

In *The Agenda* we summarise the state of play with the key pensions issues about which employers and trustees should be keeping themselves informed. Where appropriate, we highlight the actions that could or should be taken.

Current issues are subdivided between financial and compliance issues and HR and communication issues, although inevitably there will be a degree of overlap in some cases. We also keep one eye on what is coming over the horizon.

Our aim is to help you make your company or trustee board agendas focused on what is important to you.

We have kept *The Agenda* brief. Please contact your HamishWilson consultant, for further details.

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## Financial and compliance issues



### Abandonment, Anti-avoidance and Clearance

Abandonment occurs when a sponsoring employer seeks to avoid its pension liabilities by severing its link with a DB scheme (eg as a result of a corporate restructuring) without providing the scheme sufficient funds or assets to compensate for losing its ongoing support. If it occurs, the Pensions Regulator has the power to issue a financial support direction and/or a contribution notice against the relevant parties, depending on the circumstances.

The Regulator issued updated [guidance](#) in December 2008 on how trustees should deal with a proposal that might involve the abandonment of a DB scheme. The only significant change from the previous guidance recognises the fact that contribution notices can now be imposed on a person who has acted in good faith, but by implication did not show sufficient care. (It does not reflect the new material detriment test (see below), because the relevant provisions of the Pensions Act 2008 have not yet commenced.)

The DWP published its [response](#) to a [consultation](#) on how best to beef-up the Regulator's anti-avoidance powers in October 2008. At the same time, the then Minister of State for Pensions, Rosie Winterton, announced that the Government had tabled amendments to the Pensions Bill (now the Pensions Act 2008) to introduce the Regulator's new powers, but with some modifications. These include a requirement for the Regulator to produce a statutory Code of Practice to guide the application of the new "material detriment" test (whether any actions or failures to act have had a detrimental effect on the likelihood of members receiving their benefits) for contribution notices.

The Regulator issued [Code of Practice No 12](#) on 5 May 2009, which is currently before Parliament for approval. This differs slightly from the original draft and confirms the circumstances in which the Regulator would expect to issue a contribution notice under the material detriment test to be where:

- the scheme is transferred out of the UK's jurisdictions
- the sponsoring employer is transferred out of the UK's jurisdictions or is replaced with an entity that does not fall within those jurisdictions
- the sponsoring employer's support for the scheme is removed, substantially reduced or becomes nominal
- liabilities of the scheme are transferred to another scheme or arrangement where this leads to a significant reduction of the sponsor support or funding to cover those liabilities
- the scheme is operated in such a way that creates, or is designed to create, a financial benefit for the employer or some other person and inadequate account has been taken of members' interests, including where risks to members are increased.

**Employers (in particular) should familiarise themselves with the Code if they are thinking about any of the types of restructuring covered by it.**

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## Abandonment, Anti-avoidance and Clearance (continued)

The [Pensions Regulator \(Miscellaneous Amendment\) Regulations 2009](#), which came into force on 6 April 2009, extend the "look back" period (the period in which the Regulator can exercise the power to issue a financial support direction) from 12 months to 24 months, with this increase being phased in over the period ending on 6 April 2010.

The Regulator published updated [clearance guidance](#) in December 2008 reflecting its new powers. (Seeking clearance from the Pensions Regulator is appropriate where there may be a significant weakening of the employer covenant as a result of a corporate transaction, eg where a highly-leveraged transaction occurs and/or the assets to which the scheme may currently have recourse are being removed from the employer group.)

**Employers should consider whether to apply for clearance whenever involved in a corporate deal.**

## Accounting standards

Between 31 March 2007 and 31 March 2009, the margin between gilt yields and bond yields ("the credit spread") has increased nearly four-fold from about 0.7% pa to about 2.7% pa largely as a result of the global credit crunch. Given the credit crunch is likely to be unwound over time, we question whether it is sensible for companies to increase their discount rates mechanically in line with corporate bond yields. See [News](#) for further explanation.

A number of companies have adjusted their discount rate in recognition that the credit spread is abnormally high.

**In the context of their wider corporate objectives, Finance Directors should consider not taking credit for all the short-term gain without understanding the potential for the longer-term pain.**

## Commutation of trivial pensions

The DWP had intended to extend with effect from 6 April 2009 the circumstances in which occupational pensions can be commuted on the grounds of triviality in line with HMRC regulations. However, HMRC's Authorised Payments regulations were not laid before Parliament until 8 May 2009 and, although they will come into force on 1 June 2009, they will not relax the treatment of trivial pensions until 1 December 2009. The regulations will also make genuine benefit payment errors (eg overpayments) easier to correct.

