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making financial sense of the future

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Pensions Reform 2012



Pension Reform 2012: Agenda

- Background
- Details
- NEST Pensions – Key Features
- Implications and actions

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Pensions Reform 2012
The Background



Pensions Reform

- Aim is to provide 'all' employees with access to a supplementary pension arrangement

This is "one of the most radical changes in the 100 years since the first state pension was created."

To avoid "the nightmare of a pensions crisis with people of working age struggling to pay for an ageing population."

Pension Reform 2012: Background

- Pensions Commission December 2002
- First report – October 2004
 - 10m people not saving enough for their retirement
- Second report - November 2005
 - National Pensions Savings Scheme
- Pensions Act 2007
 - Personal Accounts Delivery Authority (PADA)
- Pensions Act 2008
 - Automatic enrolment
- Consultation papers / responses during 2009
- 2010
 - Timetable for Auto-enrolment
 - National Employment Savings Trust

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Pensions Reform 2012 The Details



The basic position

- Employers must auto-enrol "all" employees
- Into a "Good" or "Qualifying" pension scheme.....
 - Existing scheme or a new arrangement
 - NEST is just one option

Auto-enrolment

- Who must be auto-enrolled?
 - Employees aged between 22 & SPA
 - Expected earning over £5,035
 - Senior Execs with protection
- Employee opt-outs
 - Inducements to opt-out prohibited
 - Opt out forms only from the scheme
- Re-enrolment
 - Every 3 years on auto-enrolment anniversary
 - Not within 12 months of opting out
- Employee Opt-ins

Auto-enrolment

- Temporary / Contract workers must be included
 - Not agency workers
- Waiting periods
 - Subject to 'higher' level of benefits
- Relaxation of 19th of month rule
 - Contributions to be paid by the end of the 2nd month following auto-enrolment

Auto-enrolment

Employer (by PAYE scheme size)	Staging date
120,000 or more	1st October 2012
50,000-119,999	1st November 2012
30,000-49,999	1st January 2013
20,000-29,999	1st February 2013
10,000-19,999	1st March 2013
6,000-9,999	1st April 2013
4,100-5,999	1st May 2013
4,000-4,099	1st June 2013
3,000-3,999	1st July 2013
2,000-2,999	1st August 2013
1,250-1,999	1st September 2013

Employer (by PAYE scheme size)	Staging date
800-1,249	1st October 2013
500-799	1st November 2013
350-499	1st January 2014
250-349	1st February 2014
240-249	1st April 2014
150-239	1st May 2014
90-149	1st June 2014
50-89	1st July 2014
Less than 50	1st August 2014 – 1st February 2016
New employer	1st March 2016 – 1st September 2016

Implications – Large retailers

- Introduce Auto-enrolment in the run-up to Christmas
 - Employ many staff over this period
- Will HR be allowed to communicate?
- Process opt-outs during November and December
 - Will employees notice deductions from their pay during this period?
- Re-enrolment 3 years later
- Same issues apply to the leisure sector over the summer months?

Conditions for Qualifying Scheme (DC)

- Contribution test only
- Minimum contributions phased over 5 years
 - Saves tax relief!

	Employer contributions	Employee contributions	Total
October 2012 - October 2016	1%	1%	2%
October 2016 - October 2017	2%	3%	5%
October 2017 -	3%	5%	8%

- “Qualifying earnings”
 - all earnings (gross) between £5,035 to £33,540 (2006/07 terms)
- No de minimis limit on contributions
- Scheme certification?

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Conditions for Qualifying Schemes (Final salary)

- Relevant for existing members
- Contracted out on RST
 - or
- $n/120$ ths of average qualifying earnings in the last 3 tax years at age 65

Conditions for Qualifying Scheme (Others)

- Combination of DB and DC tests
- CARE
 - Must provide revaluation at 2.5%.
 - Where discretionary, must be included in funding plans and SFPs
- Cash balance schemes
 - Benefits accrue at 16% of "salary" p.a.
 - or
 - 8% of "salary" p.a. with 3.5% minimum returns
- DB schemes can defer auto-enrolment to October 2016

Policing

- The Pensions Regulator
 - Expanded brief
- Outsourcing detection
 - Police
- Who decides to prosecute / sanctions?
 - CPS / jury / judge

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Pensions Reform 2012
NEST Pensions – Key Features



National Employment Savings Trust

- Trust based occupational scheme
- Development overseen by Personal Accounts Delivery Authority (PADA)
- Run by "NEST Corporation"
- Established July 2010
 - Chairman Lawrence Churchill



Who's really in charge?

