



## **SPRING 2012 NEWS BRIEFING**

This long overdue 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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**EUROPEAN NEWS** – Commission wants to value pension liabilities using a less risky measure

**GMP EQUALISATION** – A complex benefit looks set to become more complex for pension schemes

**PENSIONS PROTECTION FUND** - 7800 Index continues to demonstrate volatility of defined benefit funding

**PENSIONS REGULATOR** – update on policy issues including Defined Contribution principles, pensions liberation and Trustee Toolkit

**INVESTMENT – FAIR PENSIONS** - reports on executive remuneration and fiduciary duties

**OFFICE FOR NATIONAL STATISTICS** – some useful facts and figures

**OTHER USEFUL SOURCES** – information from our friends at TUC and First Actuarial.

#### **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](http://www.gmb.org.uk/work_issues/pensions_retirement/gmb_pensions_bulletins/gmb_pensions_news.aspx)

## **COALITION WATCH**

### **Budget**

George Osborne's 2012 Budget has been dubbed the "Granny Tax" Budget. That is unfair – it also penalises a high number of Grandads too. For pensioners and pension savers, the following announcements will be of interest:

- Implementation of a Single Tier State Pension early in next Parliament– simplifying the current complex two tiered arrangement might seem ideal, as might proposals to set the level of State Pension above the current means testing threshold. However, Government has repeated their mantra that any change will not be funded by extra payments from the State. They have also stated that any improvements to the level of pension will impact only on new pensioners after reform is implemented. A White Paper is expected later in the Springtime.
- State Pension Age – Not content with speeding up the increase to 65 for women and 66 for all, Osborne has announced his intention to bring forward the increase to 67 by 8 years. Members can calculate their current State Pension Age by visiting [www.gmb.org.uk/statepensionage](http://www.gmb.org.uk/statepensionage) . The Budget announced an intention to automatically make future increases to State Pension Age that will track measured improvements in longevity. Proposals are expected in July 2012.
- Tax Reforms for Pensioners – currently Her Majesty's Revenue and Customs (HMRC) grants a higher personal allowance to those aged over 65, meaning that you will be allowed more tax free income if you are above this age. The level of increased allowance depends on your income. The Budget announced policy to ensure that this increased allowance is frozen in future years from April 2013, until such a time as the basic allowance catches up and the higher allowance no longer exists. New pensioners from 2013 would not receive any higher Personal Allowance. Government says that this will simplify the tax system – the fact that it will grab £1.25bn from pensioners by 2016 is coincidental.

### **Automatic Enrolment**

The policy that says that all workers should be enrolled into a workplace pension scheme has enjoyed cross party consensus since Lord Turner's commission first proposed it back in 2006. However the coalition has repeatedly tinkered with the legislation that will bring the policy into place leaving it somewhat devalued. Government policy is not yet finalised.

At present, automatic enrolment now means that UK employees not in a pension scheme who are between 22 and 65 and earning more than

£7,475pa must be enrolled into a work-based pension scheme. The date from which this will happen is determined by the size of employer, but will be rolled out between 1 October 2012 and February 2018.

GMB will put out much more material on automatic enrolment in advance of the full introduction of this policy.

### **Public Sector Pensions**

Much of GMB Pension Department's work over the last year has been focussed on working to defend these pensions against a barrage from the Coalition. Anyone interested in reading more on this can visit our dedicated webpage [www.gmb.org.uk/pspc](http://www.gmb.org.uk/pspc)

At the time of writing Government has made a final offer in respect of NHS, Civil Service and Teachers Pensions, which are being presented to and considered by Union members. The Local Government Pension Scheme is going through a different series of discussions and at present these are ongoing.

In short, Government has not deviated from its policy to align Normal Pension Ages to State Pension Ages, wanting to implement career average pensions rather than final salary pensions and seeking to make short term financial gains from higher contributions/lower benefits.

### **EUROPEAN NEWS – Solvency 2**

The last 10 years have seen the often repeated phrase "another nail in the coffin for defined benefit pensions" being rolled out, that it would seem that the coffin would be more metal than wood. The latest nail comes in the form of the "Solvency 2" proposal emanating from the European Parliament. Under this proposal, defined benefit schemes would be required to be funded on a risk free basis, which would drastically increase the value of liabilities. Across the UK, many bodies, including TUC, CBI and National Association of Pension Funds have realised the potential damaging consequences and resistance is increasing.

Defined Benefit pension funds are encouraged to engage their actuaries in estimating the potential impact of Solvency 2 on scheme liabilities and communicating this information to us.

