

Pensions Bulletin

Spring 2009 Issue 4

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Recession will close half of DB schemes

52% of private sector defined benefit (DB) pension schemes that are open to new members are expected to close within the next five years as a result of the current economic situation, a survey from the National Association of Pension Funds (NAPF) shows. This is equivalent to 1,000 pension schemes.

The survey, *Pension Provision and the Economic Crisis*, also reveals that employers are now more likely to make changes to their scheme because of the current financial climate. Another key finding shows that 27% of employers that have already closed their scheme intend to switch existing members to some form of defined contribution (DC) or a career average arrangement.

At The Pensions Trust 13 of our 36 DB schemes are still open to new members. This includes our large multi-employer schemes, which means that over 1,000 of the Trust's 1,300 employers, who support a DB scheme, still keep these schemes open to their new employees.

The NAPF survey also covers DC schemes. A key finding for DC schemes shows that employers on average contribute 7% of pay. At The Pensions Trust, employers offering the Flexible Retirement Plan to their employees are contributing, on average, 7.5% of pay.

Alongside the publication of the survey, the NAPF is calling for the Government to:

- enhance member security by making the Government the ultimate guarantor of the Pension Protection Fund;
- build member confidence through joint industry / Government information campaigns on the importance of pension saving;
- ease pressure on employers through the greater issuance by Government of long-dated gilts;
- help schemes manage their liabilities by allowing flexibility in the setting of scheme rules on the key issues of retirement ages and indexation; and
- help schemes manage their deficits by allowing longer periods over which schemes can make good funding shortfalls, including pushing back the point at which the Pensions Regulator will investigate schemes from 10 to 15 years.

The Pensions Trust supports the NAPF's call for Government action on the above points and, particularly given the current economic environment, hopes that such changes are implemented in the near future.



More details about the NAPF survey can be found at www.napf.co.uk



The Pensions Trust

Personal Accounts delayed

The introduction of the Government's Personal Accounts pension scheme will be phased in over at least two years, the Personal Accounts Delivery Authority (PADA) has revealed. In addition, PADA, the body responsible for setting up this national scheme, has stated that the start date for auto-enrolment into pension schemes will be October 2012. It was originally thought that the start date would be April 2012.

Tim Jones, Chief Executive of PADA, has indicated that the scheme would have a soft launch because of the size of the task. He also revealed that the first employers would be enrolled in 2011, on a volunteer basis, in order to test the system. After that, it is expected that all employers will be included by 2014.

The scheme will make pension provision compulsory for every employer and will require the automatic enrolment of all staff into a Personal Account or existing pension scheme, though workers are able to opt-out. Up to a million employers are likely to be affected, most being smaller organisations without existing pension provision.

The law will also compel employers to make contributions at a rate of 3% to pension schemes, though this will be phased in over three years at 1%, 2% and 3% respectively.



Auto-enrolment and Personal Accounts form part of the measures introduced by the Pensions Act 2008 to reform pensions in the UK. More details can be found in Fact Sheet 1, [click here](#), available on our website.

Your guide to the Pensions Act 2008

The Pensions Act received Royal Assent on 26 November 2008 and, as mentioned above, puts in place provisions to reform the UK pensions system. Other measures of the Act are summarised below.

<i>Measures to simplify pension provision</i>	<i>Effective date</i>
Abolition of restrictions to the way in which pensions are shared on divorce	6 Apr 2009
Rules to enable the cap to be reduced from 5% to 2.5% on the revaluation of deferred pension benefits for future service	6 Apr 2009
Abolition of all "protected rights" requirements	6 Apr 2012
For people reaching State Pension Age after 5 April 2020, the additional state pension (i.e. SERPS and the State Second Pension) that is built up prior to 6 April 2012 will be converted into a cash sum	6 Apr 2012
Removal of the requirement for employers to provide access to a stakeholder pension scheme	6 Apr 2012
<i>Measures to protect defined benefit (DB) pension benefits</i>	<i>Effective date</i>
The Pensions Regulator can now appoint trustees in certain circumstances, for example in order to protect the interests of scheme members	Jan 2009
The Pensions Regulator can now fix the actuarial assumptions used in a DB scheme's funding valuation where the assumptions chosen by the trustees do not appear to be prudent	Jan 2009
<i>Measures regarding pension scheme compensation</i>	<i>Effective date</i>
The Financial Assistance Scheme has now been extended to members of schemes wound-up by solvent employers	Nov 2008
Interest may be charged on the late payment of Pension Protection Fund (PPF) levies	6 Apr 2009
Compensation paid by the PPF will be able to be shared on divorce	6 Apr 2010



The Pensions Trust will contact affected participating employers, as and when required, about the introduction of particular Pensions Act provisions. In the meantime, further details about the Pensions Act 2008 can be found in Fact Sheet 2, [click here](#), available on our website.

Your help needed to reduce PPF levies!

It is that time of year again when accounts are needed from The Pensions Trust's participating employers to assist in reducing the Pension Protection Fund (PPF) levies payable by our defined benefit (DB) pension schemes.

As in previous years, The Pensions Trust is asking its employers to now submit accounts to Dun & Bradstreet (D&B), the credit rating agency used by the PPF. This must be done by **5pm on 31 March 2009** and will help to reduce the impact of the 2010/11 levies.

