

Statement to Employers

The Pensions Regulator (TPR) issued a [Statement](#) to employers sponsoring defined benefit pension schemes on 18th February. TPR statement followed a comparable statement for trustees on 30th October (see November Snippets). The newspaper headlines caught the Regulator's comment that employers should not be paying dividends to shareholders if they cannot pay their pension debts! There were however some useful reminders –

- There is no reason why a pension scheme deficit should push an otherwise viable employer into insolvency.
- Deficit repayment periods involve a 10 year Regulator trigger; it is only a trigger not a target.
- Affordable contributions will vary with cash flow, the economic cycle and structural change.
- Back-end loaded contributions may be more appropriate than extended payment periods.

As with many situations there will be exceptions. Special circumstances may include private equity capital repayment schedules, security, investment risks and returns. I trust it will not be inappropriate to point out TPR's duty to protect the Pension Protection Fund (that your levies pay for). Lehman Brothers and Woolworths are manageable PPF claims, an insolvent bank or two really would be a strain.

DWP Research

Our Department of Work and Pensions issued [Research Report 558](#) in February. The not so snappy title is "Savings for retirement; Implications of pensions reforms on financial incentives to save for retirement." At 152 pages it is not short; indeed the summary extends to 16 pages! The main conclusion based on the modelling assumptions is that the vast majority can expect good returns from such pension saving. May I observe that -

1. The only group highlighted in the report as being worse off after saving, the older individual in rented accommodation, is assumed to be aged 50, earning £18,836 with a full National Insurance record. I'll leave you to the obvious conclusion for individuals aged over 50, earning less than £18,864 with an incomplete NI history!
2. The projection model (iPen) assumes 80% equity: 20% gilts investment pre retirement with a phased lifestyle switch to 100% gilts over ten years before retirement. Real equity returns of 5.1% per annum are assumed. The other projection model (Pensim2) assumes a real return of 3.5% per annum over prices before retirement. I merely wonder how many personal account holders will be well placed to assess the prudence or appropriateness of such assumptions and emerging benefit illustrations.
3. Tax thresholds are assumed to increase in line with earnings (not prices) but this should be assumed to reflect government policy!

Auto enrolment looms in 2012. Large employers look likely to be targeted first of all, with medium and smaller employers following thereafter. The self employed can also opt in if they wish. Financial advice for the lay individuals involved remains a significant challenge. I believe there is significant scope for another pensions mis-selling scandal. With simplicity in mind, I suggest a lot could still be achieved with our politicians biting the bullet and making saving compulsory – just like tax and NI contributions!

Parliamentary Scrutiny; We recently witnessed the very public apologies at the televised Treasury Select Committee hearings by the chairmen and chief executives of the Royal Bank of Scotland and Halifax Bank of Scotland. Sadly this dish of public scrutiny is only served after the event garnished by large dollops of hindsight. Comments on bonuses and one six figure pension earned by the executives followed. The chairmen and executives probably correctly avoided the potential repost that the only group in the country receiving more generous salary related pensions (deferred pay) were their parliamentary inquisitors and criticising ministers!

And finally; As the pension protection saga involving Sea Containers closes after two years of international legal debate, we can now put an end to the associated puns including the appropriate pensions lifeboat, the Pensions Regulator being buoyed or swayed by the success, member benefits not being under water with the tide of regulation turning!

As always, for further comment, assistance, advisory or trustee services, contact me on 07714 064964 or via allan@acmca.co.uk Feedback on Pension Snippets is always welcome. For further details, the full CV, occasional lecture notes and published articles and previous Snippets - visit the web site at www.acmca.co.uk