### **GMP EQUALISATION**

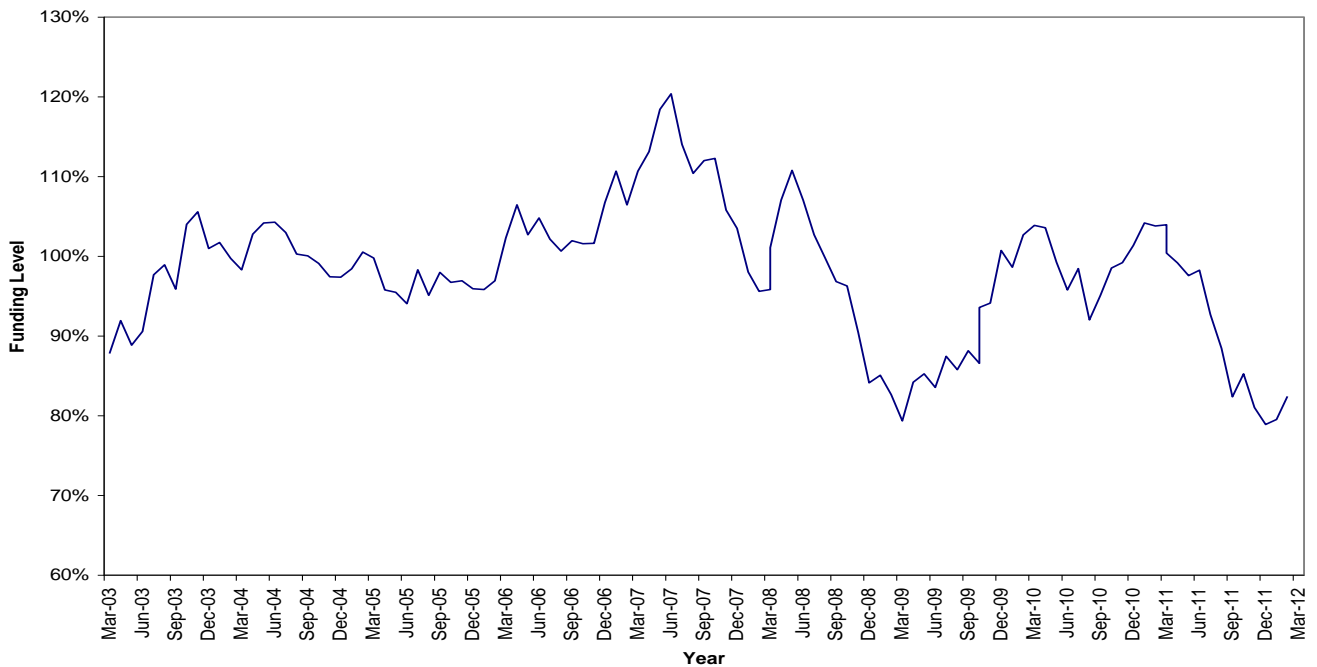
GMPs, or Guaranteed Minimum Pensions, are historic occupational pension benefits that were designed to mimic SERPS, for anyone who opted out of SERPS between 1978 and 1997. Pension Schemes have to ensure that they provide this minimal level of benefit to replicate what a member could expect from SERPS.

GMP provision has historically been quite complex and the extent to which it is treated in the guise of a pay benefit, or a state benefit has been the subject of debate. It is probably for these reasons that many schemes have overlooked the requirement to equalise GMP provision between men and women in line with the European Court Judgement in May 1990. DWP has resurrected the issue of equalisation of this benefit and put forward a proposal for how this can be achieved. Unfortunately this proposal simply adds another layer of administration that will prove costly to pension schemes that adopt it. DWP will allow any other means of achieving equal GMPs, although again it is difficult to see how these would be introduced in an efficient manner. Trustees are encouraged to liaise with their actuaries and legal advisers on this issue.