**Trustees may wish to ask their scheme's administrator how many pensions it will be possible to commute on such grounds and what administrative cost savings would be achieved.**

## Conflicts of interest

The Pensions Regulator issued [guidance](#) for trustees and employers on conflicts of interest in October 2008. It contains advice on how to identify different types of conflict of interest and suggests ways in which such conflicts can be managed. It also highlights the conflicts of interest that can exist where the trustees and employer (or the trustees of two or more schemes with the same sponsoring employer) do not have separate advisers. Trustees are encouraged to develop a policy for dealing with conflicts.

**If they have not already done so, trustees should familiarise themselves with the guidance and consider their own and/or their advisers' conflicts or potential conflicts, taking legal advice where appropriate.**

The provisions in the Companies Act 2006 regarding conflicts of interest also came into force on 1 October 2008. Section 175 imposes a duty on company directors to avoid situations in which they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company. However there are exemptions where the situation cannot reasonably be regarded as likely to give rise to a conflict of interest or where the matter has been authorised by the company's directors.

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## Conflicts of interest (continued)

There are potentially serious implications for:

- individual trustees who are also company directors
- scheme sponsors where their directors are also trustees and
- corporate trustee companies.

**If they have not already done so, such persons or bodies should consider taking legal advice and take appropriate action as soon as possible to avoid breaching their statutory duties.**

## "Debt on employer" regulations

Rosie Winterton, then Minister of State for Pensions, announced in November 2008 the Government is considering making changes to the "debt on employer" regulations under s75 of the Pensions Act 1995. The intention is to relieve some of the constraints on corporate restructuring for companies participating in multi-employer schemes.

New regulations had come into force on 6 April 2008, but these have been heavily criticised. The DWP was aiming to hold a full public consultation in the spring (originally February 2009) and to introduce changes from October 2009, but the consultation is still awaited!

**Any employer who participates in a multi-employer scheme should seek legal and actuarial advice about the consequences of a corporate restructuring or ceasing future benefit accrual before taking action.**

## Equalisation issues

The provisions of many schemes had to be amended following the European Court of Justice's "Barber" ruling of 17 May 1990 in order to achieve equality of benefits between men and women. More recently, schemes will have had to remove any age-based discrimination (except where exempt). Various recent Court cases have highlighted the importance of ensuring that any changes that have been made are both lawful and made appropriately in accordance with the requirements of the scheme's trust deed and rules.

**Trustees and employers may wish to check the validity of any changes made to their schemes, especially where it was intended to level down benefits in respect of service after the date of change.**

The Pension Protection Fund (PPF) issued a [consultation paper](#) in April 2008 setting out how it intends to require schemes that have entered an assessment period to equalise benefits relating to Guaranteed Minimum Pensions (GMPs). The consultation ran until 28 July 2008.

The PPF's approach to GMP equalisation may not be a viable solution for other schemes. Even so, **trustees should monitor developments given the Pensions Act 1995 placed an obligation on them to equalise benefits.**

Regulations enabling GMPs to be converted into normal scheme benefits using the concept of actuarial equivalence came into force on 6 April 2009.

In our opinion, converting GMPs is likely to be a non-starter unless the sex-equality issues surrounding GMPs are clarified. See our [press release](#) for further explanation.

## Member-nominated trustees (MNTs)

With limited exceptions, all schemes should have established and implemented arrangements under which members can nominate and select at least one-third of their trustees (and this may rise to one-half in future). The arrangements should be reviewed every three to five years. See our [In Focus](#) for further details.

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## Member-nominated trustees (MNTs) (continued)

*Amending regulations*, which came into effect on 6 April 2009, clarify that independent trustee companies performing a professional function are not required to appoint member-nominated directors where they sit as a scheme's trustee alongside a general trustee company (ie where the directors perform a similar role to lay trustees).

**Trustees should check when they next need to review their MNT arrangements.**

## Notifiable events

*Amending regulations*, which came into effect on 6 April 2009, simplify the "notifiable events" framework (see our *In Focus*) by removing the requirement to notify the Regulator about:

- two or more changes in the holders of any key scheme post within the previous 12 months
- any change in the employer's credit rating, or the employer ceasing to have a credit rating and
- two or more changes in the holders of any key employer posts within the previous 12 months.