PADA	➔	NEST Corporation
<ul style="list-style-type: none"> • Initial remit – to get NEST running • Minimising: <ul style="list-style-type: none"> – adverse effects on other pension schemes.... – employer workload.... – running costs..... • It is 'selling' NEST hard 		<ul style="list-style-type: none"> • Narrower remit than PADA • Employer and employee panels • Stated aim is "to help NEST facilitate pension saving among a population not previously engaged in retirement planning"

Contributions to NEST

- No set rates
- It can be a qualifying scheme
- Maximum annual contribution
 - £3,600
- General ban on transfers in and out prior to retirement
 - Pension credits on divorce
 - Cash transfers

NEST Benefits

- No waiting period
- Limited refunds
 - One month
- Full retirement options
 - As other UK registered schemes
 - Limited annuity 'broking' service proposed
- No trustee discretion on payment of death in service benefits

Investment

- Design of the default fund
 - Membership characteristics
- Wider investment choices, e.g. SRI, Shariah Law
- Target date funds
- Minimal risk in the early (10?) years to maximise persistency
- Overall more cautious than many existing defaults
- NEST Corporation will have final decision

Administration and Charging

- Administration
 - Tata Consulting (TCS) now 'appointed'
 - 10 year contract
 - What happened to the other 3 bidders?
- Proposed charges
 - AMC of c0.3% plus c2% contribution charge
 - Broadly equivalent to 0.5%
 - But could be much more
 - Contribution charge covers Government loan
 - 20 years?

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Pensions Reform 2012 Implications and actions

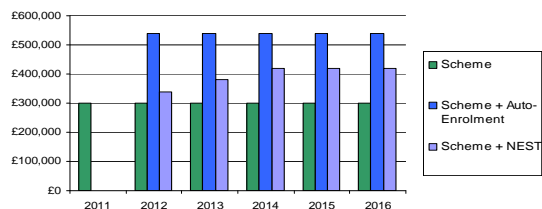


Employers' strategic options

- Continue their existing scheme for all employees?
- Level down their existing scheme to NEST standard?
- Use NEST as their main vehicle?
- NEST for some employees, or top up for others?

- Go for the cheapest option?

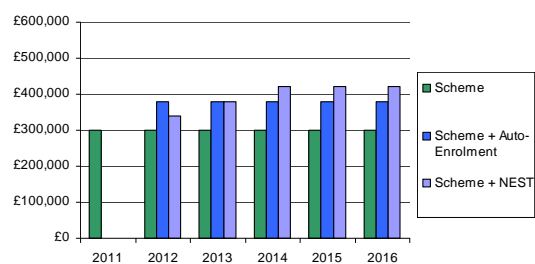
Cost of Auto-enrolment



Why it's not that easy

- Definition of "job holder"
- Definition of earnings
- Effect of waiting periods
- Uncertainty of take-up rates / opt-outs
- Effect of early leavers / refunds

Effect of refunds etc?



Reactions to auto-enrolment

- Increased pension cost
 - Increase prices
 - Lower profits
 - Reduce other benefit costs
- Review existing plan design
 - PHI, healthcare, death benefits
- Salary sacrifice
- Review delivery mechanism and costs
 - Trust v contract
 - Share costs with members etc
- Big issue as average DC take up is c50%

NEST – Impact of changes

- 84% of FTSE 100 companies have considered the impact of NEST changes but few have made definitive strategy decisions
- 30% may change their member joining approach
- 10% may change their pensionable earnings definition (85% currently define pensionable earnings as basic salary)



Areas for action

- Administration
 - Is it robust, can payroll & HR cope with auto-enrolment?
- Contributions
 - How much is auto-enrolment going to cost?
- Investment
 - Review default fund and strategy
- Charges
 - Value for money / pass onto members?
- Communications
 - Credit for current arrangement
- Scheme vehicle still appropriate?
 - Trust versus contract?

What about a Conservative government?

- Unhappy at signing of administration contract with TCS
 - October break point
- 'Quick and dirty' review of NEST pensions
 - Reconsider if costs are greater than 0.5% p.a.
- Bring forward auto-enrolment
 - Separate from NEST
 - How?
- Are favourable to a simplified certification process
- Other pensions related items
 - Remove age 75 deadline for buying an annuity
 - Hasten increase in SPA
 - Risk sharing

Summary

- 2012 is not that long away!
