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Current issues

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Articles this month:

Government to bring forward rise to State Pension Age

The Department for Work and Pensions (DWP) has confirmed that it intends to increase State pensionable age (SPA) to 68 between 2037 and 2039, seven years earlier than currently scheduled.[1]

Background

The DWP is required to review and report upon its SPA rules at least six-yearly, and the first such report was due by 7 May 2017. Reports to help inform the Government were published by John Cridland and the Government Actuary in March 2017; however, the Government's report was delayed by the snap general election.

Cridland's independent report included recommendations that the SPA is increased to 68 between 2037 and 2039, that subsequent increases should not begin until 2047, and that an increase of one year in every decade would be an appropriate pace of change.[2]

The Government Actuary examined SPAs during the period from 2028 to 2064. He was asked to conduct analyses on two bases: with the expectation that those reaching SPA during that period can be expected to spend 33.3 per cent of their adult lives in retirement; and with the expectation that they will spend just 32 per cent of their adult lives in retirement.[3] Using the assumptions that he was instructed to make, he calculated that SPA would have to rise to age 69 by 2055 in the 33.3 per cent scenario, and to 70 by 2056 under the 32 per cent version.

Government's 2017 SPA review

The Government is to adopt Cridland's recommendation that the SPA increase to 68 seven years ahead of schedule, so that the increase takes place between 2037 and 2039. The change will affect those born on or after 5 April 1970.

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[1] <www.gov.uk/government/uploads/system/uploads/attachment_data/file/630065/state-pension-age-review-final-report.pdf>.
[2] <www.gov.uk/government/uploads/system/uploads/attachment_data/file/611460/independent-review-of-the-state-pension-age-smoothing-the-transition.pdf>.
[3] <www.gov.uk/government/uploads/system/uploads/attachment_data/file/603136/periodic-review-of-rules-about-state-pension-age-gad-report.pdf>.

The Government feels that the timetable achieves the right balance between maintaining the affordability of the State pension, and the proportion of adult life spent in retirement across generations, with the need to minimise the number of rises that any one generation experiences in quick succession.

The long-term aim of the Government is that people should spend '*up to 32 per cent*' of their adult life in receipt of the State Pension. The acceleration of the increase in SPA to 68 will not be enough to achieve the 32 per cent target, but the Government agrees with Cridland that increases should be appropriately spaced. It, therefore, does not think it desirable to increase SPA to 68 immediately after the rise to 67, currently legislated for 2026-28, as would be required to meet the 32 per cent scenario '*at the earliest opportunity*'. However, future rises seem inevitable.

The recommendation that there should only be only one year's rise in SPA every decade was not taken up by the Government. It feels this would constrict its ability to respond adequate to future changes in life expectancy.

Next steps

The Government has said that the next review of the SPA, due to conclude in July 2023, will confirm the exact date of the increase to 68, so that the latest life expectancy projections can be taken into account. Legislation implementing the change will, therefore, not be laid before Parliament until after the next general election (currently scheduled for 2022). In the interim period, the Government will assess the effect of the scheduled changes to SPA (the equalisation of male and female SPAs at 65 and the rise of SPA from 65 to 66) to help it determine the best course of action.

The Government's decision to bring the increase in SPA forward should be welcomed, particularly in the context of fairness to future generations. Despite recent slowdowns, life expectancy has risen considerably and at a pace higher than currently allowed for in legislation. Analysis by our Club Vita colleagues, in collaboration with the Pensions and Lifetime Savings Association, has found that while longevity improvements have been slowing for the average UK citizen, this masks the detail of what has been happening. For men considered 'affluent', life expectancy has continued to increase; however, the same cannot be said for the less well off. It seems fair to say that the effects of an increase to SPA will not be felt equally by all.

Many open defined benefit (DB) schemes now have retirement ages, for future service, that are linked to SPA, in order to manage longevity risk. It will be vital for the trustees of such schemes to consider how they communicate the Government's intended SPA rise to members. For defined contribution (DC) schemes, it will have a bearing on how employees plan and provide for their retirements. It may mean that those affected will need to save more or work longer than expected, with workforce-management implications for employers. To help members make informed decisions, trustees should communicate the change to members, highlighting the actions that can be taken now to ensure that they save enough for a comfortable retirement.