### **PENSION PROTECTION FUND**

The Pension Protection Fund continues to publish its monthly update of the overall funding levels of defined benefit pension schemes in the UK. The PPF 7800 index continues to show significant volatility in scheme funding. The most recent figures for March 2012 show that the aggregate deficit was £222.2bn, an improvement from £265.6bn in February 2012. This corresponds to a funding level of 82.4%. The chart below shows how the funding level has changed since January 2005:

**PPF 7800 - Aggregate Funding Levels**



## **THE PENSIONS REGULATOR**

The Pensions Regulator continues to work on a number of initiatives, including:

### **Principles on Good Work Based DC Schemes**

The Regulator has, quite rightly, put some focus on how to get the best out of Defined Contribution pension arrangements for members. The six underlying principles are:

- Schemes are designed to be durable, fair and deliver good outcomes for members
- A comprehensive scheme governance framework is established at set-up, with clear accountabilities and responsibilities agreed and made transparent
- Those who are accountable for scheme decisions and activity understand their duties and are fit and proper to carry them out
- Schemes benefit from effective governance and monitoring through their full lifecycle
- Schemes are well-administered with timely, accurate and comprehensive processes and records
- Communication to members is designed and delivered to ensure members are able to make informed decisions about their retirement savings

GMB intends to engage with the Regulator on developing these principles. We would be interested to hear from any Trustees with DC responsibilities or members of Governance arrangements as to what steps are taken in your bodies to ensure members achieve the best pensions possible.

More can be seen at <http://www.thepensionsregulator.gov.uk/press/pn11-29.aspx>

### **Regulator Warns Against Early Release Offers**

The Pensions Regulator, in conjunction with the Financial Services Authority and HMRC, has published details of two investigations into scheme members transferring pension savings (either defined benefit or defined contribution) into arrangements that promised illegitimate early access to pension benefits. The law is designed so that pension benefits can only be drawn before the age of 55 (unless in serious ill health circumstances), if a tax charge of 55% is paid on the pension savings that are drawn. The Regulator is concerned that companies are now promising people that they can make use of this early access possibility. As well as leaving individuals liable for a high tax bill, such companies may also levy high fees and operate through opaque practices. More information on this can be seen at <http://www.thepensionsregulator.gov.uk/press/pn12-05.aspx>

## **Trustee Toolkit**

The Pensions Regulator has revamped the online training facility for Pension Scheme Trustees – the Trustee Toolkit. Anyone interested in becoming a trustee or any current trustees could benefit greatly from looking at this material. More details can be seen at [www.trusteetoolkit.thepensionsregulator.gov.uk](http://www.trusteetoolkit.thepensionsregulator.gov.uk)

## **Purple Book**

The Regulator has published the 2011 Purple Book setting out a complete analysis of the underlying data behind UK Defined Benefit Pension Schemes. It's not exactly War and Peace, but would take just as long to read. It can be seen at <http://www.thepensionsregulator.gov.uk/docs/purple-book-2011.pdf>

## **PENSION FUND INVESTMENT – FAIR PENSIONS**

Our friends at Fair Pensions continue to promote the constructive and proactive use of pension fund investments to ensure fund growth with a Responsible Investment ethos. Colleagues will be interested in the following:

- Fair Pensions [Briefing on Executive Remuneration](#) 2012. On this very topic, Fair Pensions are also co-hosting, with TUC, a free seminar for trustees on the afternoon of Monday 21<sup>st</sup> May at Congress House in London. Anyone interested in attending should e-mail [trusteenetwork@tuc.org.uk](mailto:trusteenetwork@tuc.org.uk)
- [The Enlightened Shareholder](#) – A Fair Pensions Report on the investment fiduciary duties for trustees.

## **STATISTICS**

The Office for National Statistics continues to roll out some useful information through their [Pension Trends](#) series. Including:

- Life expectancies – the average life expectancy for a 65 year old is currently 17.8 years (man) or 20.4 years (woman).
- Analysis of the labour market – the average age of withdrawal from the labour market is roughly 64.5 (men) and 63 (women).

ONS has also published its [Occupational Pension Schemes Annual Report 2010](#). This gives a wealth of useful statistics about occupational pension schemes, not least:

- 56% of members of DB schemes saw their scheme change in 2010. The most common change was an increase to contribution rates, followed by changing early retirement terms and changing the definition of pensionable pay and final pensionable pay.
- For private sector defined benefit schemes, the average member contribution was 5.1%, whereas employers paid 15.8%
- For defined contribution schemes, average member contributions were 2.7%, whereas employers paid 6.2%.

- The proportion of active members who have a pension age of 65 fell from 75% in 1975 to 51% in 2004 and increased back up to 73% in 2010.

### **OTHER BRIEFINGS**

For those who can't get enough Pension Briefing, GMB is happy to recommend some other sources of regular updates:

- [First Actuarial](#) consultants, produce a new regular Trade Union Briefings.
- [TUC](#) produce a Member Nominated Trustee Newsletter.

**That's all for now.**

**More information on our sections of the GMB website at**  
[www.gmb.org.uk/pensions](http://www.gmb.org.uk/pensions)