of information or advice.

The majority of respondents confirmed that they have experienced some level of conflict in their role within the last 12 months. Their role in educating both parties is central. As one Pensions Manager commented "it is important to have a good relationship with both the company and trustees and for them both to understand the issues". We continue to find this to be a challenging target through our own work as secretary to the trustees.

Worth a mention though, is that all those who responded feel valued by the trustees, although there was less certainty in feeling valued by the company. However, there was certainty about there being no chance of two wages from the two masters!



Morag joined Pi in 2007, bringing her long and varied experience with her. Morag has managed and been involved with many projects including procurement of all advisers, administration reviews, strategic consultancy and trustee training.

Are You On The Starting Blocks For 2012?

By Julia Tyrrell

2012 is fast approaching and with it not only the Olympics but also implementation of the National Employment Savings Trust (NEST), the government's new statutory work-based pension arrangement.

Whether you are targeted as part of the first 'stage' or somewhere down the line, there are a whole ream of issues to consider in planning how you will deal with this new legislation on both strategic and delivery levels.

Strategy

Your overall reward strategy will need to be reviewed well ahead of 2012 and a decision taken on how you will satisfy NEST requirements, whether through modifying your existing plan (trust or contract based) or using NEST. Exploring the options will be central to agreeing an appropriate solution for your current and future employee base.

Governance

Ahead of 2012 you will need to agree, and have plans in place for, monitoring the overall delivery of benefits complying with NEST. This will potentially include compliance with NEST legislation and the Pensions Regulator Guidance (Internal Controls, Record Keeping and Retirement Process), together with the Investment Governance Group requirements.

Process

Design and implementation of the processes to cover auto-enrolment, opting-out and re-enrolment, plus contribution payments before 2012 will be essential. Your HR systems, payroll and pensions administration must be thoroughly prepared for these new processes well ahead of day one.

Employee communications

To ensure you get the correct message across to all employees you will need clear, concise information to enable them to take decisions. This may include issuing newsletters, announcements, information for prospective new employees, workshops or surgery sessions. It is essential to recognise the importance of ongoing member education to facilitate informed decisions. Planning and preparation are the key ingredients to a winning solution, along with good advice from an expert and ongoing assistance to ensure continued compliance and efficiency. The penalties for non compliance will be high – so don't get left behind at the starting line!



Julia is a founding director of Pi which was established in 2000.

Julia has specific responsibility for Pi's pension administration evaluation process and project management of transition and change.

The Latest Stealth Bomb

By Tim Evans

The new pension tax regime for “High Earners” has been a slow burner. Brought in under the cover of income tax increases in the 2009 budget, the original impression given about the changes for High Earners was that it would be a simple reduction in tax relief for income in excess of a high salary threshold. Not true.

In reality, from 6 April 2011 the new regime introduces a massive sea change in the way in which pensions will be taxed for high earners. Until now, pension scheme contributions were tax exempt, investment income was tax exempt (in part) but the emerging pension benefit was taxed as earned income. This system (Exempt, Exempt, Taxed or ‘EET’) has underpinned the pensions savings structure since at least the 1952 Income Tax Act. The 1997 removal of Advance Corporation Tax (ACT) relief breached the second ‘E’ and the latest proposals attack the first ‘E’. There are three huge changes of principle:

- Tax relief on members’ contributions will be limited to basic rate
- Company contributions to Defined Contribution (DC) schemes, or the accruing benefit in a Defined Benefit (DB) scheme, will be taxed as a ‘benefit in kind’ on individuals and, as such, will need to be reported on their annual tax returns
- Qualification as a High Earner (colloquially known as being “In the Club”) will depend on an individual’s total ‘Relevant Income’. This is income from all sources regardless of where it is earned or whether it is pensionable. Anyone who has Relevant Income in excess of £130,000 and a Gross Income of over £150,000 will be In the Club.

Setting the target

The annual accrual of DB pensions for tax purposes will be calculated as the difference between:

- the leaving service pension at the end of the year; and
- that same figure at the beginning of the year, revalued to the end of the year.

The value placed on the net accrual will be determined by the application of an actuarial age-related factor (as yet unknown).

This will mean that every member who falls within the target will need a leaving service statement at the end of each tax year (which is very often different to the pension scheme’s year end). As a result, these members’ tax affairs will unavoidably involve not only the pension scheme trustees, but the scheme administrator and the employer as well. Who is going to pay for all this?

The aftermath

An instant difficulty arises in that neither Relevant Income nor Gross Income can be determined accurately until after the end of the tax year. Once determined, the individual

will be liable to a substantial Recovery Tax if Relevant Income has exceeded the “cliff edge” of £130,000.

If the individual does not have sufficient cash to pay what could be a substantial tax charge he may, if the tax charge exceeds £15,000 (and it easily could), request the pension scheme trustees to surrender part of his pension to pay the tax. The rate at which this would be calculated is anybody’s guess at the moment!