The increase to SPA could also have a knock-on effect on the earliest age from which pension savings can be accessed without incurring penal tax charges (known as the '*normal minimum pension age*' or NMPA). The NMPA is currently 55; however, as part of the 'Freedom and Choice' paper published in 2014 the Treasury stated that the NMPA should rise in line with SPA so it remained ten years earlier than SPA. Although legislation creating the link was not put in place, it seems possible that the current Government or a successor could implement such a provision. Given the number of people currently accessing their benefits under the freedom and choice reforms, any increase in the NMPA could have significant implications for scheme members.

MPAA reduction will proceed as planned

The Government has confirmed that tax clauses pruned from this year's first Finance Bill will be grafted into a second Bill due later in the summer.[4] Policies that were due to be implemented with effect from 6 April 2017 will retain that date of application. Therefore, the plan to reduce the money purchase annual allowance from £10,000 to £4,000, effective from for the 2017/18 tax year will proceed as planned.

Background

The money purchase annual allowance (MPAA) affects people who have flexibly accessed pension rights by, for example, taking money out of a flexi-access drawdown fund or withdrawing cash from a money purchase arrangement as an Uncrystallised Funds Pension Lump Sum. In 2016 Autumn Statement, the Chancellor of the Exchequer announced his intention to reduce the MPAA from £10,000 to £4,000, with effect from 6 April 2017.

Following the announcement of the June 2017 general election, Her Majesty's Treasury withdrew numerous clauses from the Finance Bill that was then being debated, so that the most pressing legislation could be passed (as the *Finance Act 2017*) before Parliament was dissolved. The casualties of this action included the clauses that were due to have reduced the MPAA. Another victim was the plan to increase the annual tax exemption for employer-subsidized financial advice to £500. However, it was implied that it was to be a temporary state of affairs, and that the proposed changes would be resurrected as soon as possible.

Latest development

In a Written Statement made on 13 July 2017 the Financial Secretary to the Treasury (Mel Stride) announced that a new Finance Bill—destined to become the Finance (No. 2) Act 2017, assuming the Government can muster sufficient support—will be brought forward *'as soon as possible after the summer recess*'. That recess is due to end when Parliament reconvenes on 5 September 2017. The Bill will reintroduce the tax measures that were pulled from the draft legislation when the general election was announced. Furthermore, where policies were set to take effect from 6 April 2017, that date of application will be retained, and those affected by the provisions 'should continue to assume that they will apply as originally announced.'

The forced abridgement of the Finance Bill earlier this year led to confusion and uncertainty, particularly as it affected the MPAA reduction. Although the measure had few admirers outside of the Treasury, people had become resigned to the change and were generally making financial decisions accordingly. The suggestion that it would be a temporary reprieve left them confused about when the cut would resurface and whether it could have effect, retrospectively, from 6 April 2017.

The reduction to the allowance will save the Treasury around £70m a year, but has been made at the expense of those wanting or needing to supplement their retirement income. The Government is clearly trying to stamp out recycling of pension savings, whereby people could get a double-dose of tax relief by withdrawing money from their pension funds and then re-investing it. Trustees and administrators have been unable to confirm whether the change might be applicable to this tax year, and some members may already have contributed more than the £4,000 allowance as a result. They will feel the full force of the change, given its retrospective enforcement (assuming, of course, that the Government can marshal enough supporters to push the legislation through Parliament).

[4] <www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2017-07-13/HCWS47/>.

Restricting same-sex survivor benefits to post-2005 service is discriminatory

The Supreme Court has declared a part of current UK law on equality on sexual orientation grounds to be incompatible with EU law.[5] The offending provision allows benefits for same-sex spouses to be restricted to rights accrued or periods of service on or after 5 December 2005. Occupational pension schemes will now be required to provide civil partners and same-sex spouses with the same benefits as opposite-sex spouses (many do already).