**Trustees and employers should ensure they are familiar with the remaining notification requirements.**

## Pension sharing on divorce

The Pensions Act 2008 abolished "safeguarded rights" (ie contracted-out rights created under a pension sharing order on divorce) from 6 April 2009.

The *Pension Sharing (Pension Credit Benefit) (Amendment) Regulations* were issued in draft for consultation in May 2008 and the Government issued its *consultation response* in August 2008.

The final regulations were consolidated into *amending regulations*, which came into effect on 6 April 2009. They enable pension credit benefit members to have the same choices as other occupational pension scheme members on when and how to draw their pension (bringing those choices into line with those currently existing with personal pensions).

**Trustees of schemes that grant pension credits should review whether they need to make changes to their scheme's administrative procedures.**

## Revaluation of deferred pensions

The Pensions Act 2008 has reduced the statutory rate of revaluation of deferred pensions for service after 6 April 2009. Statutory revaluations remain geared to price inflation, but the cap has been reduced from 5% pa to 2.5% pa for benefits accrued after 5 April 2009. The change thus only affects members who become early leavers on or after 6 April 2009.

A reduction in the cap could be expected to reduce the cost of future benefit provision, particularly if the rate of price inflation is expected often to be above 2.5% pa. However, it would create another tranche of benefit, adding to administrative and communication complexities.

*Amending regulations*, which came into effect on 6 April 2009, give trustees the overriding power (subject to employer consent) to amend their scheme's revaluation provisions by resolution where the rules would otherwise have prohibited such a change.

The DWP's policy department reportedly said in February 2009 that any rule amendment required to lower the revaluation cap would not be a "listed change" under the Occupational and Personal Pension Schemes (Consultation by Employers and Miscellaneous Amendment) Regulations 2006 and so would not trigger the need for employers to consult with their employees. The Pensions Regulator has also reportedly clarified that enforcement action will not be taken against employers who do not consult on such a change.

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## Revaluation of deferred pensions (continued)

**If they have not already done so, employers should decide whether to take the opportunity to reduce the cost of benefit provision and their exposure to high rates of inflation and ask their lawyers to check what their scheme's rules say about revaluations and to advise what actions (including obtaining trustee agreement) will be required to reach the desired position.**

## Risk alert

The Pensions Regulator issued a statement "[Alert to risks in the economic downturn](#)" on 20 April 2009 to all those involved in the running of pension schemes to alert them to potential risks and to encourage trustees to contact the Regulator if they are worried. The statement looks at:

- the risk of dishonesty and fraud (eg members being encouraged to access their pension savings through "trust-busting" or "pension liberation" activities) and
- behaviours that unacceptably increase risks to members' benefits, the PPF and all levy-paying schemes, such as the avoidance of employer debt, inappropriate transfers for individuals from under-funded schemes that would not subsequently have the resources or adequate employer support, as well as employer-related self-investment and poor practice associated with transfer incentive exercises.

It also reminds trustees, employers and advisers of their whistle-blowing duties.

**Trustees should familiarise themselves with the alert and keep an eye out for any suspicious activity.**

## Scheme-specific funding regime

The Regulator issued a [Statement to trustees about current financial pressures](#) in October 2008.

For DB schemes, the Regulator indicates it is important trustees keep the employer's covenant under review and consider whether their review processes are adequate. Where an employer believes an existing recovery plan is at serious risk of jeopardising its future that will be a matter for discussion with the trustees. Trustee boards will wish to consider carefully any proposal for change taking into account among other things plans for payments to other creditors and dividends to shareholders. Where a recovery plan is revised, the Regulator must be informed.

The Regulator issued a [statement to employers sponsoring DB pension schemes](#) in February 2009, which:

- recognises that current economic conditions are of real concern to employers
- reassures employers that the scheme funding regime is flexible enough to cope with the economic downturn
- confirms there is potential to renegotiate previously-agreed plans to repair pension deficits where the sponsoring company is under pressure
- suggests trustees should be in a position to understand what is reasonably affordable for their sponsor, but all unsecured creditors must be treated equitably and the pension scheme not disadvantaged and
- confirms the Regulator will continue to seek outcomes that are in the best interests of the scheme and sponsor.

The Regulator adds that recovery plans should not be amended to enable the sponsor to continue to pay dividends and that, where there are short-term concerns over affordability, back-end loading a recovery plan may be more appropriate than extending its length.