The lack of certainty as to how much tax will be payable will lead many high earners to opt

Although the threshold may now be £130,000, some companies are using £80,000 as a lower benchmark. It is estimated that the initial estimate of 300,000 individuals who need to be looked at instantly becomes 500,000

- As happened with the lifetime allowance, we can be reasonably certain that the various thresholds will not be increased so that more people will be caught as time goes by.
- Having established the principles and some form of infrastructure to allow the tax to be collected, who would bet against the government reducing or eliminating the thresholds to bring all tax-payers into the net?

So while it is easy for the new regime to be presented as a tax on the rich (and who cares about them!) it is even easier to see it as the setting of new precedents which will be yet another nail in the coffin of UK pension schemes.

A professional response

Response to the Tax Authorities’ consultation paper from all sides of the pensions industry has universally and roundly condemned the new regime as unfair, hugely complex, probably unworkable and certainly detrimental to the continuation of pension schemes in the UK. All of the very extensive and highly critical commentary has been completely ignored by a past government desperate to raise taxes from any source, whatever the cost of doing so and the long-term damage to savings.

High earners are no doubt already feeling demotivated by the recent swingeing tax changes, even before this additional complex tax on pensions. Perhaps we would all be better off if they were fired up to help the economy out of recession?

Pi recently convened a special meeting with other professional pension specialists to discuss the issues and implications. The session was immensely worthwhile for all those involved and a further session is to be held once the likely plans of the current government is known.

out of their pension schemes concluding that ‘the game is not worth the candle’.

It could be you!

It would be easy to dismiss the new regime as something that only affects a few people (about 300,000 are known to be directly affected). However, there are three main points to consider:

- Noting that nearly every form of taxable income is relevant (including redundancy pay!), it is necessary to look at scheme members on much lower salaries to determine who may fall within the target.



Tim, who became a Fellow of the Institute of Actuaries in 1976 and is a long-standing member of the Association of Consulting Actuaries, has been in the pensions business for over 40 years.

In addition to working with Pi, Tim also runs his own actuarial consulting business and is an employer appointed Trustee in his own right.

Back To School With Janet & John

By Janet Symes

Pi has just come to the end of its sixth season of Breakfast Seminars; that's a lot of bacon rolls!



As a learning organisation, Pi is committed to education and development within pensions. We see our seminars as an opportunity to help educate, develop and expand people's knowledge and understanding of new and changing aspects of pensions' legislation and other related subjects. We hold five breakfast events during our seminar season which runs between October and May each year. The topics covered are broad and aim to invoke thought on a wide range of issues. As Pi's event manager, seminar season is one of my busiest periods!

Where it began

Back in 2004, our very first seminar raised the question 'Risk management for occupational pension schemes – luxury or necessity?' We have since seen what a necessity this is! Since then our seminars have addressed a whole range of topics, including Pensions Act 2004 issues, age discrimination, employer covenant and buy outs, mortality and more recently, record keeping and high earners. With pensions continuing to present new challenges on a regular basis, we look forward to addressing many more!

Be our guest

We have been privileged to work with a mixture of well known and up and coming pensions professionals during the course of running our seminars. The contributions of these guest speakers and panellists have gone a long way to helping us achieve the reputation we now have for providing focused and relevant coverage of topical issues. Over the past six years more than 36 well regarded pension specialists have participated in leading discussions and lively debate with our audience, made up largely of Finance Directors, HR Directors and Trustees.

Generally, between 20 and 25 delegates attend each seminar. Each Pi seminar can make a meaningful contribution to your Continued Professional Development (CPD) of up to 25 PMI CPD points, based on your own assessment of its value to you.

Come along!

Not only informative, the seminars give delegates the opportunity to mingle with others and discuss the issues which they face. There is no charge for attending our seminars which are held in The Carthusian Suite at The Chamber of Shipping, so why not join our core of around 50 regular delegates? Seminar topics are usually announced six weeks in advance and, if you are not already receiving invitations, I would be delighted to add you to our mailing list. With an arrival and registration time of 8.45 and a finishing time of 10.45, which is always strictly adhered to, delegates can be sure of the time commitment involved in attending and that they will be offered a bacon roll!

This year's new seminar season commences on 9 October 2010. If you would like further information about this seminar or dates for the 2010/11 season, please email events@piconsulting.co.uk or contact us using the details shown below. I look forward to hearing from you!



Janet joined the Pi team in 2004 to concentrate on organising the various events that Pi runs throughout the year. Having gained experience in her previous roles with Noble Lowndes/SNL/Mercer, which spanned over 20 years, Janet is key to ensuring that Pi's seminars and other business events are well planned with the necessary attention to detail.

Contact Details

If you would like further information on any of Pi's services or are an experienced pensions professional who is interested in joining the Pi Team, please contact Anne Lechley or Sandra Afonso in the first instance using the details shown below:

Pi Consulting, The White House, 57-63 Church Road, Wimbledon Village, London, SW19 5SB

Tel: 020 8410 3440 • **Fax:** 020 8410 3441 • **Email:** enquiries@piconsulting.co.uk • **Website:** www.piconsulting.co.uk

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