Background

The UK legislation that implements the EU Equal Treatment Framework Directive[6] prevents discrimination on grounds of sexual orientation. Broadly, this means that civil partners and same-sex spouses must be treated in the same way as opposite-sex spouses. However, there is an exception that allows pension schemes to restrict access to benefits to those payable in respect of service on or after 5 December 2005 (the date on which the *Civil Partnership Act 2005* came into force).[7]

There is greater equality in benefits that arise from periods of contracting out of the State additional pension. In that case, surviving civil partners and same-sex spouses are entitled to the same benefits as 'widowers' (i.e. the husbands of deceased, female pension-scheme members), with rights extending as far back as 6 April 1988.

Facts

Mr Walker worked for Innospec Limited from January 1980 until his early retirement in March 2003. Mr Walker and his partner lived together from 1993, registered their civil partnership as soon as it was possible, and were married following the passage of the *Marriage (Same Sex Couples) Act 2013*.

After the civil-partnership registration, Mr Walker enquired about the pension that would be payable to his partner in the event of his death. He was told that survivor's benefits would be severely restricted because his pension rights were entirely accrued before 5 December 2005; and that position was confirmed after Mr Walker and his partner married. The implication was that, rather than standing to receive a spouse's pension of approximately £45,000 per annum, Mr Walker's husband would be entitled to an annual pension of only £1,000 or thereabouts (seemingly based on his post-5.4.1988 guaranteed minimum pension).

Mr Walker complained to an Employment Tribunal that the scheme's failure to take into account his pre-5 December 2005 service (as it would for a heterosexual married person) was contrary to European anti-discrimination law. The Tribunal found in his favour; however, subsequent appeals to the Employment Appeal Tribunal (EAT) and Court of Appeal reversed that decision, upholding the UK Parliament's ability to limit the retroactive effects of the anti-discrimination rule.

Supreme Court ruling

In a unanimous—and resoundingly unequivocal—judgment the Supreme Court has held that the UK legislation allowing the restriction of same sex survivors' benefits to those in respect of service since 5 December 2005 is incompatible with EU law and must be dis-applied. Provided that Mr Walker is still married when he dies, his husband will be entitled to a full spouse's pension. The Court was in no doubt that 'unless evidence establishes that there would be unacceptable economic or social consequences of giving effect to Mr Walker's entitlement to a survivor's pension for his husband, at the time that this pension would fall due, there is no reason that he should be subjected to unequal treatment as to the payment of that pension.'

The Supreme Court found that the EAT and Court of Appeal had erred in their understanding and application of the EU-law principles of 'no retroactivity' and 'future effects'. They had conflated the benefit-accrual period with the time when the possible existence of inequality falls to be determined. In the words of Lord Kerr, 'The point of unequal treatment occurs at the time that the pension falls to be paid', and '*The period during which he [Mr Walker] acquired that [spouse's pension] entitlement had nothing whatever to do with its fulfilment.*' When the European Court of Justice (ECJ) decides to limit the

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[5] *Walker v Innospec Limited and others* [2017] UKSC 47.
[6] Directive 2000/78/EC.
[7] Para. 18 of Sch. 9 of the *Equality Act 2010*.

retroactive application of its judgments, as it famously did for the Barber sex-equality ruling, that is an example of a technique used '*only… in the most exceptional circumstances and where the impact would be truly "catastrophic*".'

Research published by the Government in 2014 suggests that a large majority of private-sector occupational pension schemes already offer fully equalised survivors' benefits. The main public-service pension schemes exceed the (now thoroughly discredited) minimum required by legislation, although there some differences from scheme to scheme over the precise benefit terms. Trustees and scheme managers will now need to consider their own rules (and pensions in payment), in consultation with their legal advisers, to determine what if any action is required as a consequence of this ruling. Where schemes do need to be brought into line, actuarial advice will be needed to quantify the funding implications. We believe that, on average, schemes who have previously only applied the statutory minimum could see an increase to their liabilities of the order of one per cent.

