

Corporate sponsor pensions survival guide

JANUARY 2012

Important activities that employers should be considering.

Recent legislative and regulatory changes present a number of issues requiring action by employers, either alone or in conjunction with trustees. This guide summarises important activities that employers should be considering and the actions to be taken.

Within these activities, there are a number of key actions that cannot be missed.

Key event or issue	Action required/matters to consider	LCP comment	Done
Management of PPF levy for 2012/13	There are material changes to the PPF levy regime for 2012/13. Check the impact and investigate whether the cost/benefit ratio of levy mitigation actions has changed. Allow sufficient time to meet the end of March deadlines.	A new requirement is that PPF guarantees must now be certified by the trustees. The D&B scores are now reviewed monthly and cliff edges in the calculation mean that small changes can have a large impact. Schemes larger than £1.5bn also have to carry out bespoke stress calculations for investment risk, for smaller schemes it is optional.	
Auto-enrolment from October 2012	Theory is now becoming reality. Employers need to consider the impact and put in place an implementation plan.	It is clear that administration and communication aspects will be challenging, so early planning is recommended. Do not assume that your existing DC provider will want to be your auto-enrolment provider.	
Pensions taxation	The Annual Allowance is now £50,000 and the Lifetime Allowance will reduce to £1.5m on 6 April 2012. Confirm that potential issues with senior employees (including registering for 'Fixed Protection') have been addressed to avoid unexpected tax charges arising for this year.	Now that there is (relative) clarity, check that the potential issues have been identified, addressed and communicated, so there are no unpleasant surprises when the tax calculations are done post year-end. Fixed Protection can (broadly) negate the Lifetime Allowance reduction. Individuals must register for this before April 2012 but, after that date, there are several ways that it can be lost.	
Statutory employer	From November 2011 trustees have had to state the 'statutory employers' on their scheme return.	For most schemes this will be a formality. But be prepared to respond quickly if legal advice reveals that liability for pensions falls on employers in your group structure other than the ones you expected.	
Abolition of DC-based contracting-out from April 2012	DB schemes contracted-out on a money purchase basis will need to change from April 2012.	Time is getting very short to make any necessary scheme changes. Employee notification requirements should be noted.	
Scheme funding	Consider obtaining an update of your scheme's funding level reflecting the impact of market changes over 2011. If necessary, investigate non-cash funding solutions in advance of the next triennial valuation.	Where upcoming valuation negotiations may be challenging, allow sufficient time to develop a proposal in advance of discussion with scheme trustees.	
Investment strategy	Given the significant investment market movements, consider reviewing the current	Working with the trustees, there may be opportunities to improve returns or reduce risk.	

Key event or issue	Action required/matters to consider	LCP comment	Done
Investment strategy (cont'd)	scheme investments to make sure that they are still meeting your long term objectives within your shorter term risk tolerances.		
Year-end accounting under IAS19	Consider the impact of changes introduced for accounting years beginning on or after 1 January 2013. Also resolve the treatment of RPI to CPI changes.	The most significant IAS19 changes are the removal of the expected return on assets item and removal of the option to spread gains and losses.	
Non-registered pension schemes	If you have these consider whether Employer Financed Retirement Benefit Schemes (EFRBS) remain viable.	Although the legislation was passed in the Finance Act 2011, interpretation of it continues to be very challenging. It appears that non-secured unfunded EFRBS may still have a future.	

Depending on the circumstances, the following areas may be less urgent to address, but should be kept on an action list to consider.

Key event or issue	Action required/matters to consider	LCP comment	Done
Pension risk management	Consider reviewing your strategy to reduce pension risks and ultimately settle pension liabilities. Are the objectives and strategies still appropriate in the current environment?	This includes considerations such as investment strategy, benefit redesign, member options (such as enhanced transfer values) and buy-in exercises.	
'Solvency II' consultation	Consider the significant impact that a higher funding standard could have.	If Solvency II goes ahead it is likely to mean a fundamental strengthening of reserving for DB funding in the UK. Realistically, any changes are several years away.	
DC Governance	Consider reviewing DC arrangements, particularly if the current arrangement has been in place for some time.	Recent market developments have seen lower charges, better-designed investment options and improved communication.	

The individual circumstances of your scheme will mean that some of the items above may not apply or there are other critical steps you need to take. Lane Clark & Peacock LLP can take no responsibility nor accept any liability for your use of this checklist without seeking specific advice.

LCP is a firm of financial, actuarial and business consultants, specialising in the areas of pensions, investment, insurance and business analytics.

Lane Clark & Peacock LLP
London, UK
Tel: +44 (0)20 7439 2266
enquiries@lcp.uk.com

Lane Clark & Peacock LLP
Winchester, UK
Tel: +44 (0)1962 870060
enquiries@lcp.uk.com

Lane Clark & Peacock Belgium CVBA
Brussels, Belgium
Tel: +32 (0)2 761 45 45
info@lcpbe.com

Lane Clark & Peacock Ireland Limited
Dublin, Ireland
Tel: +353 (0)1 614 43 93
enquiries@lcpireland.com

Lane Clark & Peacock Netherlands B.V.
Utrecht, Netherlands
Tel: +31 (0)30 256 76 30
info@lcpnl.com

LCP Libera AG
Zürich, Switzerland
Tel: +41 (0)43 817 73 00
info@libera.ch

LCP Libera AG
Basel, Switzerland
Tel: +41 (0)61 205 74 00
info@libera.ch

LCP Asalis AG
Zürich, Switzerland
Tel: +41 (0)43 344 42 10
info@asalis.ch

Lane Clark & Peacock UAE
Abu Dhabi, UAE
Tel: +971 (0)2 658 7671
info@lcpgcc.com

All rights to this document are reserved to Lane Clark & Peacock LLP ("LCP"). This document may be reproduced in whole or in part, provided prominent acknowledgement of the source is given. LCP is part of the Alexander Forbes Group, a leading independent provider of financial and risk services. Lane Clark & Peacock LLP is a limited liability partnership registered in England and Wales with registered number OC301436. LCP is a registered trademark in the UK (Regd. TM No 2315442) and in the EU (Regd. TM No 002935583). All partners are members of Lane Clark & Peacock LLP. A list of members' names is available for inspection at 30 Old Burlington Street W1S 3NN, the firm's principal place of business and registered office. The firm is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. The firm is not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services to clients because we are members (as defined under the Act) of the Institute and Faculty of Actuaries, a Designated Professional Body. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide. Lane Clark & Peacock UAE operates under legal name "Lane Clark & Peacock Belgium - Abu Dhabi, Foreign Branch of Belgium". © Lane Clark & Peacock LLP.