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Regulator plans for an annual statement of its expectations for valuations and recovery plans

The Pensions Regulator has announced that in April, it plans to publish what is expected to be an annual statement of its expectations of trustees dealing with valuation processes within the prevailing economic conditions. The hope is that such a statement will result in fewer recovery plans requiring in-depth scrutiny or challenge.

Separately, and in the light of a change in the legislative timescales within which the Regulator must reach a determination in relation to the moral hazard provisions, the Regulator plans to consult both on the procedures that its case teams follow as they bring any case to the Determinations Panel, and on an updated version of the procedures the Determinations Panel follows for making a determination on any case.

Later in the year, the Regulator intends to set out its strategic view on how it will regulate the DB landscape in the future.

Comment

An annual statement from the Regulator giving a steer on its expectations with regard to scheme funding matters will no doubt be of benefit to trustees and should contribute to a more efficient and effective valuation process. Stakeholders will also be keen to see any proposed changes in the Regulator's strategy for regulating DB landscapes in the future, especially in these times of economic uncertainty.

Auto-enrolment – lessons from New Zealand

The Pensions Policy Institute (PPI) has published a briefing note that looks to draw lessons from New Zealand's experience of auto-enrolment as the clock ticks down to the launch of the UK's own auto-enrolment system later this year.

The UK will be the second country to introduce auto-enrolment for workplace pensions at a national level – New Zealand introduced "KiwiSaver" back in 2007. Comparing KiwiSaver and New Zealand's experience of auto-enrolment so far with the arrangements for the UK, the PPI raises a number of concerns about the arrangements being introduced here:

- Unlike in New Zealand where members can have only one KiwiSaver account during their working life, there is a very real possibility that in the UK workers could

end up with a number of different qualifying pension pots: NEST, stakeholder pension etc. While the consolidation of such pots is possible, transfers in and out of NEST are banned until 2017 at the earliest, and the Government has only recently launched a consultation on ways of aggregating small pension pots.

- The opportunities for accessing accumulated pensions savings are more limited in the UK than in New Zealand, where they can be used to buy a first home or when experiencing financial hardship or serious illness.
- In New Zealand, where employees are only auto-enrolled on joining the workforce or changing jobs, may only opt-out during the first eight weeks after auto-enrolment and are able to apply for contribution holidays, one in three have chosen to opt-out. In the UK, eligible employees will need to be auto-enrolled even within their current jobs and are able to leave their scheme at any time – this is likely to influence the pattern of opt outs.
- In New Zealand, concern over potential future changes to the terms and conditions of KiwiSaver has been as significant a reason for opting-out as affordability. Compared to KiwiSaver, the UK system of auto-enrolment has complexities that may require simplification at a later date and there is a risk that regular changes before, during and after the roll-out of auto-enrolment may cause many employees to lose trust in the system.
- Employees and employers in New Zealand have tended to contribute at the default rate, which is unlikely to secure the OECD target replacement rate of 65% of pre-retirement income. The combined default contribution rate in the UK is 8%, but the Pensions Commission has estimated that a combined 16% contribution rate would be needed to achieve the OECD target.

Contracting-out – updated HMRC guidance

HM Revenue & Customs has updated its guidance for contracted-out salary related and mixed benefits schemes issued last autumn. It is not clear what has changed since it updated these guidance documents to reflect the incorporation into legislation of actuarial guidance in relation to the reference scheme test (see Pensions Bulletin 2011/42).

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