GMB Pensions News   www.gmb.org.uk/pensions

FEBRUARY 2011 NEWS BRIEFING

This GMB News Briefing aims to give an overview of recent developments in the Pensions World for Trustees, Activists, Officers and anyone with an interest in pensions news. It incorporates the Member Nominated Trustee News.

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PAST ISSUES OF PENSIONS NEWS CAN BE SEEN AT
http://www.gmb.org.uk/work_issues/pensions__retirement/gmb_pensions_bulletins/gmb_pensions_news.aspx

COALITION WATCH

In this section, we'll keep you abreast of all of the Government's moves that will affect your pensions. In recent months we've been presented with the Comprehensive Spending Review, Hutton's Interim Report on Public Sector Pensions, a rumoured Green Paper on Reform of the State Pension and specific consultations on taxation and retirement:

State Pensions

Inflation figures for September 2010 showed that the value of the Retail Prices Index (RPI) increase was 4.6%. This compared with the Consumer Prices Index (CPI) increase of 3.1%. As outlined in the last Pensions News (Summer 2010) the Government is moving to base the indexation of many benefits on CPI, which means that these will receive a much lower increase. The Basic State Pension will remain linked to RPI for 2011 and will rise to £102.15pw from April 2011; but will be linked to the best of CPI increases, Average Weekly Earnings increases or 2.5% in subsequent years.

The Comprehensive Spending Review set out the Government's Plans to bring forward the planned increases to State Pension Ages (SPA) for both men and women. Under these proposals, the current increase of SPA for women from 60 to 65 between 2010 and 2020 would be accelerated from 2016 so that it reaches 65 by 2018. The increase from 65 to 66 for both men and women would then be phased in between 2018 and 2020 (six years ahead of the current plans). Further reviews of the increases to 67 and 68 would also be conducted.

Finally a proposal to implement a universal level of State Pension thereby superseding the Additional Pensions elements (i.e. SERPS and S2P) and means tested benefits (i.e. Pension Credit and Savings Credit) was leaked to the press before Christmas. Whilst on the face of it a more simplified system would be welcome, the levels of pension being discussed (£140pw) were lower than many pensioners with SERPS and S2P would get and is likely to be lower than the Government's projected value of means tested pensioner benefits by 2015. The expected Government Green Paper was highly anticipated before Christmas, but this project seems to have been "put on ice" and nothing more has been heard of it.

Hutton Review of Public Sector Pensions

On 7 October 2010, John Hutton published his interim report on public sector pensions. The report sets out his principles that that the objectives for reform should be that public sector pensions are affordable, sustainable, adequate, fair, supportive of productivity, transparent and simple. GMB would support most of these.

Hutton has conducted a second round of public consultation to which GMB contributed. This will feed into his second and final report, which is anticipated in the first half of March 2011. This will then be considered by Government, who may give some indication of their response to it in the Budget set for 23 March.

A summary of materials linked to the Hutton review can be seen at www.gmb.org.uk/pspc

Public Sector Pension Contribution Increases

Following the interim Hutton report, the Comprehensive Spending Review announced the Government's plans to increase employee contributions for public sector pension schemes requiring an additional an extra £2.8bn per annum to be collected in contributions from members of unfunded schemes. The Local Government Pension Scheme, which sits outside this group of schemes, would also be expected to apply a corresponding level of increase to member contributions.

The increase would correspond to members paying on average an extra 3%-3.2% of pay towards their pension. The Government has embraced principles that the contribution increases should be:

- Phased in over 3 years between 2012 and 2014
- Be introduced progressively so that the higher paid pay a higher rate
- Designed to minimise members opting out of the scheme

Government began the process of telling each pension scheme how much they had to pay in January, and set a timetable for agreeing contribution structures by the end of February. Following the instigation of discussions co-ordinated by TUC, it was agreed that further discussions with unions should take place.

GMB launched a member survey asking Local Government and NHS Pension Schemes' members how they would respond to any such contribution increase. The results showed that significant proportions of both schemes' memberships would consider opting out of their pension schemes if this contribution increase was imposed. The results of the survey have been fed back to Government and Hutton.

Discount Rate Used in Valuing Unfunded Public Sector Pension Schemes

As recommended by Hutton, Government are conducting a review of the discount rate used by unfunded pension schemes. Any changes to this key assumption in valuing the schemes, no matter how small, could have a very significant impact on the perceived cost of the scheme and lead to extra pressures. GMB has submitted a response to this consultation, making the case for retention of the current approach.

Review of Automatic Enrolment to Work Based Pension Schemes

The Department for Work and Pensions has just published a report of a commissioned review of the Automatic Enrolment provisions, which originated from the Turner Commission on pension saving and was developed under legislation from the Labour Government. It is worth noting the following recommendations from the review:

- Individuals need not be automatically enrolled unless they earn above the income tax threshold (currently £6,475 and due to rise to £7,475 in 2011)
- Individuals who earn above the National Insurance earnings threshold (currently £5,720) can opt in to a pension scheme and receive an employer contribution
- All employers will have to participate in Automatic Enrolment
- Automatic enrolment can be deferred for three months from starting employment, although employees can actively opt in to their pension scheme during this period
- The process by which an employer can certify that contributions to their scheme comply with the minimum requirement is to be simplified
- The National Employment Savings Trust (NEST) will remain as a low cost pensions savings vehicle.