The ruling could also raise questions about differences in the treatment of widows and widowers for service before 6 April 1988. The cost of equalising those benefits is likely to be far greater than doing so for same-sex survivors' benefits. The Government's 2014 Review found that the cost of removing all of the inequalities from survivors' benefits (that is, for opposite-sex surviving spouses and same-sex civil partners and spouses) in the public sector was around £2.9 billion. Cynics have suggested that as a reason why the Government has seemed in no hurry to arrive at a policy decision on the matter.

It is unlikely that this decision will be affected by the UK leaving the EU. The European Union (Withdrawal) Bill (AKA the Great Repeal Bill) that is currently before Parliament would convert all EU law as it stands at the point of Brexit into UK law.

Capping early exit charges & banning remaining cases of member-borne commission

The Department for Work and Pensions (DWP) has confirmed plans to restrict early exit charges for members of occupational pension schemes and extend an existing ban on member-borne commission payments.[8] The changes, which will only affect money purchase benefits, will come into force on 1 October 2017.

Early exit charge restrictions

The new legislation will ban early exit charges for members who join occupational pension schemes from 1 October 2017 onwards, and will impose a one per cent cap on charges for those who are already members on that date. An '*early exit charge*' is one that would apply if a member accesses benefits between '*normal minimum pension age*' (currently age 55) and '*normal pension age*' (broadly, when the member becomes entitled to unreduced benefits). The cap is in line with rules applied by the Financial Conduct Authority (FCA) to contract-based schemes, with effect from 31 March 2017.

Service providers will be required to provide trustees with confirmation that they comply with the exit-charge restrictions. They will have to do so within one month of the date on which they become service providers to the scheme; those already in place when the legislation comes into force will have until 1 November 2017.

Eliminating vestiges of member-borne commission

Member-borne commission charges were prohibited for new arrangements in money purchase schemes used for auto-enrolment, effective from 6 April 2016.[9] The new legislation will extend the existing ban to prohibit member-borne commission charges being imposed to recover the cost of any ongoing payments in relation to contracts entered into before 6 April 2016. Service providers will have up to six months to make modifications necessary for compliance, effectively extending the deadline to 1 April 2018. To ensure consistency with the equivalent FCA rules, commission payments made before 1 October 2017 will not be affected. Service providers will have to notify trustees of compliance with the ban within six months of 1 October 2017.

[8] <www.gov.uk/government/uploads/system/uploads/attachment_data/file/624295/government-response-occupational-pensions-capping-exit-charges-consultation.pdf>.

[9] See *Current Issues*, March 2016 for more details, <www.hymans.co.uk/news-and-insights/research-and-publications/publication/current-issues-march-2016/>.

Consultation outcome

Most of the changes made to the proposed legislation as a result of the consultation exercise are minor and technical. However, one change of note is that it will no longer attempt to cater for cases in which a member might be subject to multiple early exit charges under the same scheme. The Government was not made aware of any scenarios in which this could occur.

Guidance

Following the publication of the consultation response, the DWP has also produced guidance for trustees and managers of occupational pension schemes on implementing the cap on early exit charges.[10] The guidance provides details on how to calculate the level of early exit charges for the purpose of ensuring that the charges do not exceed the permitted limit.

New risk warnings for members with GARs

The legislation that requires members to obtain '*appropriate independent advice*' before making DB-to-DC transfers or conversions will be amended with effect from 6 April 2018. [11] In summary, the changes will require trustees and other pension providers to issue risk warnings about '*safeguarded-flexible benefits*': roughly speaking, money purchase rights that come with guaranteed annuity rate (GAR)-type terms. Few occupational pension schemes are likely to be affected.

Background

The '*appropriate independent advice*' requirement was introduced with effect from 6 April 2015, following the 'Flexibility and Choice' reforms. Trustees are required to check that a member has received advice specific to a proposed transaction, from an authorized independent adviser, before transferring or converting '*safeguarded benefits*' so that they become '*flexible benefits*'. The advice requirement does not apply if the value of the member's safeguarded benefits is £30,000 or less. When it does apply, the member's statutory right to transfer is lost if the trustees do not receive confirmation that such advice was obtained. In the typical example the advice requirement affects transactions under which defined benefit (DB) rights become money purchase (AKA defined contribution, or DC) rights. However, the definitions of '*safeguarded benefit*' and '*flexible benefit*' overlap slightly where, for example, a guaranteed conversion rate applies to what would otherwise be considered a money purchase benefit.

