Queen’s Speech signals that more is going into the Pensions Bill

The Pensions Bill featured in the Queen’s Speech again following the State Opening of Parliament, but unlike last year (see Pensions Bulletin 2012/20), there was more detail.

The Pensions Bill continues to provide for a single-tier state pension system (from April 2016 as announced at the Budget) and the consequential ending of contracting out for occupational pension schemes; to bring forward the increase in state pension age to 67 to take place between 2026 and 2028; and to lay the framework for its regular review in the light of rising life expectancy.

In a development from the draft Pensions Bill published in January (see Pensions Bulletin 2013/04), the Bill will also introduce a framework for the automatic transfer of small pension pots, and abolish short-service refunds for defined contribution trust-based schemes for people who leave within two years. And following on from the Budget, the Bill will also include a new statutory objective for the Pensions Regulator to consider minimising any impact on the sustainable growth of sponsoring employers during scheme funding negotiations.

Since the Queen’s Speech on Wednesday the Pensions Bill has been published. An analysis of this Bill will be carried in next week’s Pensions Bulletin.

Pensions Regulator tilts towards business in its 2013 funding statement

In the light of its forthcoming additional statutory objective based around employer growth (see article above), the Pensions Regulator, in publishing its 2013 funding statement, calls for funding strategies that enable business growth as well as protecting the interests of pension scheme members.

The statement, which is primarily aimed at those undertaking valuations with effective dates between 22 September 2012 and 21 September 2013, says that:

- as a starting point, trustees should consider whether the current level of contributions can be maintained; but
in addition to using the current flexibilities available in recovery plans, trustees can use the flexibility available in setting the discount rate to calculate future liabilities (known as “technical provisions”), based on the yield held by assets of the scheme and/or the yield on Government or high-quality bonds, to best fit their circumstances.

Being able to link the discount rate on technical provisions to expected scheme returns was absent from the first statement issued last year (see Pensions Bulletin 2012/19).

The statement also:

- encourages trustees (as last year) to produce plans that take an integrated approach to managing the risks to their scheme, including funding levels, investment performance and the employer covenant;
- outlines how the Regulator is moving away from a limited number of simple triggers, such as recovery plans longer than ten years, in favour of a broader collection of risk indicators; and
- promises that the Regulator will improve its approach to how it engages with schemes, including streamlining its communication processes to trustees.

Alongside the statement the Regulator has published an analysis of the expected positions of defined benefit schemes with 2013 valuations and a summary of research findings relating to its 2012 statement.

The statement confirms that, in the autumn, the Regulator will consult on revisions to its scheme funding Code of Practice as well as on its approach to the regulation of defined benefit schemes, which will be published as a regulatory strategy early in 2014. These will both reflect the new statutory objective and set out how the Regulator plans to take it into account.

In a related development the Department for Work and Pensions has published the Government’s response to the call for evidence regarding smoothing assets and liabilities and whether to introduce a new statutory objective. Only 11% of respondents thought that smoothing was appropriate, with 85% opposed. On the statutory objective 52% were in favour (but not necessarily in the one then being put forward), whilst 47% were opposed.

Comment

This is the annual statement that you make when you’re not making a statement. The big news (such as it is) is to come in the future. It’s no surprise, given the intensity of lobbying and the forthcoming additional objective, that the Regulator has signalled greater flexibility on setting discount rates and is tilting its stance towards scheme sponsors. But that apart it is business as usual and little change from its 2012 statement.
This Pensions Bulletin should not be relied upon for detailed advice or taken as an authoritative statement of the law. For further help, please contact David Everett at our London office or the partner who normally advises you.