**As indicated by the Regulator, trustees should continue to focus on making sound decisions in the long-term interests of scheme members, which includes not jeopardising the sponsor's future viability.**

We are now into the second round of scheme-specific funding valuations. Our impression is trustees won the first round on points, supported by legislative pressure for prudence and greater trustee knowledge and understanding. An important factor in many cases was employers did not obtain independent advice (effectively yielding the initiative to the trustees who are the primary focus of the scheme actuary's advice).

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## Scheme-specific funding regime (continued)

Recent financial turmoil means the second round will be tougher and pensions more critical, possibly being the knock-out blow for some employers. In such circumstances employers are taking a serious risk if they get into the ring without a good team of seconds (both actuarial and legal) in their corner.

**Employers should ensure they have access to independent advice if they are to avoid having one hand tied behind their backs when sparring with the trustees.**

## Tax relief for high earners

It was announced in the Budget on 22 April 2009 that tax relief on pension contributions is to be restricted for those with incomes above £150,000 pa from 6 April 2011. This will follow hard on the heels of the introduction of a new rate of income tax of 50% that will apply on income in excess of £150,000 pa from 6 April 2010.

From 6 April 2011, the value of pensions' tax relief applying to income in excess of £150,000 pa will be tapered down (from 50%) so that for those on incomes above £180,000 pa tax relief will be at the rate of 20%, the same as for basic rate income taxpayers.

It appears the restriction on tax relief will apply not only to an individual's own pension contributions but also to any contributions made on their behalf by their employer or any other party. This means that employer contributions paid in respect of high earners will no longer be tax-exempt as far as the employee is concerned.

It will be easy to quantify contributions made to DC pension arrangements, but not so easy in DB schemes. The Government will thus consult on the implementation of the restriction of tax relief and, in particular, how employer contributions to DB schemes should be valued.

Employers will continue to receive full relief from corporation tax on their pension contributions.

Of more immediate impact, measures were set out for preventing high earners from maximising their pension contributions over the next couple of years in order to take advantage of full tax relief while it is still available.

The Finance Bill 2009 will create a new tax charge of 20% that will apply until 5 April 2011 to high earners who "increase their pension savings on or after 22 April 2009 over and above their normal pattern of regular pension savings", but only if their total pension savings exceed £20,000 in that year.

**Employers should urgently review their pension provision in respect of high earners.**

## Trustee knowledge & understanding (TKU)

The Regulator announced in October 2008 it had refreshed its TKU framework to ensure it remains relevant and also published drafts of a revised [Code of Practice](#) and scope guidance (for DB and DC schemes) for consultation. The revised code of practice sets out practical guidance for trustees in relation to the TKU regime, while the scope guidance provides a checklist of the topic areas of which trustees need to have knowledge and understanding.

**Trustees should familiarise themselves with the new Code of Practice and scope guidance and keep their training needs under regular review.**

## Upper Earnings Limit (UEL)

As announced in the 2007 Budget, the UEL (currently £770 pw) used in the calculation of National Insurance (NI) contributions has been increased from 6 April 2009 to bring it into line with the threshold for higher-rate income tax (currently £844 pw). However, to avoid cost implications for the Second State Pension (S2P), the UEL has been replaced when calculating earnings-related state pensions by a new parameter called the Upper Accrual Point (UAP) with effect from 6 April 2009.

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## Upper Earnings Limit (UEL) (continued)

The UAP has been set at £770 pw and will not increase over time, consistent with the Government's intention of gradually converting S2P into a flat-rate pension.

The consequences for contracted-out schemes include:

- From 2009/10, NI contribution rebates will be based only on earnings up to the UAP, although NI contributions will continue to be based on earnings up to the UEL.
- The Reference Scheme Test (for contracted-out salary-related schemes) will become easier to satisfy over time as it will be based on earnings between the Lower Earnings Limit and the UAP, which will decrease in real terms.

**Employers should ensure that their payroll departments are aware of the changes so that NI rebates can be calculated correctly from April 2009 onwards.**

More generally, the UEL may feature in schemes' benefit design (eg a different accrual rate may apply on earnings above and below the UEL to facilitate integration with the state scheme). The hike in the UEL and introduction of the UAP could frustrate such designs and create unwelcome consequences unless corresponding changes are made prior to 6 April 2009 (otherwise there are likely to be problems with s67 certification).

