PPF TN Technical News

Pension Protection Fund

Issue 3 | April 2013

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Welcome...

...to ***Technical News,*** the Pension Protection Fund's (PPF) newsletter on topical issues including practical guidance for schemes in PPF assessment periods and FAS qualifying schemes. Our aim is to provide you with regular updates about topics of interest. If there are any technical issues about which would like to hear from us, please submit a comment via our website here: **http://www.pensionprotectionfund.org.uk/Pages/Feedback.aspx** Where appropriate we will consider including an update in a future edition.

April 2013 Changes to PPF Regulations

Following DWP's consultation, which ended in January 2013, a number of amendments are to be to be brought into force under The Pension Protection Fund, Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations 2013 in April 2013. These regulations have now been laid and are due to come in to force on 30 April 2013. You can find the DWP consultation documents here:

http://www.dwp.gov.uk/consultations/2012/ppf-occ-pen-misc-regs-2013.shtml

A copy of the published regulations can be accessed here:

http://www.legislation.gov.uk/uksi/2013/627/pdfs/uksi_20130627_en.pdf

A summary of the main amendments are detailed below.

➔ Valuation Review Period

The PPF (Review and Reconsideration of Reviewable Matters) Regulations 2005 set out the period for making an application to review the decision of the S143 valuation, which is currently two months from the date of issue of the valuation summary by the scheme's trustees to members. The new regulations reduce this period from two months to 28 days, aligning the timescale with other PPF review periods. Any valuations approved after the regulations come in to force will be subject to the revised binding period. Trustees and administrators of schemes in a PPF assessment period should be aware of the changes, as this may allow the scheme to complete PPF assessment earlier. However, scheme transfer dates should be agreed between the trustee and the PPF Scheme Delivery Associate as normal.

Access to early compensation for pension credit members

An amendment is being made to the PPF (Pension Compensation Sharing and Attachment on Divorce etc) Regulations 2011 to allow pension credit members to take early payment.

Currently, most members are able to request early payment of their compensation after their scheme has transferred to the PPF, with the exception of pension credit members. The new regulations will allow pension credit members who are over 55 the option to take their compensation before their normal benefit age (NBA). This change aligns PPF rules with the changes made in 2009 in respect of occupational pension schemes.

Whilst the changes only apply to PPF payment of compensation, trustees of schemes in assessment will also be able to permit pension credit members of the scheme to take early retirement during the assessment period, providing that the "lower of" test is satisfied.

Deferral of compensation

An amendment made through the Pensions Act 2011 provides members the option to postpone payment of their compensation to a maximum age of 75. The new regulations define the circumstances and conditions that must be satisfied to postpone payment of their pension compensation past normal pension age (NPA).

To be able to postpone payment, the member must not have received any pension or compensation payments, or associated pension commencement lump sum from the pension scheme or PPF.

Members who wish to take this option will have to make a written application to the trustees of their scheme or the PPF, including their name, address, date of birth, National Insurance number, scheme name and the date they wish to defer to.

Compensation for members who take this option will be increased by a Late Retirement Factor (LRF). These factors will be published on the PPF website.

Members who fail to return their election form and bank details when requested will also be treated in the same way, i.e. they will be treated as having deferred their compensation until their forms are submitted. If a member's pension is made up of multiple tranches of benefit payable from different NPAs, the member must defer all of their tranches until their selected deferral age, unless that age is before the NPA of a later tranche. See examples below:

Compensation will not be backdated. Survivors and dependants will not be able to postpone their payments.

Surviving children

An amendment to the PPF (Compensation) 2005 Regulations makes two changes to the payment of compensation to surviving children.

The regulations widen the criteria of acceptable evidence in respect of a natural child of the deceased member born after the member's death. Currently the PPF (Compensation) Regulations 2005 require a birth certificate as evidence that the child is the child of the deceased member. Where a child was unborn at the date of the member's death it will not always be possible for the mother to provide a certificate naming the deceased father due to rules on registration of births. The change will require receipt of satisfactory evidence by PPF that the child is a child of the member and would have been a dependant of them had they not died, for compensation to be paid to the child after birth.