Audited accounts should be sent electronically to D&B using the email address customerhelp@dnb.com. To assist employers with this, an email template is available in the 'Employers Area' on the homepage of the Trust's website. Please remember to attach a copy of your organisation's latest accounts and include the following information in the body of the email:

- name of the pension scheme your organisation participates in;
- your organisation's full name and address; and
- any Charity or Industrial & Provident Society registration numbers.

Please note that employers who participate solely in the Trust's Unitised Ethical Plan or Flexible Retirement Plan do not need to take the action as outlined above; neither do organisations who are Registered Social Landlords or are registered with Companies House.

Future Levies

The PPF has recently undertaken a consultation that proposed some changes that will affect the calculation of future levies. The consultation included proposals to:

- reduce the scheme-based element of the levy;
- add a component to the risk-based element of the levy to reflect a scheme's contribution to the long-term risks that the PPF faces; and
- offer greater year-on-year stability in PPF bills.

The Pensions Trust responded to the consultation, which closed on 13 February 2009. We await the results with interest.



Fact Sheet 3, [click here](#), provides more details about the PPF and is available on our website.

Regulator acknowledges impact of economic crisis

The Pensions Regulator is expecting that sponsors of defined benefit (DB) pension schemes will ask for longer periods of time to pay off their deficits as a result of the current economic climate.

The Regulator also acknowledges that sponsors may have concerns over the short-term affordability of these recovery plans and hence may seek to delay any required increase in their payments.

The statement, published in December 2008, accompanied the Regulator's report on DB scheme funding and sought to recognise the emerging pressures on company cash flows. This may provide some comfort to scheme sponsors and trustees who will submit their recovery plans to the Regulator in 2009.

The report itself revealed the following:

- an improvement in scheme funding levels from 86% to 90%;
- an increase in assumed life expectancy from 85.3 to 86 years for male pensioners; and
- a reduction in the average length of recovery plans from nine to six years.

The Regulator notes that whilst the data shows positive steps are being made to address deficits, the recovery plans analysed were set in relatively benign circumstances.



The Regulator's statement and report "Scheme Funding Analysis" can be found at www.thepensionsregulator.gov.uk

Pensions snapshot

A recent joint publication from The Pensions Regulator and the PPF provides an updated snapshot of the UK's DB universe. The so-called "Purple Book" presents information on the risks faced by DB schemes. Highlights about the PPF show that:

- 85% of PPF compensation is paid to former manufacturing workers;
- only nine pensioners were limited to the compensation cap; and
- most members receive compensation of less than 25% of the cap.

The Purple Book is available at www.pensionsprotectionfund.gov.uk

Support for changes in employer debt rules

The Pensions Trust welcomed a four-week consultation, which closed in December 2008, from the Department for Work and Pensions (DWP) on changes to the employer debt on withdrawal regulations.

The DWP announced that, where there was a group reconstruction of employers in a multi-employer pension scheme, it was considering whether the debt should not be triggered where the backing of original sponsoring employers was strong, and if, following the reconstruction, the resulting employers maintained this strength.

The Trust recognises that many of its participating employers have encountered difficulties in restructuring their operations as a direct result of the employer debt regime. We have seen several instances of employers wishing to merge in order to benefit from economies of scale and become more efficient, yet the employer debt situation has stifled such situations.

Any firm proposals resulting from this consultation will be subject to full public consultation shortly. It is anticipated that any changes will be introduced later this year.



Full details about the employer debt regulations can be found in Fact Sheet 4, [click here](#), available on our website.

Trust reviews investment principles

The Trustee Board of The Pensions Trust has carried out a review of its compliance with revised investment principles as set by the Government.

In October 2008, the Government published the results of its consultation on revisions to the so-called "Myners" principles. This took the form of a revised set of six higher-level principles, supported by best practice guidance and trustee tools that can be used to assess compliance.

The Board is satisfied that it complies with the best practice guidance.



Full details of this review can be found in Fact Sheet 5, [click here](#), available on our website.

Growth Plan update

Employer Forums - your invitation

Growth Plan employers are invited to attend Employer Forums this summer. These will be held on:

- Thursday 11 June – Edinburgh
- Friday 19 June – Leeds
- Tuesday 23 June – London

Details of what the forums offer, together with times and venues can be found in the 'Employers Area' on the homepage of our website.

If you wish to attend any of these forums, please complete the application form that is also on our website. Please ensure that your application is submitted by 30 April 2009 to avoid disappointment.

Employer Consultative Group

The Growth Plan Employer Consultative Group met for the third time in December 2008. The Group received a presentation from the Scheme Actuary and supported the proposed assumptions to be used for the scheme's 2008 actuarial valuation.

The Group also considered the proposed investment strategy for the residual assets following the pensioner buy-in with Paternoster UK Ltd. The proposal included a small allocation to the Trust's Fund of Hedge Funds. The Group agreed that such action should be approached with caution and therefore welcomed reassurance from the Trust's Investment Consultants that an allocation would only be made if the asset class was still appropriate and the timing was right.

In addition, following the resignation of one Group member, a vacancy has arisen. Invitations to nominate candidates to fill the vacancy were issued in February. The Group will meet again at the end of April.

The Pensions Bulletin is a quarterly newsletter from The Pensions Trust. It can be viewed electronically on our website www.thepensionstrust.org.uk > Document Library > General > Pensions Bulletin.

The content of Pensions Bulletin is a summary of recent developments and is not intended to be comprehensive. Readers should contact their regular Account Manager at The Pensions Trust in relation to their own circumstances or refer to source material, as appropriate.

Email your enquiries to bulletin@thepensionstrust.org.uk