Concerns arose, mainly from the contract-based scheme sector, about the difficulty of valuing GAR benefits in order to decide whether advice is required. The Government issued a call for evidence in November 2015, following which it announced plans to simplify the rules so that the value of the GAR benefit would be deemed to be equal to the transfer payment on offer.[12] The *quid pro quo* for that easement would be a requirement to issue risk warnings intended to make members aware that potentially valuable benefits may be lost if a transaction proceeds. A consultation document published in September 2016 presented draft legislation designed to implement the proposals.[13]

Consultation outcome

The Government has now published a report on the outcome of the September 2016 consultation exercise.[14] It confirms its intention to make the proposed changes, albeit the valuation-method amendment (which requires affirmative resolutions

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[10] <www.gov.uk/government/publications/occupational-pensions-capping-early-exit-charges/implementing-a-cap-on-early-exit-charges-for-members-of-occupational-pension-schemes>.

[11] The *Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) (Amendment) Regulations 2017* (SI 2017 No. 17) and draft *Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) (Amendment No. 2) Regulations 2017*, amending the *Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations 2015* (SI 2015 No. 742).

[12]. Call for evidence: <www.gov.uk/government/uploads/system/uploads/attachment_data/file/482743/pensions-misc-amdts-2016-and-gar-valuations-consultation-nov-2015-2.pdf>. Government's response: <www.gov.uk/government/uploads/system/uploads/attachment_data/file/505678/government-response-misc-regs-consultation-23-nov-2015-and-call-for-evidence-on-gar-valuation.pdf>.

[13] <www.gov.uk/government/uploads/system/uploads/attachment_data/file/555564/consultation-valuing-pensions-for-the-advice-requirement-and-introducing-new-consumer-protections.pdf>.

[14] <www.gov.uk/government/uploads/system/uploads/attachment_data/file/624974/government-response-valuing-pensions-for-the-advice-requirement.pdf>.

from each House of Parliament) and the new risk warnings (which do not) will be introduced by separate statutory instruments.

The Government's response acknowledges that a somewhat anomalous difference in treatment will arise if a guaranteed annuity rate is built into a contract between an insurer and the trustees of an occupational pension scheme, rather than featuring in the rules of the scheme. In that case members will have rights to flexible (money purchase) benefits, but not *safeguarded-flexible* benefits, so the new risk warnings will not apply. The incongruity cannot be removed without primary legislation. Schemes with a guaranteed rate of investment growth rather than guaranteed terms for conversion of the fund into income are also outside the scope of the changes. The Government says that where guaranteed minimum pension (GMP) serves as an underpin to money purchase benefits it may or may not give rise to safeguarded-flexible benefits, and that trustees should seek legal advice.

Risk warnings

The new warnings will alert a member with 'safeguarded-flexible benefits'—whether or not their value is such that the advice requirement is triggered—to the risk of losing a potentially valuable guarantee. The member will have to be provided with two illustrations, produced using assumptions based broadly upon those associated with statutory money purchase illustrations (SMPI). One illustration will estimate the income that the member could get with the guarantee, and the other without it.

The risk warnings must be provided within a month of a member's request for certain information (e.g. a transfer value); and alongside, if not before, any trustee-led initiative (e.g. sending the member an unsolicited transfer value). However, those deadlines will be subject to an overriding requirement that the risk warnings are provided at least two weeks before the trustees execute the proposed transaction in relation to the safeguarded-flexible benefits.

The Government says that it is working with the Financial Conduct Authority (FCA) and the Pensions Regulator to develop a factsheet to help providers understand the new rules.

'Safeguarded-flexible benefits' such as GAR promises are typically associated with contract-based schemes. Where similar guarantees exist in connection with occupational schemes, as in the cases mentioned in the Government's consultation response, legal advice may be necessary to determine the nature of the benefits promised.

