Welcome to our round up of news in the world of pensions. The letter is intended to keep pension managers and trustees up to date with what is happening in pensions in as clear a way as possible. We welcome any views and suggestions you may have.

**Black Monday and pension schemes**
August was a torrid time for investors, with global stock markets falling in response to poor figures from China. The FTSE 100 fell by £96bn in a single day, and one commentator has valued the consequent rise in UK pension schemes’ combined deficit at £30bn.

The effect of the market volatility will depend on the extent to which a scheme is exposed to equities. Many schemes have reduced and/or hedged their exposure.

Defined contribution (DC) scheme investors will also feel the pinch, especially those close to retirement who still have a significant equity exposure. Younger members, though, may actually benefit as they buy stock at lower prices.

**Comment**

Pension schemes are long term investors and short term market fluctuations such as these should have little impact on long term funding plans. However, many funding measures, and the company’s accounting figures, are based on market values. The message should still be “don’t panic”.

**Guidance on employer covenant published by the regulator**

Understanding the strength of the employer covenant is an important part of the Pensions Regulator’s (IPR) approach to funding defined benefit (DB) pension schemes. Consequently, it has published guidance for trustees of DB pension schemes on how to assess and monitor an employer’s covenant.

The guidance explains what the trustees need to consider in analysing the extent of the employer’s legal obligations and financial ability to support the scheme now and in the future. It will also help them develop a framework for keeping track of key aspects of the covenant. Further publications are planned to help trustees navigate the DB funding code.

**Comment**

The guidance is a welcome addition to the help the regulator is providing.

**Action**

How well is your scheme protected from short term market movements? How much risk are you exposed to? Is this risk really necessary? Talk to your HamishWilson consultant to address these questions.

To access the guidance click [here](#).
Buy-outs could get more expensive

Under a new European Union directive, insurers will be required to increase the reserves they hold to support their annuity business. As a result, price rises are expected. The change will be effective from 1 January 2016 and expected price rises range from 2% to 10%.

Demand for annuities, especially deferred annuities where the impact of the change may be greatest, is expected to rise in the meantime as schemes rush to complete deals and others try to bring forward their deals.

Comment

If you are in the process of completing a deal you may wish to ensure it is finished before next year. Whether now is a good time to commence a deal or not will depend very much on your scheme’s circumstances. For example, many schemes with a large weighting in equities may be reluctant to sell them following the large market falls of recent weeks.

Action

Are you in the middle of a deal? Do you have a plan to buy-out when the time is right? Talk to your HamishWilson consultant.

Rising longevity could increase deficits by 50%

In recent years, persistently low interest rates have been one of the major reasons for increasing pension deficits. Fitch Ratings, the global rating agency, has however warned longevity increases are a greater threat to companies with DB schemes. The financial results of 19 companies in the FTSE 100 were analysed by Fitch, who found their 2014 total reported pension deficits could rise by 47% if there is a two year increase in longevity. Increasing longevity may offset any funding improvements that may arise from expected interest rate rises next year.

Comment

This analysis may be unwelcome as DB schemes are currently struggling with low interest rates and stock market volatility. However, it is a reminder that the longevity issue has not gone away. Longevity assumptions need to be reviewed regularly. In the absence of any offsetting event or risk protection, companies with DB schemes with significant deficits are more exposed and may have to pay higher contributions if members live longer than expected.

Action

Have you done all you can to help mitigate this risk? Speak to your HamishWilson consultant to discuss this further and what can be done to help protect you.

Consultation paper released on pension transfers and early exit charges

The Government has issued a consultation paper on early exit charges, pension transfers and financial advice. It is seeking responses to help ensure people can access their pension savings flexibly and at a reasonable cost.

The ‘early exit charges’ section of the paper states three main options that might be taken forward for further exploration if there is evidence of high early exit charges.

- placing a cap on all early exit fees for those aged 55 and over
- making the cap flexible, eg so it can vary for pots depending on size
- whether there should be a voluntary approach to the restriction on exit fees and charges.

With regard to pension transfers and financial advice the paper contains no new ideas or proposals.
The paper is lacking in ideas and proposals. We are generally wary of any new legislation and would always prefer a voluntary approach where possible.

If you wish to read or comment on the consultation it can be found here.

TPR issues warning to trustees on DC compliance
TPR has urged trustees of DC schemes to act now to meet the new requirements introduced last April. New governance standards and charge control measures were brought in to increase the quality of governance and administration in DC schemes and help provide good member outcomes.

TPR has further warned that any schemes unlikely to comply with the charge cap and are instead planning to use the “adjustment measure” provision will have to do so by 6 October 2015. Under the “adjustment measure” members would only remain in the non-compliant arrangement if they opt to do so.

Comment

We are always keen to see high governance standards in pension schemes. Whether the new laws on DC scheme governance are effective or become a box ticking exercise remains to be seen.

Action

Do you meet the new requirements? Is your scheme compliant with the charge cap? If a scheme is not compliant, it may be subject to enforcement action including fines. Make sure you are prepared.

50-plus workers at record high say DWP
The Department of Work and Pensions (DWP) released new figures revealing that during the last quarter the number of people working aged between 50 and 64 increased by 50,000. With more than 8.2 million people in this age group in paid employment, this represents a record high.

The Government is committed to changing employers’ perceptions of older workers and expects by 2022 the number of people employed aged between 50 and state pension age will increase by 3.7 million.

Comment

With the removal of default retirement ages and extending the right to request flexible working in recent years, it is no surprise to see a rise in these figures and a move to a more age-diverse workforce. We wonder what role pension schemes can play in this increasing diversity and whether or not the current increase in older workers has arisen because people are finding it financially harder to retire early than in previous years.

Action

What changes should you expect in your own workforce and to what extent is your pension scheme responsible for these changes? Can you do more with your scheme to affect the age-structure of your employees? If you wish to read the latest employment figures for older workers, it can be found here.
Rain, rain and more rain

As our August bank holiday washed itself away in a sea of rain, it was heartening to see that our pensioners carried on regardless. The Telegraph featured a group of pensioners playing bowls in the pouring rain wearing bright rain proof all-in-one suits.

We may feel sorry for ourselves having suffered such a wet weekend in our Surrey office, but we should spare a thought for those living in Seathwaite, Cumbria where the rainiest day ever was recorded in 2009. Seathwaite also holds the record for the wettest two, three and four days.

Comment

It's grim up north!