Trivial Commutation

The Finance Act 2004 sets the limit for trivial commutation of a member's pensions to be made tax efficiently.

Deferral of Compensation - Examples

	Original NPA	Example 1	Example 2
Tranche 1	60	63	67
Tranche 2	65	65	67

In Example 1, because the member has deferred their first tranche to age 63 their later tranche NPA remains at 65. In Example 2, because the member has deferred their first tranche NPA to an age later than the NPA of their second tranche, this must also be deferred to the same age.

The member is able to revise their selected deferral age at any time, provided they have not already received any pension or compensation payments.

The member can only select a future date, at the time they contact the PPF, to end the postponement. So for example 1 above, if the member decides at age 62 that they would like to take their first tranche of compensation at that time, this will be paid from a deferred age of 62.

A change to the PPF (Compensation) Regulations 2005 aligns the limit for PPF trivial commutation of compensation from 1% of the lifetime allowance (currently £15,000) to £18,000 (without any link to the lifetime allowance). This will allow PPF members the same entitlement as other pension scheme members outside the PPF. Trustees and administrators should take this into account when processing any trivial commutation applications.

➜ PPF Money Purchase Lump sums

An amendment will be made to the PPF (General and Miscellaneous) Regulations in respect of payment of a money purchase lump sum.

The PPF can only pay compensation in respect of defined benefit schemes. However, due to the nature of these schemes there is often an element of money purchase benefit which needs to be discharged. The majority of these benefits are discharged prior to transfer, however there can be complications with small pots as it is may be difficult to find a provider who will accept them. The new regulations will allow members over age 60 with undischarged money purchase pots of £2,000 or less to have these paid as a lump sum by the PPF. Trustees of PPF schemes in assessment with money purchase benefits should agree plans for discharging money purchase benefits with the PPF Scheme Delivery Associate during the assessment period. Any members who might be eligible for this payment should be taken into account within this plan.

GMP Reconciliation

The PPF has recently released additional guidance for trustees on the completion of the GMP reconciliation task for schemes in PPF assessment. Full details of the guidance are now available on the PPF website and can be accessed here:

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/GMP_Reconciliation_Guidance.pdf

The guidance introduces a new £2 per week tolerance for trustees to use when reconciling GMP amounts against NISPI's records. It also offers guidance to trustees on how to resolve queries in the varying scenarios where scheme records cannot be reconciled with NISPI, despite reasonable efforts being made.

The guidance is not designed to overhaul all aspects of the current process. Instead it is intended to offer practical solutions to the problems often encountered by trustees when completing the exercise. The PPF are keen to ensure that all the appropriate information is available when a member reaches their normal pension age, including information captured from the scheme before it transfers to the PPF and from the NISPI records that can be obtained at the time of a member's retirement, to ensure resolution of any outstanding issues at that time.

The process laid out is considered appropriate for schemes that transfer to PPF. Schemes that do not transfer to the PPF are likely to have different data requirements when securing benefits for their members.

Any schemes in an assessment process should contact their Scheme Delivery Associate with any queries in relation to the guidance.

GMP Equalisation

In the November edition of TN we provided an update on last year's GMP pilot.

http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/TN_nov2012.pdf

On 5 December 2012, following this successful pilot project, we announced that the PPF methodology is fit for purpose and will apply to all pension schemes in its assessment period.

In our December announcement, we confirmed that those schemes which are scheduled to transfer to the PPF before 31 May 2013 will not have to carry out the GMP calculations. For these cases, the PPF will do these calculations, in line with the PPF methodology and adjust compensation payments accordingly. However for all schemes where transfer is not expected until after 1 June 2013, GMP calculations using the PPF methodology will have to be completed before transfer by the scheme. We are currently working through full process requirements and will be writing to trustees shortly to explain how the changes affect their schemes.

