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Solvency II for EU pension funds – consultation responses unite in flagging major UK worries

The deadline for responding to the European Insurance and Occupational Pensions Authority's consultation on Solvency II style funding for EU pension funds has now passed (see Pensions Bulletin 2011/45). Leading organisations have united in condemning the effect that funding pension schemes broadly as though they were guaranteed annuity contracts would have on the UK pensions landscape. Examples include:

- The Financial Reporting Council *"does not consider that the proposed quantitative requirements, which are based on Solvency II, are appropriate for all pension schemes"*.
- The chairman of the European Federation for Retirement Provision commented *"we strongly urge a re-think on changing the rules for pension security which weaken the system as a whole. The reasons for the review of security provisions remain unclear and unconvincing and early signals suggest that the social and economic impact would be horrendous"*.
- The Association of Consulting Actuaries labelled the proposals *"Inappropriate, unaffordable and unnecessary"*.

Comment

The response to the proposal that, broadly, all UK defined benefit pension schemes be funded to insurance company buyout levels has been emphatic. The pensions community are now crossing their fingers that EIOPA heeds the warnings about the potential damage their proposals could do to UK industry in general and reins back on their requirements.

DC regulation – National Audit Office to examine its effectiveness

The National Audit Office has announced that it is undertaking a study examining how effectively defined contribution (DC) pension schemes are being regulated. In particular, the report will consider whether the regulation of DC schemes by the Pensions Regulator effectively addresses the key risks to scheme members, while taking into account the overlapping responsibilities of the Financial Services Authority with regard to contract-based schemes.

A report on the study is due to be published in the spring.

Comment

In 2007, the National Audit Office published a glowing report on the then nearly new Pensions Regulator (see Pensions Bulletin 2007/45). But among its recommendations was a call to deliver the same level of regulatory oversight to DC schemes as it has for final salary schemes. It will be interesting to see what progress report the Audit Office gives the Regulator this time round in what has become a vital area.

More guidance on pension tax rules emerges – but not yet the full story on Scheme Pays

HM Revenue & Customs (HMRC) has published the much-anticipated next batch of amendments to the Registered Pension Schemes Manual (RPSM) to update it in light of the changes made by the Finance Act 2011. But it is still some way off the full guidance required for this very complex area.

This update gives some of the answers the industry needs about the operation of Scheme Pays (see Pensions Bulletin 2011/38) – the facility by which a scheme pays an individual's annual allowance charge using his scheme benefits to fund that payment. For example, it is now clearer that HMRC's view is that schemes can spread the benefit reduction that funds the payment across not just the member pension but also the attaching contingent dependant's pension (but cannot take it from death lump sums). However, many Scheme Pays questions are still unanswered. HMRC has confirmed to us that they *"are going to publish some separate guidance on Scheme Pays in year of retirement/ taking benefits. We cannot give you a date for this yet but we do appreciate that it is needed urgently."*

A large part of the update is to consolidate into the RPSM the guidance that HMRC has already released in other formats, including:

- the revised reading of the annual allowance carry-forward from the 2008/09 to 2010/11 tax years (see Pensions Bulletin 2011/49);
- annual allowance calculations for benefit accrual involving "Split NPA" (see Pensions Bulletin 2011/45);
- the impact of the lifetime allowance charge on "Scheme-specific lump sum protection" (see Pensions Bulletin 2011/52); and
- fixed protection (the information provided in HMRC's Pension Schemes Newsletter 51) – see Pensions Bulletin 2011/53).

At the time of going to press, our review of the extensive number of pages is not complete, but we do note helpful new guidance on how scheme administrators can decide how a member's benefits are split between "arrangements", particularly, if it had not been considered in the past – with some useful examples (but our view is that we do need more guidance about "arrangements").

Pensions managers planning how they will manage their new information obligations in relation to the annual allowance will be pleased to see that HMRC's view is that *"there is no requirement that the information sent to members who have more than one arrangement under a pension scheme are sent a single statement, aggregating all of their arrangements under the scheme"*.

NEST research shows people need its updated pension phrasebook

NEST Corporation has issued the results of research on people's views on pensions to coincide with an update to its phrasebook of key terms, phrases and principles.

The research carried out for NEST Corporation, the trustee body responsible for running the National Employment Savings Trust (NEST), shows a clear need for such a guide to help future NEST members better understand pensions. Of those polled, the words strongly associated with pensions are "confusing", "complicated", "boring", "difficult" and "off-putting".

Only 6% consider pensions to be "straightforward" and even fewer find them "engaging". As many as 57% say that sometimes pensions seem so complicated they can't understand the best options available, while one in three say they are putting off thinking about saving for retirement because they find pensions confusing.

Comment

We wish those trying to make pensions "interesting" and "engaging" to the general public the best of luck. The far more worrying feature of this research is that the majority of people find it too difficult to make proper decisions about pensions, to the extent that many of them simply ignore the issue. NEST's phrasebook really can help those who read it gain a basic understanding of the pensions world.

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