**Where there is ongoing benefit accrual, employers should review their scheme's rules as a matter of urgency.**

## HR and communication issues



## A-Day

In his Pre-Budget Report of 24 November 2008, the Chancellor of the Exchequer, Alistair Darling, announced that the Lifetime Allowance will be frozen at £1.8 million from the 2010/11 tax year until 2015/16. Likewise, the Annual Allowance will be frozen at £255,000.

Under transitional arrangements, the old "IR limits" and, in particular, the "earnings cap", continue to apply to schemes by default until 5 April 2011.

HMRC announced in February 2009 that the notional earnings cap for 2009/10 will be £123,600.

**To maintain the old limits to avoid an unintended increase in members' benefits (and scheme liabilities) employers need to ensure their scheme's rules are amended by 5 April 2011.**

## Age discrimination

The pensions-related aspects of The Employment Equality (Age) Regulations 2006 ("the Age Regulations") came into force on 1 December 2006. With certain exceptions, it is now unlawful for employers, or trustees of occupational pension schemes, to discriminate on the grounds of age when exercising their scheme functions in respect of periods of pensionable service on or after 1 December 2006.

However, uncertainty remains as to what constitutes a discriminatory practice. In early 2008, different outcomes in a couple of employment tribunal cases that addressed whether compulsory retirement at the age of 65 could be objectively justified illustrated the importance placed on individual circumstances.

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## Age discrimination (continued)

**If they have not already done so, employers should check for discriminatory practices in their schemes (eg age-related accrual rates) and take action to minimise their exposure to equalisation costs.**

The DWP published in December 2008 its [response](#) to a [consultation](#) it had launched in October 2007 regarding the uncertainties around flexible retirement and employees working beyond their normal retirement ages. The DWP's response included two alternative sets of regulations on which it consulted until 10 March 2009:

- The first option would add a wide statutory exemption, for all pensions rules and practices linked to flexible retirement arrangements, to those listed at Schedule 2 to the Age Regulations.
- The second, more limited option, would allow occupational pension schemes not to provide death-in-service benefits in respect of members in flexible retirement arrangements.

The European Court of Justice (ECJ) started hearing the "Heyday" case in July 2008. Heyday, part of Age Concern, is challenging the UK Government's decision to allow employers to compulsorily retire employees when they reach the age of 65. Heyday claims this runs contrary to the European Union's Directive 2000/78/EC which requires equal treatment in employment and occupation.

The Advocate General opined in September 2008 that it was appropriate for the UK Government to specify an age at which employees can be retired compulsorily, provided it is objectively and reasonably justified. The ECJ's formal ruling, given on 5 March 2009, confirmed this view. It will now be for the UK's High Court to decide whether having a default retirement age of 65 is objectively and reasonably justified.

**Employers should continue to monitor the case.**

## Annual summary funding statements for members

Trustees of schemes that have prepared a schedule of contributions under the scheme-specific funding regime must issue summary funding statements to members within a reasonable period. The Pensions Regulator suggests this would normally be 3 months of the deadline for completion of a valuation (eg for a valuation as at 31 December 2007, the completion deadline is 31 March 2009 and so statements should be issued by 30 June 2009) or the 12-month deadline for any subsequent "actuarial report" giving a funding update.

Prior to completion of the first schedule of contributions, statements should be issued by 21 September in each year.

**Trustees should check the deadline that applies to them.**

## Employer consultation

Since 6 April 2008, employers with at least 50 employees have been required to consult before making certain changes to future benefit accrual or DC contributions payable under an occupational (or personal) pension scheme. [Amending regulations](#), which came into effect on 6 April 2009, give the Pensions Regulator the power to impose civil penalties on employers who fail to comply without reasonable excuse.

The DWP issued updated [guidance](#) for employers in April 2009.

**Employers should factor in the consultation requirements when planning any benefit changes.**

## Minimum retirement age of 55

The minimum retirement age will increase from 50 to 55 on 6 April 2010 (except where contractual early retirement rights have been protected). This could lead to a rush of employees aged 50 to 54 wishing to retire in the run up to April 2010, which could disrupt the employer's HR strategy. See our [In Focus](#) on A-Day issues for further details.

**Employers should consider whether they wish to accelerate the minimum retirement age of 55.**

## Statutory money purchase illustrations (SMPIs)

Following a fast-track consultation, the Board for Actuarial Standards (BAS) published [version 1.3 of \*Technical Memorandum 1: Statutory Money Purchase Illustrations \(TM1\)\*](#) in January 2009 to reflect recent changes in legislation. The amendments will mean that, from no later than 1 September 2009, SMPIs will reflect the forthcoming abolition of money purchase contracting out and the changed method of calculating contracting-out rebates of National Insurance Contributions.