FCA proposes changes to pension transfer advice rules

The Financial Conduct Authority (FCA) has published a consultation paper that sets out its proposals for advice relating to the transfer or conversion of '*safeguarded benefits*'. [15] Typically, this affects transfers from defined benefit (DB) to defined contribution (DC) schemes.[16] The changes proposed '*aim to reflect the current environment and the increased demand for pension transfer advice*'.

Personal recommendation

The FCA proposes to require that all advice on transferring or converting safeguarded benefits is provided as a personal recommendation that fully reflects the individual's circumstances.

Suitability

Although the FCA remains of the view that keeping safeguarded benefits will be in most consumers' best interests, it proposes moving away from the initial assumption that a DB-to-DC transfer or conversion will be unsuitable. The adviser should instead assess the suitability of the proposed transaction, without any preconceptions, taking into account the client's circumstances and other relevant factors. The adviser will be expected to show why the transfer is in the client's best interests.

[15] <www.fca.org.uk/publication/consultation/cp17-16.pdf>.

[16] Legislation requires that members requesting a transfer of defined benefits of over £30,000 to defined contribution benefits take independent advice from someone authorized by the FCA.

Transfer value analyses

The FCA also intends to replace the current '*transfer value analysis*' (TVA) requirement, which has (unintentionally) resulted in a narrow focus upon the '*critical yield*'. This is an estimate of the rate of return that the member would need to achieve on the transferred funds, in a DC environment, in order to reproduce the safeguarded benefits given up. It assumes that the same benefits will be secured by the purchase of an annuity.

The TVA would be replaced with a broader '*appropriate pensions transfer analysis*' (APTA), based on the client's particular circumstances, objectives and needs, which considers the differences between the benefits that would be given up and those that would be acquired. The analysis would still involve estimation of the cost of securing the safeguarded benefits using an annuity, even if the customer plans (for example) to move into a drawdown arrangement; however, rather than focusing on the critical yield required, the new transfer value comparator (TVC) will show the amount that might need to be invested currently to purchase similar benefits, side-by-side with the transfer value on offer.

Other matters

The paper also invites discussion on a number of related issues, including

- the qualification and experience requirements for a pension transfer specialist;
- the different business models that advisers use to satisfy the requirement for advice to be given or checked by a pension transfer specialist; and
- the relationships between advisers and providers of software used to perform transfer analyses.

The consultation period ends on 21 September 2017. The FCA intends to publish the final rules in a policy statement in the first quarter of 2018.

There is much to be commended about the consultation, in particular the focus on consumer protection, which is crucial given how important pensions assets are to millions of people. It also clarifies waters that were muddied by the introduction of the pension freedoms.

Doing away with the 'critical yield' transfer value analysis will be welcomed by many: if one has no intention of purchasing an annuity, it might be argued, there's little point in requiring hundreds of pounds to be spent on an analysis of the costs of purchasing one. Yet in the transfer value comparison (TVC) we have another three-letter abbreviation (TLA) that shares more than just two of its initials with the unhelpful TVA. It focuses significant cost and effort on an annuity-based comparison that ignores what nine out of ten clients will do (take tax free cash), and their health status. Those sorts of considerations will have to be dealt with appropriately in the wider analysis.

Financial Guidance & Claims Bill not to include cold-calling ban

The Department for Work and Pensions (DWP) has confirmed that the *Financial Guidance and Claims Bill* will not ban cold-calling in relation to pensions.

The Bill was introduced to Parliament on 22 June 2017. It will establish a single financial-guidance body, and transfer regulation of claims-management services to the Financial Conduct Authority. At the Bill's second reading in the House of Lords, Baroness Buscombe said on behalf of the DWP that it '*did not propose to include a cold-calling ban in the Bill at this time*', but that the Government would shortly publish its conclusions about the December 2016 consultation exercise on the matter.[17]

[17] HL Deb 5 July 2017 c944.

