

PENSION ISSUES IN THE BOARDROOM

The Good (NEST), The Bad (DB Deficits) and The Ugly (SAAC)

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NATIONAL EMPLOYMENT SAVINGS TRUST (NEST)

The Good?

- 2008 workplace pension reforms → 2012 auto-enrolment
- The PADA listed advantages are:
 - Overcoming pensions savings inertia and helping millions to save for later life
 - Min. contribution levels of 8% (3% to be provided by the employer)
 - A simple, cost-efficient, e-based solution
 - Ensures employers meet the core criteria of the above reforms
 - Available to employers who want to offer minimum contribution or more
 - Auto- enrolment /= mandatory. Opt out is available
- Theory vs Reality?
 - Administration & Communication issues (and associated expenses!)
 - Is flexibility really an option?
 - Member cost of 2% of all contributions paid (over an unspecified initial period but suggested to be 20 years) and AMC of 0.3% in addition.
 - An empty NEST when it comes to retirement? Who is the real winner here?

DEFINED BENEFIT / FINAL SALARY PENSION SCHEMES

The Bad!

- The ongoing saga continues and will not go away
- Ongoing issues are:
 - Increasing deficits
 - Increasing costs of providing benefits
 - Volatile investment returns
 - Increasing life expectancy (the perpetual moving feast)
- What these mean for senior management:
 - Employers provide a guarantee so their risk management should be fully conversant with this aspect of the business, legacy issue or not.
- Silver Bullet or Bullet Clip?

SPECIAL ANNUAL ALLOWANCE CHARGE (SAAC)

The Ugly.

- 2011 top rate tax relief on pension contributions will be removed for ‘High Earners’
- Special annual allowance for pension saving set at £20,000
- The SAAC is an anti-forestalling measure until 2011
- Tapering tax relief at the rate of 1% withdrawn for every £1,000 of gross income above £150,000.
- Use of age-related factors for valuing defined benefit accrual. Age-related factors will be set by the Government on advice from the Government Actuary’s department.
- Certain stipulations regarding disclosure of information by employers and schemes to facilitate calculation of any liability to the ‘recovery charge’.
- ‘Anti-forestalling’ measures also restrict higher rate tax relief for certain individuals from 22 April 2009 through to 5 April 2011.

SPECIAL ANNUAL ALLOWANCE CHARGE (SAAC)

Continued...

- Those at risk are individuals with recent incomes of circa £130k
- Factors deciphering whether this is the case:
 - Income - both gross and 'relevant'
 - Previous 3 years contribution levels - both amounts and frequency
 - Defined Benefit members must exercise further caution (a minefield within a minefield)
 - Any overseas pension scheme holdings
 - Salary sacrifice arrangements - format and date established
- Use of EFRBS?

SPECIAL ANNUAL ALLOWANCE CHARGE (SAAC)

Continued...

- Help is at hand?
 - HMRC Guidance - 28 pages
 - HMRC Technical Guide - 52 pages
 - Registered Pension Scheme Manual - 113 pages!!
- Moving goal posts
 - Number of amendments through 2009
 - Forthcoming meeting and 2011 may signal more changes
- Error = significant monetary loss
 - 30% of £50,000 is a hard pill to swallow
- Why not achieve economies of scale

“A problem shared is a problem halved”

- Business risks aplenty
- Diverse range of complex issues
- One stop solution

- Thank you for listening