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TRUSTEES, ACTUARIES, CONSULTANTS & ADMINISTRATORS

Current Issues May 2017

Pensions and Politics: **With the general election now less than a month away, what are the pension issues:**

- **The outcome of the Brexit deal is still unknown and Trustees need to remain alert to the risks.**
- **DWP's response to the Cridland Report, recommending an increase to the state pension age to 68 far earlier and scrapping the 'triple-lock' on state pensions, has been delayed.**
- **The Chancellor backtracked on his plan to increase Class 4 NI contributions for the self-employed in March. There is now speculation that the next Chancellor may find pension tax relief too tempting to resist when considering how to fill the gap in the shortfall.**
- **Theresa May announced that, if the Conservatives form the next government, they will give the Pensions Regulator new powers in corporate takeovers to ensure that pensions were protected. They have put proposals requiring M&A activity for large transactions to be reported to TPR. TPR would be given powers to block takeovers in certain circumstances and it would be a criminal act for a company to put at risk the ability of a pension scheme to meet its obligations.**

TPR – Annual Funding Statement: **TPR has issued its guidance for those undertaking valuations in 2016/17:**

- **Many schemes will have larger deficits than 3 years ago, however up to 90% of schemes have employers with the ability to manage their deficits and have no long-term sustainability issues;**
- **Schemes with strong employers and weak technical provisions and long recovery plans should seek higher contributions. Schemes with weaker employers who are part of a stronger group should consider seeking legally enforceable support commensurate with the level of risk they are taking;**
- **Trustees must have comprehensive evidence to show they have sought and taken appropriate measures to protect benefits and mitigate risks. For stressed schemes, this might include assessing whether dividend payments are justified, consideration of any non-cash forms of support and, in some cases, whether winding up the scheme might be the best option;**
- **TPR emphasizes that it is not prescriptive about valuation discount rates but expect Trustees to have a sound rationale for changing the method used to set the discount rate; and**
- **TPR will be taking a more proactive approach to identify cases that present the biggest risk and will intervene before recovery plans are submitted. TPR will be focusing on the fair treatment between pension schemes and shareholders (for instance, the level of distibutions to shareholders compared to deficit recovery contributions) and late submission of valuations. TPR has indicated that it is likely to take enforcement action where delays could have been predicted or where they were not notified. Given previous comments about taking a stronger line on imposing fines, trustees should be mindful of potential breaches and notifying TPR.**

Multi-Employer debt - A new option: **The DWP is consulting on draft Amendment Regulations to establish a new 'deferred debt arrangement' option for managing employer debts in multi-employer DB schemes. Currently, when one of the employers participating in such a scheme ceases to employ active members, a s75 debt falls due (unless all employers cease to do so at the same time). Whilst there are already options for coping with this, the DWP are proposing a new mechanism, the deferred debt arrangement. Under which this scenario would not be treated as a cessation event and the employer would continue to participate as it had been before. This is intended to be more straightforward to establish and maintain.**

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