Auto-enrolment call for evidence

The Department for Work and Pensions (DWP) has published a consultation paper asking for evidence on whether certain auto-enrolment provisions are working as intended.[18] Specifically, it is interested in the alternative defined benefit (DB) quality requirements and the provisions that include seafarers and offshore workers in auto-enrolment.

DB alternative quality requirement

Before contracting out was abolished in April 2016, a DB scheme met the quality requirement in relation to a jobholder if he or she was contracted-out by virtue of membership, or if the scheme satisfied the 'test scheme standard'. When contracting-out was abolished the Government introduced a new, scheme-level, cost-of-accruals test to provide a simpler alternative to the test scheme standard.

That alternative test requires that the cost of future accrual under the scheme is at least a prescribed percentage of the aggregate earnings of its active members. If different benefit formulae apply to different sections, the test is, ordinarily, to be performed section-by-section. However, there are transitional provisions that allow formerly contracted-out DB schemes to apply the cost-of accruals test at a whole-of-scheme level, even if there is a material difference in the cost of the benefits accruing to different groups of members. The transitional provisions end on the effective date of the first actuarial report on or after 6 April 2016 in which the actuary determines that there are material differences in the cost of providing benefits to different groups of members, or on 5 April 2019 if that arrives first.

An alternative requirement also exists for the DB elements of hybrid schemes, allowing them to satisfy the money-purchase quality standard.

As part of the DWP's 2017 review of auto-enrolment, the Government is required to carry out a statutory review of the operation of the alternative requirements for DB schemes. The DWP is seeking evidence on how the tests are working in practice, including any unintended consequences, and whether they are bringing about simplifications and efficiencies for employers and schemes.

Seafarers and offshore workers

Initially, seafarers and offshore workers were outside the scope of auto-enrolment. However, in 2012 the legislation was amended to bring them within the regime if they were '*ordinarily working*' in the UK, and provided they met the other conditions for auto-enrolment.

The Government is required to review those provisions by 1 July 2018. As part of the review the DWP is looking for information on the following:

- whether employers have experienced difficulties implementing or understanding the requirements for auto-enrolling seafarers or offshore workers;
- if there are any suggestions for improving the legislation; and
- whether there is any reason why seafarers or offshore workers should be treated differently from other peripatetic workers when considering where a worker ordinarily works.

The consultation period ends on 30 August 2017.

[18] <www.gov.uk/government/consultations/automatic-enrolment-defined-benefit-alternative-quality-requirements-and-provisions-for-seafarers-and-offshore-workers/automatic-enrolment-defined-benefit-alternative-quality-requirement-and-provisions-for-seafarers-and-offshore-workers>.

Pension bodies' annual reports

The Pensions Regulator and the Pensions Ombudsman have recently published their annual reports and accounts for the year to 31 March 2017.[19] [20]

The Pensions Regulator

The Pensions Regulator's report highlights how it has met the challenges of the increasingly complicated pensions environment, the growth in its remit (to include new powers in relation to master trusts) and the economic and political climate.

The Regulator also reports that

- it has recovered over £650m for DB schemes (including settlements in the BHS and Coats cases) as a result of its actions.
- it exercised its powers 42 times during the year, compared to 12 instances in the previous year (the significant increase is attributable to the use of two powers not exercised before: its ability to issue civil penalties—used 33 times—and the power to require a skilled persons report to be produced, which it has used twice); and
- over half a million employers are now auto-enrolling workers, and over seven million workers have been placed into workplace pension schemes as a result.

Pensions Ombudsman

The Pensions Ombudsman's report notes that despite a 22-per-cent increase in the number of enquiries since the previous year, more cases are being closed within six months (40 per cent in 2016/17 compared to 25 per cent in 2015/16). It credits the improvement in efficiency to its new system of informal complaint-resolution.

As in previous years the most popular subject for complaints was failure to provide information, closely followed by provision of *mis*information, and issues regarding transfer values. There has been an increase in complaints about the overpayment of benefits (usually where the overpayments are being recouped), causing it to feature in the ten most-often-encountered investigation subjects for 2016/17. Pension liberation complaints are down, however, and no longer feature in the top ten.