We will provide further process details in the next TN. The main requirement will be to ensure that GMP equalisation calculation results are captured. Any queries in relation to schemes already in assessment can continue to be submitted to your Scheme Delivery Associate.

Recent News on Pension Funds & VAT

HMRC revised their VAT Notice 700/17 on Funded Pension Schemes in January 2013, and the revised version can be downloaded from the HMRC website. Paragraph 2.9 ("What happens if the employer ceases to be in business?") will be of particular interest to the trustees of PPF and FAS schemes.

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ShowContent&propertyType=document&id=HMCE_CL_000089

The Court of Justice of the European Union has now issued its judgment in the Wheels Common Investment Fund Trustee case. This concerned a challenge to HMRC's view that the management of UK pension funds is subject to VAT as it does not consider defined benefit pension schemes are "special investment funds" as defined in the VAT Directives. The CJEU upheld HMRC's view, which means that the management of DB pension schemes remains subject to VAT. Trustees of PPF and FAS schemes should continue to maximise VAT recovery through employers / insolvency practitioners where possible, or where appropriate by using the partial exemptions methods relating to investment management fees.

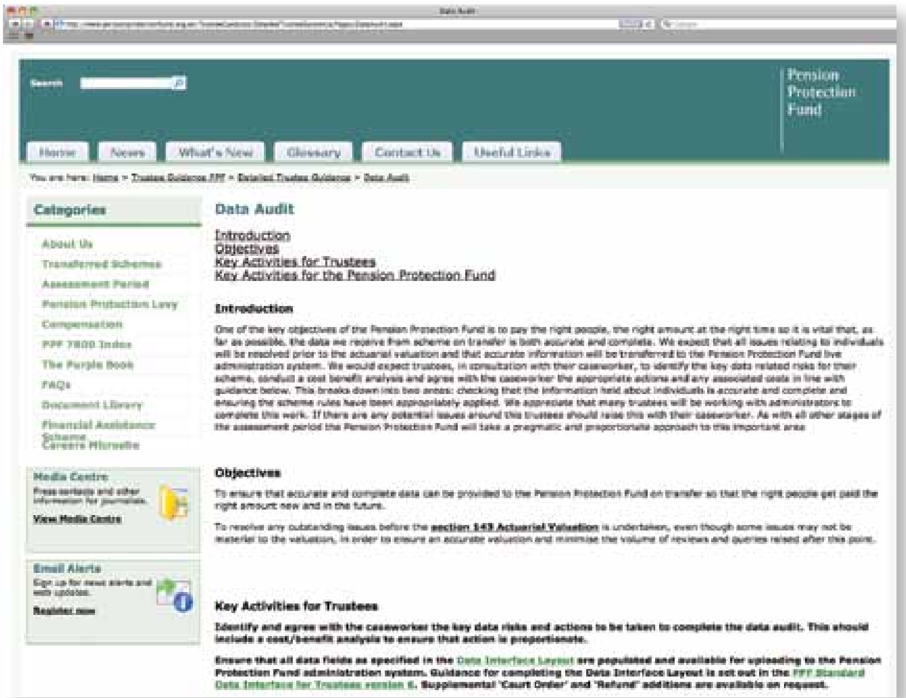
Things to Watch

As detailed in the last TN, we await the next set of Financial Assistance Regulations and regulatory changes to the definition of money purchase benefits from DWP. If trustees of FAS or PPF schemes have any queries on these points please contact your Scheme Delivery Associate in the first instance.

New Version of PPF Data Interface

We have launched an updated version of the Data Interface Layout (DIL) - a template that trustees must populate with member information during the Assessment Period. Please refer to our website for further information.

http://www.pensionprotectionfund.org.uk/TrusteeGuidance/DetailedTrusteeGuidance/Pages/DataAudit.aspx



The information we provide is for guidance only and should not be taken as a definitive interpretation of the law.

PPF Technical Team, April 2013.

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