**Trustees should ensure the SMPIs prepared for their scheme comply with version 1.3 of TM1.**

BAS will be carrying out a wider ranging review of TM1 over 2009.

## On the horizon



## Accounting standards

The ASB published a [discussion paper](#) in January 2008 that takes a fresh look at the principles that might be reflected in a future accounting standard on pensions. The ASB's proposals include:

- using a risk-free rate to discount future cash flows (ie based on gilt yields instead of AA corporate bond yields)
- basing the liability in respect of active members on their current salaries (plus statutory revaluations) instead of projected salaries
- reporting changes in pension deficits and surpluses in the period in which they arise and
- reporting the actual return on scheme assets in the financial statements instead of the expected return.

If adopted, the ASB's proposals will increase companies' reported pension liabilities and increase the volatility of companies' financial statements from one year to the next. The paper also proposes changes to pension schemes' financial statements and trustees' disclosures to members.

The ASB subsequently announced in October 2008 that it would reconsider its proposal to move to a risk-free discount rate in recognition of a "lack of support" for the proposal and concerns about its behavioural consequences.

A report setting out the ASB's final recommendations for consideration by the International Accounting Standards Board (IASB) and the US's Financial Accounting Standards Board (FASB) is not anticipated until the second half of 2009.

The IASB and FASB launched a consultation in October 2008 under a joint project on proposed enhancements to the [presentation of financial statements](#) with the objective of converging standards; this ended on 14 April 2009.

The IASB's [January 2009 Update](#) indicates that the Board has tentatively decided to work towards two exposure drafts amending IAS19. The first will deal, amongst other things, with the recognition and presentation of changes in the defined benefit obligation and plan assets. The second will deal with contribution-based promises (see [News](#) for an explanation of these).

For the first of the exposure drafts, the Board has tentatively decided entities should:

- disaggregate changes in the defined benefit obligation and in plan assets into employment, financing and remeasurement components, and recognise the components in the income statement
- disclose the employment and financing components either in the income statement or in the notes, and present the remeasurement component in the income statement.

## Personal Accounts

Personal Accounts are scheduled to be introduced in 2012. (The Personal Accounts Delivery Authority (PADA) says its working assumption is the onset of employer duties and, hence, Personal Accounts will be in October 2012.)

[Draft regulations](#) detailing employers' duties as regards automatic enrolment were published on 12 March 2009 for consultation until 3 June 2009. (See [our response](#).) Two further consultations on draft regulations are planned for spring and autumn 2009, which are to cover:

- spring – the constitution and rules of the Personal Accounts Scheme
- autumn – the remaining elements of employers' duties (including re-enrolment and opt ins, the phasing-in of certain duties, qualifying schemes criteria and certification) and employment safeguards and elements of the compliance regime, including information to be passed to the Pensions Regulator, sanctions and penalties.

**Employers should start thinking about the impact the introduction of Personal Accounts will have on them and the design of their pension arrangements.**

The DWP and PADA jointly published a [consultation paper](#) on 28 April 2009 regarding the operation and rules of the Personal Accounts Scheme. The consultation runs until 20 July 2009.

PADA issued a discussion paper "[Building personal accounts: designing an investment approach](#)" on 7 May 2009 to support consultation.

## PPF levies

The PPF published a [consultation paper](#) on longer-term changes to the pension protection levy in November 2008.

The PPF's proposals for 2011/12 and beyond include:

- assessing the probability of a scheme's sponsoring employer becoming insolvent over a five-year period (as well as separately assessing the probability of it going bust during a one-year period, as now) and
- taking account of the risk a scheme's investment strategy poses to the PPF when calculating its individual levy.

The PPF's new Chief Executive, Alan Rubenstein, has suggested that the PPF's approach to collecting levies is changed so that the levies are higher when the economy is strong and employer's can afford to pay more and lower when times are tough.

## Risk sharing

The DWP issued a [consultation paper](#) in June 2008. The paper looked at two different risk-sharing approaches:

- Conditional indexation schemes – DB schemes with pension increases dependent on the funding level.
- Collective defined contribution schemes – schemes that are DC from the employer's perspective, but with a DB target and pooling across members to share out certain risks.

The DWP issued its [consultation response](#) in December 2008 and indicated it will be carrying out further work to explore the concept of Collective DC, but not Conditional Indexation. (See our [press release](#) for our views on this.)