IFoA climate change Risk Alert

The Institute and Faculty of Actuaries (IFoA) has issued a Risk Alert to raise awareness of the financial risks posed by climate change.[21] The IFoA states that actuaries should understand and clearly communicate the extent to which they have taken account of the implications of climate-related risks in any decisions, calculations or advice.

This Alert has been prompted by a recent report by a Task Force on Climate-related Disclosures (established by the Financial Stability Board), which contained guidance on how to report climate-related information.[22]

The IFoA has also published a more-detailed guide for actuaries advising UK trust-based defined benefit schemes.[23] It covers subjects such as how to incorporate resource and environment issues into employer covenant assessments and the implications that climate change may have for financial and mortality assumptions.

[19] <www.gov.uk/government/publications/the-pensions-regulator-annual-report-and-accounts-2016-to-2017>.
[20] <www.pensions-ombudsman.org.uk/wp-content/uploads/POS-AR-2017-FINAL.pdf>.
[21] <www.actuaries.org.uk/news-and-insights/news/risk-alert-climate-related-risks>.
[22] <www.fsb-tcfd.org/>.
[23] *Resource and Environment Issues: A Practical Guide for Pensions Actuaries* <www.actuaries.org.uk/documents/practical-guide-pensions-actuaries>.

HMRC Newsletter 88

Her Majesty's Revenue and Customs (HMRC) has published its 88th Pension Schemes Newsletter.[24] This edition includes:

- a reminder of the process for requesting information on the registration status of receiving schemes when processing transfers;
- notice that an online look-up service that will enable scheme administrators to confirm their members' lifetime-allowance protections will be available shortly; and
- a reminder that scheme administrators should use updated versions of the forms for reporting transfers to qualifying recognised overseas pension schemes.

[24] <www.gov.uk/government/publications/pension-schemes-newsletter-88-june-2017/pension-schemes-newsletter-88-june-2017>.

And Finally…

AF has tumbled into a pit of depression on returning from vacation. This has been induced in part by the prelapsarian state of his driveway, and the realization that the holiday cottage in Arncroach (near St Andrews) was nicer than his house. The other cause of dejection was the lurking consignment of news reports suggesting that by the time he reaches the place where State pensionable age used to be, it'll have entered a hyper-inflationary stage and be somewhere else; and that the prospect of retirement will be something that will soon be viewed sanguinely only by vampires and Dr Aubrey de Grey. [Editor's note: For a somewhat less-pessimistic view, see our Sixty Second News Summary, *Government to bring forward rise to State Pension age*.[25]]

For those who don't recognize the name, de Grey is a gerontologist who superficially, but uncannily, matches artists' impressions of (aptly) Methuselah and (perhaps less desirably) the stereotypical mad scientist; and who, in 2004 confidently voiced the opinion that the first person to live to 1,000 years of age might have been 60 already.[26]

AF's only hope is that humanity is poised upon the brink of a new epoch in which it will develop into the sort of anarchic utopia that characterizes Ian M. Banks' Culture. This is an interstellar society in which humanoids exist in a 'post-scarcity' state alongside sapient, benevolent Minds: artificial intelligences who do their thinking in hyperspace to avoid petty hindrances like the speed of light, whilst operating space ships that they classify mordantly using terms such as Psychopath, Thug and Abominator, and to which they give droll names like *Frank Exchange Of Views*, *It's Character Forming*, *Ultimate Ship The Second*, and *Falling Outside The Normal Moral Constraints*.

Within the Culture, people live essentially as long as they want, and do only such work as they choose, all of the essential tasks being taken over by (non-sentient) machines.

Naturally, that presupposes that we can circumvent or survive the '*Just what do you think you're doing, Dave?*' stage of HAL 9000, and the genocidal tendencies of Skynet. But *AF*, for one, will welcome our new AI overlords…

[25] <www.hymans.co.uk/news-and-insights/research-and-publications/publication/government-to-bring-forward-rise-to-state-pension-age/>.
[26] <http://news.bbc.co.uk/1/hi/4003063.stm>.