Move to CPI for Pension Increases

We have previously published details of the Government's proposal to base state pension and public sector occupational pension increases on the Consumer Prices Index rather than the Retail Prices Index, and the impact this could have on savings. One outstanding issue was how the government expected such a move to translate over to private sector pension schemes.

The Government has confirmed that that there is currently no intention to introduce a statutory override, requiring private sector schemes to use CPI. What this means is that some trust based pension schemes will automatically adopt CPI through their link to statutory increases and some schemes will automatically retain RPI based increases where their wording refers to that index. Members and trustees are advised to check scheme rules and seek advice where there is any doubt on pension increases.

GMB has produced an extensive briefing on Pension Increases which can be seen at http://www.gmb.org.uk/docs/11021_CPI%20vs%20RPI.doc

Review of the Restriction of Pensions Tax Relief

As noted in the last Pensions News, the Tory-Liberal Government has announced that they intend to abandon the principle that higher earners should lose the right to tax relief on pension contributions and introduce a new arrangement based on the current pensions tax regime, but with much lower scope for tax free saving in any one year.

The initial proposal has the potential to reduce pensions tax relief for many medium earners, who may not come close to the 40% income tax band, but rather who may be in a defined benefit scheme and receive a significant promotion. The final proposal included one key provision demanded by GMB in our response, meaning that anyone caught in such a way could smooth their pension savings over a number of years and so use up any unused tax allowances from previous years.

We continue to campaign to ensure that ill health retirees who benefit from an enhancement to their pension are not caught by any unjustified tax charges.

More on this can be read in our bulletin at http://www.gmb.org.uk/docs/10187_Tax%20Relief.doc

OCCUPATIONAL PENSION PROPOSALS

In recent months we have heard of proposed changes at:

- Ibstock Brick
- Amadeus
- Synergy
- Portsmouth Water
- Carron
- Norbert Dentressangle
- Viridian
- 1625 Independent People
- Anchor
- G4S
- Northgate
- Ford
- EVH
- P&O
- Laser UK

Please keep the Pensions Department advised of any proposed pension changes.

Ofgem has also reared up again on pensions in the Energy sector. Following last years attempted decimation of the gas supply sector's pension provision, they have now decided to turn their attention to the electricity sector.

CONTRACTING OUT REBATES

The Pensions Minister recently confirmed that from 2012 the rebate of National Insurance that contracted out schemes receive will reduce from 5.3% (3.7% in respect of employer national insurance, and 1.6% in respect of employee) to 4.8% (3.4% employer and 1.4% employee). This will put more pressure on the funding of contracted out schemes.

Remember that from April 2012, contracting out of the State Second pension will not be allowed for defined contribution schemes.

PENSION PROTECTION FUND (www.pensionprotectionfund.org.uk)

PPF 7800 Index

Continuing to reflect the volatile world of pension funding, the most recent PPF estimates of scheme funding show that scheme's funding levels are continuing to rally. At the end of January 2011 an aggregate surplus across all schemes of £46.1bn was seen. This is an increase from a £21.7bn surplus recorded at the end of December 2010, and the £12.7bn deficit recorded at the end of January 2010.

PPF Levy

The PPF has announced that it intends to collect an overall levy of £600m in the coming year (down from £720m this year). More details of how each scheme's levy will be calculated, and information of the proposed new framework from 2012 can be seen on the PPF website.

THE PENSIONS REGULATOR (www.thepensionsregulator.gov.uk)

Scheme Administration

The Regulator has launched a drive to highlight the importance of scheme administration in enabling good member outcomes from pension saving. A statement and guidance is expected from the Regulator in coming weeks.

Enabling good outcomes in DC pension provision

The Regulator has launched a discussion document on how it should support and regulate defined contribution provision. He has identified six key areas: appropriate levels of contribution, appropriate investments, protecting assets, efficient and effective administration, value for money and converting savings into pension. More can be seen at http://www.thepensionsregulator.gov.uk/docs/dc-discussion-paper-2011.pdf

Incentives to transfer or modify pensions

The Regulator has issued updated guidance on the practice of employers offering incentives to scheme members to give up some form of secured pension provision. This can be seen at http://www.thepensionsregulator.gov.uk/guidance/incentive-exercises.aspx

Trustee monitoring of Employer Support and Obtaining Securities

The Regulator has published guidance to help trustees monitor the covenant of sponsoring employers and on forms of security that can be sought. More at http://www.thepensionsregulator.gov.uk/guidance/monitoring-employer-support.aspx

Guidance for DC members approaching retirement

The Regulator has also published guidance for members planning to convert defined contribution savings into a retirement income. This can be seen at: http://www.thepensionsregulator.gov.uk/docs/making-your-retirement-choices-2010.pdf

NATIONAL EMPLOYMENT SAVINGS TRUST (NEST)

NEST, the body that is to provide a low cost savings vehicle in conjunction with the extension of workplace retirement saving through automatic enrolment, has set out its charging structure. An annual management charge of 0.3% will be deducted from fund values. In addition a charge on contributions of 1.8% will be made.

NEST has also published a "Plain Speaking" guide outlining some pensions terminology they will try to avoid and what plain English version they have developed. You can even play their pensions-speak game at http://www.nestpensions.org.uk/plainspeaking.aspx

That's all for now.
More information on our sections of the GMB website at
www.gmb.org.uk/pensions
and
www.gmb.org.uk/pspc