Spotlight

Hewitt

A retirement and investment update from Hewitt Ireland

January 2008 *Issue 11*

In this issue of Spotlight, we highlight

Amendments to the Disclosure Regulations

The Pensions Act (Disclosure of Information) (Amendment) Regulations, 2007 (SI No. 842 of 2007) were signed by the Ministers just before Christmas, and have an effective date of 31 December 2007. The main changes introduced in these Regulations are:

- An extension of the timescale for the issue of benefit statements for defined contribution schemes and AVCs. The Regulations previously required that these be issued within three months of the effective date, but this has now been amended to six months. This was in response to representations that the three month timescale was too short to collate the data required and prepare the statements. The timescale for defined contribution and defined benefit statements is now the same.
- The requirement to issue a Statement of Reasonable Projection in respect of defined contribution schemes and AVCs has been deferred for another year. It is now a requirement that such statements be issued from 1 January 2009, and that they must be issued within six months of the effective date i.e. the same timescale as for benefit statements.
- Clarification that deferred members of schemes are entitled, on request, to receive updated details of their options annually.
- A requirement to provide additional information on wind-up (see below).

The Minister also signed into effect an Order providing for the commencement of Section 43 of the Pensions (Amendment) Act 2002 with effect from 31 December 2007. Where winding-up of a scheme commenced on or after 31 December 2007, and a discretion is exercised to repay funds to the employer, or to reduce benefits due to an insufficiency of assets, the Trustees or the employer must notify the members of this fact, and provide details of how the discretion is to be exercised, and why. The members must be given one month to submit observations on the proposed exercise of discretion and the Trustees and the employer must receive and consider these observations before exercising a discretion.

These new requirements will make the winding-up of schemes where there is surplus to be repaid to the employer (unless this is a provision of the Rules, rather than a discretion exercised by the Trustees and/or the employer) more lengthy, and will require additional information to be made available to members.

Regulations bringing into effect the other requirements of Section 43 relating to bulk transfers, and changes in rules or exercise of augmentation powers prior to winding-up, have not yet been made.

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Change in Transfer Value Basis

Transfer values paid from defined benefit pension schemes must not be less than those determined in accordance with the actuarial standard of practice ASP PEN-2 issued by the Society of Actuaries in Ireland and approved by the Minister for Social and Family Affairs.

A change in the basis of calculation came into effect on 1 November 2007. This change is an increase of 0.25% in the pre retirement discount rate. It has the effect of reducing transfer values materially at younger ages (for example, a decrease of 6.8% for a member 35 years from retirement), although the effect for those closer to retirement is more modest.

Funding Standard at 31 December 2007

Although it has not yet been officially confirmed, the rate of revaluation for the 2007 year will be 4%. This increase will apply to all preserved pensions in respect of those who left before 31 December 2006, and a pro rata part will apply to those who left during 2007. This is likely to lead to a small increase in transfer values in respect of preserved pensions, and in the funding standard liability for existing deferred pensioners, as the allowance made in projections is normally 2%. This will partly offset the positive impact on funding standard calculations of the change in transfer value basis outlined above.

The Pensions Board has recently confirmed that an actuary can take into account contingent assets in determining whether a scheme satisfies the funding standard, and has issued guidance on this topic. The type of contingent assets which might be considered for this purpose would include a letter of credit from a third party, an escrow account or security over fixed assets, although care must be taken not to infringe the self-investment and concentration of investment provisions.

The Budget and The Finance Act 2008

There were no amendments to pensions legislation announced in the Budget, although the increase in the State pension of €14 to €223.30 per week will impact on schemes which are integrated with the State pension. It is possible that further changes will be included in the Finance Bill to be published next month, although it is likely that any substantial changes to the tax framework will wait until the Green Paper consultation process has concluded.

Forthcoming Legislation

As recommended in the Pensions Board's report on Trusteeship published last year, the Pensions Board is proposing to Government that provisions be included in the Social Welfare Bill 2008 to require the registration and regulation of pension scheme administrators.

The Pensions Board has also been considering an amendment to the way in which its fees are calculated, to apply with effect from 1 January 2009. The driver for this is a significant increase in the expenses of the Pensions Board, and proposals to amend the basis of calculation of fees may be included in the Social Welfare Bill 2008.

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