

PENSIONS: WHAT DO WE EXPECT IN 2017?

Introduction

In the first month of a New Year, many of us will be thinking ahead to what we can anticipate or hope for in the coming months. For some people, that might mean the prospect of gaining a promotion, an addition to the family or the result of dedicated training at the gym. For others, thoughts might be turned more towards just hanging onto the current job or managing issues of debt or ill health.

Whether you are looking ahead positively or negatively – or, like most of us, with a touch of both, dependent upon the subject – we thought we would begin the year with a run down of what is expected in the pensions world. The information you are about to read stems from briefings produced by the administrators of the Railway Pension Scheme, RPMI (Railways Pension Management and Investment), and Eversheds Sutherland's Pensions Team.

There is also a health warning with the information because not all of it will necessarily apply to every member so we will endeavour to make it clear what you in your circumstances should be mindful of in the year ahead.

What can we expect for pensions in 2017?

There are a variety of subjects to look at, including:

- State Pension increase
- State Pension age review
- Pension Schemes Bill
- Reports on long-term sustainability of DB pension schemes
- Green Paper on the future of DB schemes
- GMP equalisation
- Pension scams
- Brexit/EU Referendum
- IORP II Directive
- Tax changes and the reduction in the money purchase annual allowance (MPAA)
- Auto-enrolment review
- 21st century trusteeship
- Future of Salary Sacrifice
- Secondary annuities market proposal cancelled

State Pension increase

The state pension will increase by 2.5% in 2017 under the triple lock guarantee. This means that the Single Tier or new State Pension will increase from £155.65 to £159.55 each week. Pensioners in receipt of the full basic

State Pension will see an increase from £119.30 to £122.30.

Calls by the Work and Pensions Committee in November to scrap the triple-lock mechanism for the State Pension on the basis of it being unsustainable because of intergenerational unfairness were rejected by the Chancellor in the Autumn Statement in 2016.

RPMI say this will not impact on people in the RPS unless they are claiming their pension for the first time when the offset used in calculating contributions and benefits will be increased.

State Pension age review

Under the Pensions Act 2014, the government introduced a system of regular reviews of the State Pension Age following changes made in the last decade and more. The current review is due to report to the government in time for it to announce recommendations by May 2017 and follows on from an interim report and consultation that closed in December 2016. That consultation looked at alternatives to a universal State Pension age and whether they could be implemented on the basis of affordability and fairness, reflecting the fact that life expectancies differ amongst groups of the population.

RPMI has identified that if a system of a personal State Pension age was introduced, as opposed a universal State Pension age for all, this may mean bridging pensions (like the RPS' level pension option) would become administratively impractical.

Pension Schemes Bill

The Bill is currently going through its Parliamentary stages and is aimed at introducing a new supervisory regime (carried out by the Pensions Regulator) to protect savers in master trust arrangements in order to maintain confidence in pension savings, an issue that has arisen since the introduction of automatic enrolment into workplace pension schemes.

Other changes will mean that early exit charges will be capped as will commission charges payable by members in certain occupational pension schemes.

RPMI comment that that whilst the Bill will only have limited effect on the Shared Cost arrangement of the RPS, the Industry Wide Defined Contribution (IWDC) arrangement, a master trust, will be directly impacted by any new supervisory regime.

Reports on long-term sustainability of Defined Benefit (DB) pension schemes

There have been two recent reports in this area:

1. As part of their DB Taskforce initiative, the PLSA (Pension and Lifetime Savings Association) issued an Interim Report in October 2016 calling for review which RPMI has highlighted as principally in the following areas:
 - The potential for scheme consolidation, which could help secure more economically viable

schemes better able to deliver value to scheme members and their sponsors, especially in relation to small schemes;

- The ways in which changes to the pension system could deliver better solutions to scheme resolution and remove regulation that adds cost but has little or no tangible benefit;
- The approach to benefit design and benefit changes, so a more flexible approach could be implemented to help sustain schemes;
- The approach taken in relation to the sharing of risk.

The PLSA's DB Taskforce intends to publish its final report in March 2017.

2. A report by the CBI (Confederation of British Industry) highlights that whilst pension schemes are long-term in nature and are relatively well funded in cash terms, with well over £1 trillion of assets, there is also a need for more flexibility in scheme funding plans through a variety of suggested measures including the use of a modern inflation measure for indexation.

Green Paper on the future of DB schemes

Likely to coincide with the inquiry into DB pension law and regulation, the DWP has said it will issue a Green Paper on the future of DB schemes

(like the Shared Cost arrangement in the RPS) in early 2017. RPMI report that it "is expected to focus on scheme funding valuation and investment issues, in particular whether alternative investment vehicles, instead of gilts, should be considered more often." The government is also understood to be considering the price inflation index used by schemes and the practicalities of scheme consolidation.

The potential impact of the green paper is not known at this stage.

GMP equalisation

The government has signalled its intent to proceed with the removal of inequalities in the statutory GMP (Guaranteed Minimum Pension) framework through the requirement to equalise scheme benefits between men and women. Consultation on the subject closed on 15th January 2017 and commentators have welcomed the revised methodology although it is likely that proposals will take some time to finalise. In any case, this does mean that GMP equalisation will be firmly back on schemes' agendas for 2017 and beyond.

