

This is a round-up of topical issues in January 2010

### PPF proposes changes to measurement of insolvency risk

The PPF issued a [Policy Statement](#) on 29 January 2010 regarding changes to the determination of insolvency risk for the 2011/12 risk-based levy. This reflects feedback on a [consultation paper](#) on the measurement of insolvency risk that was published by the PPF on 9 November 2009 and a review of methodology and insolvency probabilities carried out last year by Dun & Bradstreet (D&B).

Changes already made by D&B are to make increased use of interim financial statements for quoted companies and to give greater weight to changes in payment behaviour, so as to pick up sudden changes in circumstances.

The changes for 2011/12 onwards include:

- D&B asking for appropriate evidence when employers seek changes to industry sector or geographic region

- D&B introducing a new “nationwide” attribute for businesses with branches in three or more different UK regions
- D&B proactively collecting charities’ accounts from the Charity Commission’s website rather than relying on non-commercial sponsors providing their accounts themselves
- D&B excluding PPF-compliant “type B” contingent assets when judging whether charges on a company’s assets have a negative effect on insolvency risk
- when assessing the failure score of a subsidiary whose ultimate parent company is at substantial risk of failure, limiting the score to (at best) the score of the parent.

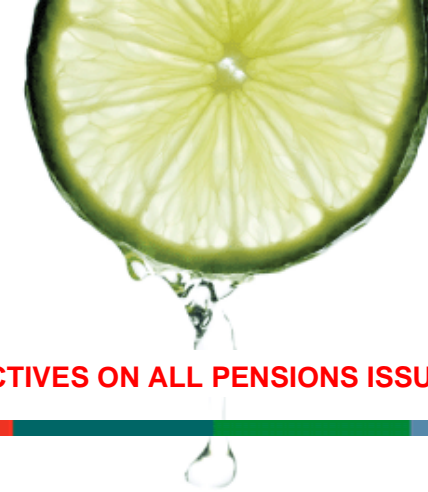
**ACTION:** Given the potential sensitivity of PPF levies to D&B ratings, employers and trustees should assess how they are likely to be affected by the changes and plan mitigating action in time for this year’s deadlines.

### Accounting deficits set to rise

The margin between gilt yields and bond yields (“the credit spread”) has continued to fall back from its credit crunch-induced peak as bond yields ease in response to the Bank of England’s “quantitative easing”. Bond yields were about 5.7% pa as at 31 December 2009 compared with 6.7% pa a year earlier, whilst gilt yields have risen in anticipation of higher price inflation over the medium to long term.

Although there has been a strong recovery in equity markets over the past few months, accounting deficits are likely to be larger than last year.

**ACTION:** Finance Directors should anticipate having to report higher pension liabilities in the coming months.



### DWP decides on only minor changes to Disclosure regulations

The DWP published a consultation on 6 January 2010 on [proposed amending regulations](#) and its response to an [earlier consultation](#) about changes to the current Disclosure Regulations as part of its Deregulatory Review. The current consultation runs until 1 March 2010.

The DWP says there is little appetite for a wholesale move away from prescription and has decided to drop the idea of introducing an overarching disclosure principle that would have allowed trustees greater freedom to do what they consider to be appropriate for their scheme and its members. In particular, the DWP has decided not to replace specified time limits with “within a reasonable period” backed up with a new Code of Practice.

The DWP has, however, decided there is some scope for amending the requirements relating to Statutory Money Purchase Illustrations (SMPIs) with effect from 1 October 2010.

In future, schemes should be able to provide shorter and simpler SMPI statements once the Board of Actuarial Standards has completed its ongoing review of its guidance (Technical Memorandum: TM1).

Schemes are also to be allowed to use electronic communications as their default method of communication if they so wish, provided members can opt out and receive hard copy communications if that is what they prefer.

**ACTION:** Trustees may wish to consider whether they would like to amend their SMPI statements and/or whether it would be appropriate for them to make (greater) use of communicating by e-mail, intranet or internet.

### Personal Accounts renamed as NEST

As announced on 7 January 2010, the Personal Accounts Scheme is to be given the official name of the National Employment Savings Trust (NEST).

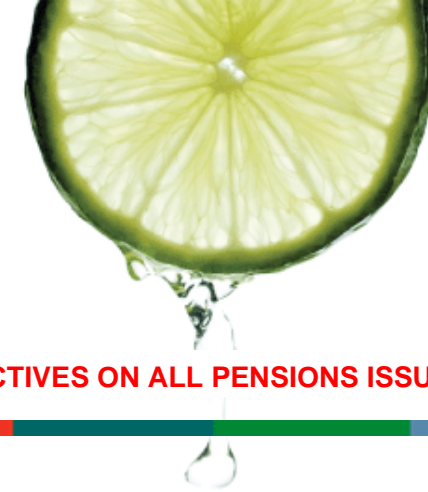
NEST and the requirement for workers to be automatically enrolled into a “qualifying pension scheme” are scheduled to be phased in from October 2012 (see below).

A final draft of the Automatic Enrolment Regulations, together with final Registration and Compliance Regulations and Implementation Regulations, was published on 12 January 2010.

The requirements for automatic enrolment are to be phased in over a three-period starting in October 2012, broadly starting with the largest of employers and ending up with small and micro employers (those with fewer than 50 employees). During this period, the minimum contribution requirements for DC schemes will be at a nominal 2% level.

The minimum contributions required will be increased from October 2015 and then again from October 2016, when the full requirements of the Pensions Act 2008 will be met, ie an aggregate of at least 8% of “qualifying earnings” (including tax relief on members’ contributions), of which at least 3% must be paid by the employer.

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MONTHLY NEWS ROUND-UP  
JANUARY 2010

FRESH PERSPECTIVES ON ALL PENSIONS ISSUES

The Implementation Regulations confirm that the phasing-in of the minimum contribution requirements will now be extended to October 2017, as speculated following publication of the Pre-Budget report on 9 December 2009.

**ACTION:** Employers should start thinking about the impact the introduction of NEST and automatic enrolment will have on them and the design of their pension arrangements.

### Eagle puts the cat among the pigeons over GMP equalisation

Angela Eagle, Minister for Pensions and the Ageing Society, said in a written statement on 28 January 2010 that:

“The examination of the relevant legislation and case law has led the Government to conclude that where a scheme member has accrued entitlement to a guaranteed minimum pension after May 1990, European law requires that any inequality in scheme rules which results from the legislative provisions governing GMPs should be removed, whether or not a person can show that a comparator exists.

Although Eagle’s statement was given in the context of a report on the Financial Assistance Scheme, it is generally thought to have much wider relevance. On the face of it, all schemes that have been contracted-out on the basis of GMPs may no longer be able to sweep the issue of GMP equalisation under the carpet.

Although equalising GMPs would have the effect of increasing schemes’ liabilities (and, so, their deficits), the main issue for many smaller schemes will be the complexity and cost of implementation, including the cost of obtaining advice on what is expected of them.

**ACTION:** Trustees should seek advice as to whether they should equalise GMPs in their scheme and, if so, what would be the most appropriate method for achieving this. In many cases, however, they may be inclined to take a wait-and-see approach and follow the lead of schemes with greater resources.

For further information please get in touch with your usual HamishWilson consultant or contact us by calling 0870 160 5700 or by sending an e-mail to: [enquiries@hamishwilson.com](mailto:enquiries@hamishwilson.com).

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