Pension Scams

According to the Money Advice Service, the new pension freedomsⁱ have led to pension scammers making up to 8 calls every second in the UK. As a result, the DWP and Treasury are proposing a series of measures to tackle the problem, including:

- A ban on cold calling;
- Limiting the right to transfer to some occupational schemes;

- Making it harder to open fraudulent schemes.

The consultation on the changes closes on 13 February 2017 but Eversheds Sutherland note that the timetable for implementing any changes is not currently clear.

Brexit/EU Referendum

Commentators currently feel that the initial direct legal effect of the UK's exit from the EU will have a minimal effect on pensions. This is because when Article 50 is triggered EU law will still continue to apply in the UK until formal exit. After-exit, it is expected that the government's Great Repeal Bill will preserve existing EU law as part of domestic law although there will be scope for Parliament to gradually amend legislation which has been influenced by Europe to date.

Changes in legislation can cost time and money which means that there has to be an appetite to make amendments which leads to the belief that there may not be any immediate or significant reduction in legal requirements for UK pension schemes.

Case law may change over time as UK courts don't have to consider the views of the European Court of Justice when interpreting EU legislation. The House of Commons Library has produced a briefing paper which looks at the implications for pensions of the decision for Britain to leave the European Union. It can be found at: <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7629#fullreport>

IORP II Directive

The new EU IORP II Directive on the activities and supervision of Institutions for Occupational Retirement Provision (IORP) comes into EU law in January 2017 and, ordinarily, would need to be transposed into UK law within two years (ie, in the same timescale as Brexit). It is not yet known how the requirements of the IORP Directive will be dealt with but it may well be that the UK will adopt some or all of the Directive, particularly as it had a central role in negotiating it.

Tax changes and the reduction in the money purchase annual allowance (MPAA)

In the Autumn Statement in November 2016, the government announced that there would be a reduction in the MPAA from £10,000 to £4,000 in April 2017 (the MPAA is the annual amount individuals can contribute tax efficiently to DC (Defined Contribution) pensions if they have previously accessed a pension flexibly). HM Treasury is currently carrying out a consultation on the matter, seeking views on whether the level of MPAA would either affect the roll out of auto-enrolment or disproportionately affect particular groups.

Auto-enrolment review

The DWP intends to carry out a review of auto-enrolment during 2017 which will include looking at:

- auto-enrolment criteria and thresholds;
- existing coverage of the policy;
- the needs of those not currently benefiting (such as those with

multiple jobs and the self-employed);

- reviewing the charge cap;
- evidence about the appropriate level of future contributions.

21st century trusteeship

The Regulator recently published a responseⁱⁱ to its discussion paper on 21st century trusteeship and governance. A targeted education and enforcement drive will begin in spring 2017. Eversheds Sutherland suggests that whilst this does not appear to mean that mandatory qualifications will be introduced for trustees, during 2017 there should be:

- more clarity around the standards expected of professional trustees and chairs;
- a focus on governance reporting;
- streamlining of Regulator guidance;
- further discussion around mandatory consolidation of small DC schemes.

The future of Salary Sacrifice

A number of issues announced in the government's Autumn Statement on 23rd November 2016 have been picked up elsewhere in this Bulletin with one exception, that of the end to the tax and National Insurance (NI) advantages of many types of salary sacrifice arrangements. The exception to this, however, is the use of salary sacrifice for pension purposes, as well as for a small number of other purposes, which will continue to be

allowable and subject to the same tax and NI advantages as present.

Secondary annuities market proposal cancelled

The Government had proposed that the pension flexibility regime should be extended to allow people to sell annuities that they had already bought. However, following a re-think, the plan has now been cancelled. The cancellation followed consultation which highlighted issues of the inability to guarantee sufficient consumer protection as well as few firms actually willing to purchase annuities from individuals.

RPMI advise that this issue may impact some former members of the IWDC arrangement who have used their funds to purchase annuities from external organisations.

Valuation of the RPS

Every three years, in accordance with the law, every section of the Railway Pensions Scheme (Shared Cost arrangement) goes through an evaluation to establish that it is appropriately funded. Where it doesn't meet the statutory funding objective, a recovery plan must be put in place.

In 2017, we will see publication of the results of the Triennial Valuation of the Railway Pension Scheme that cover the period 1st January 2014 to 31st December 2016. TSSA and some of its reps have already attended one briefing organised by RPMI and been able to participate in a consultation on the actuary's approach to the Valuation. A further event will be held in February but the draft results for

each section are not going to be available until May 2017.

It should be noted that results are usually discussed between employers and trustees where a section committee exists but in all cases, they should also feature in talks between individual companies and trade union reps where issues of potential deficits (or surpluses), changes to benefits and contributions, etc, can be agreed. Further information will be provided on this subject as it becomes available.

Acknowledgements

This Bulletin was prepared using material produced by:

- RPMI: "What's new in the pensions industry" January 2017, received by email on 11th January 2017;
- Eversheds Sutherland: "UK pensions speedbrief: what to look out for in 2017," 4th January 2017 and available at: <http://www.eversheds-sutherland.com/global/en/what/articles/index.page?ArticleID=en/Pensions/uk-pensions-speedbrief-what-to-look-out-for-in-2017>

ⁱ See an introduction in TSSA Reps Bulletin Pensions 041 Pension Reform from March 2015 at: <https://www.tssa.org.uk/en/rep-area/rep-bulletins/pensions/index.cfm>

ⁱⁱ See: <http://www.thepensionsregulator.gov.uk/press/pn15-46.aspx>