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Technical News

Issue 5 | June 2014

Pension Protection Fund

In this issue

Welcome…

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

Data Interface Layout (DIL) changes

The PPF released a new version of the DIL in January 2014: DIL Version 6.2. A notification has been issued to the Specialist Services Administration Panel (SASP) and Trustee Advisory Panel (TAP) to advise of the change.

There was a transitional period until the 31st March 2014, where Administrators were able to submit either the previous version of the DIL or DIL 6.2. With effect from 1st April 2014, Administrators could only submit data using DIL 6.2.

The DIL guidance has also been updated to reflect the changes. The DIL template and DIL guidance can be found using the following link, under the "Key Activities for Trustees" section.

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

The only physical change to the DIL template is the addition of a new column at the end of the deferred beneficiary tab, headed "Compensation Deferral Date". This is to reflect the change in legislation effective April 2013 that now allows members to defer taking their compensation.

➜ Pension Sharing Order Changes

There have been fundamental changes to the way we capture divorce data, which have been covered in detail in the updated DIL guidance and the November 2013 issue of the Technical Newsletter. Broadly the change relates to how we capture Pension Debit data.

Previously, the PPF requested that when Administrators recorded Pension Sharing data on the DIL, they updated the "compensation elements" of the DIL **inclusive** of the Pension Debit. We are now asking Administrators to provide the DIL **net** of any Pension Debit.

In order for the PPF to give our members the best service we can, we are automating Divorce calculations. In order for us to do so we require additional data in respect of Divorce which will be captured on the **Pension Sharing Order Supplementary Spreadsheet** that we have now introduced.

This sheet will need to be completed by the Administrator for any member who has a Pension Sharing Order, whether it has been implemented or not, and submitted with the final DIL submission. (Any Administrator dealing with a member who has an Earmarking Order will need to continue to use the Court Order tab.)

The Pension Sharing Order Supplementary Spreadsheet can be found on the PPF website along with other Supplementary DIL Sheets, such as the Refund and Court Order Tabs.

GMP Step ups

We are often approached by trustees of schemes in assessment in respect of members with GMP (Guaranteed Minimum Pension) step ups.

Members can continue to receive a step up if they had taken early retirement before the assessment period and they would have otherwise been entitled to the step up at GMP payable age.

In order to pay compensation in respect of the GMP step up it must be added to the DIL as a separate tranche if it is to be paid.

Members should not be allowed to take early retirement during the assessment period if their pension is below their GMP.

For specific queries relating to your scheme please refer to your Scheme Delivery Associate.

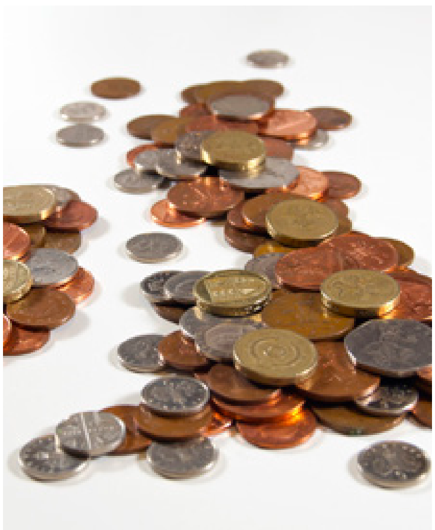
Budget Changes

You will be aware that in the March 2014 Budget the Chancellor made radical changes affecting the pensions industry.

Of immediate interest to the PPF is the raising of the trivial commutation limit from £18,000 to £30,000 with effect from 27th March. This change does apply to PPF Compensation as PPF legislation refers to the definitions in the Finance Act 2004 rather than referring to a set limit. This also has the potential to affect benefits paid in the assessment period, as, if scheme rules allow, it will now be possible to trivially commute where total benefits are valued at less than £30,000.

The changes in respect of small lump sums, allowing payments of up to £10,000 as authorised lump sum payments (and allowing up to three separate such lump sum payments), does not apply to the PPF, as the previous limits of £2,000 for discharging money purchase benefits is hard written into PPF legislation.

However, PPF legislation does not restrict trustees' ability to make small lump sum payments in respect of money purchase benefits prior to transfer, so trustees will be able to assess for themselves how these changes impact on their schemes.



Finance Update

➜ VAT on investment management fees – HMRC Brief released on the PPG case

In 2013, the Court of Justice of the European Union (CJEU) handed down its decision in the case of "Fiscale Eenheid PPG Holdings BV cs te Hoogezand", not surprisingly abbreviated to the PPG case. This concerned the ability of an employer to recover VAT on the services provided to manage and administer its defined benefit pension fund. The CJEU decided that, in the circumstances of the PPG case, the employer was entitled to deduct input tax on the services relating to the management and administration of the pension fund provided there was a direct link between the services and the employer's own supplies.

On 3 February 2014, HMRC issued a Brief (06/14, available here: **http://www.hmrc.gov.uk/briefs/vat/brief0614.htm)** setting out its view of the implications for UK employers and UK pension funds of this long awaited EU judgement. The Brief is likely to have an impact on every scheme, and every sponsoring employer, and we would encourage employers and trustees to read the Brief and seek advice appropriate to their own circumstances.

In another development in the exciting world of pension funds and VAT, on 13 March 2014, the CJEU released its decision in the ATP Pension Services A/S case. The case concerned the treatment of VAT on the management of special investment funds (SIF) as defined by a Member State, and whether a defined contribution scheme fell within the definition of a SIF. The decision clarified the types of services that can be defined as "management" and the tests required for schemes to qualify as a "Special Investment Fund" (SIF). The management of a SIF as defined by a Member State is required to be exempted from VAT by EU Directive, and the CJEU decided that DC schemes could indeed qualify as SIFs and benefit from the exemption. Whilst individual schemes need to look at their own circumstances, it is possible that many UK DC schemes (and DC sections of DB schemes) may not have to pay VAT on their fund management and administration costs. The case also clarified that DB schemes did not qualify as SIFs (the Wheels case argument) and that route for DB schemes claiming any VAT exemption is now closed off.

Things to Watch...

➜ PPF Compensation Cap

The Pensions Act 2014 received Royal Assent in May this year. The Act contains provisions increasing the PPF compensation cap for individuals with more than 20 years' pensionable service. However, the compensation cap provisions in the Act will not be brought into force until regulations are made that will detail how the compensation cap changes apply in various circumstances. It is not yet clear when these regulations can be expected.

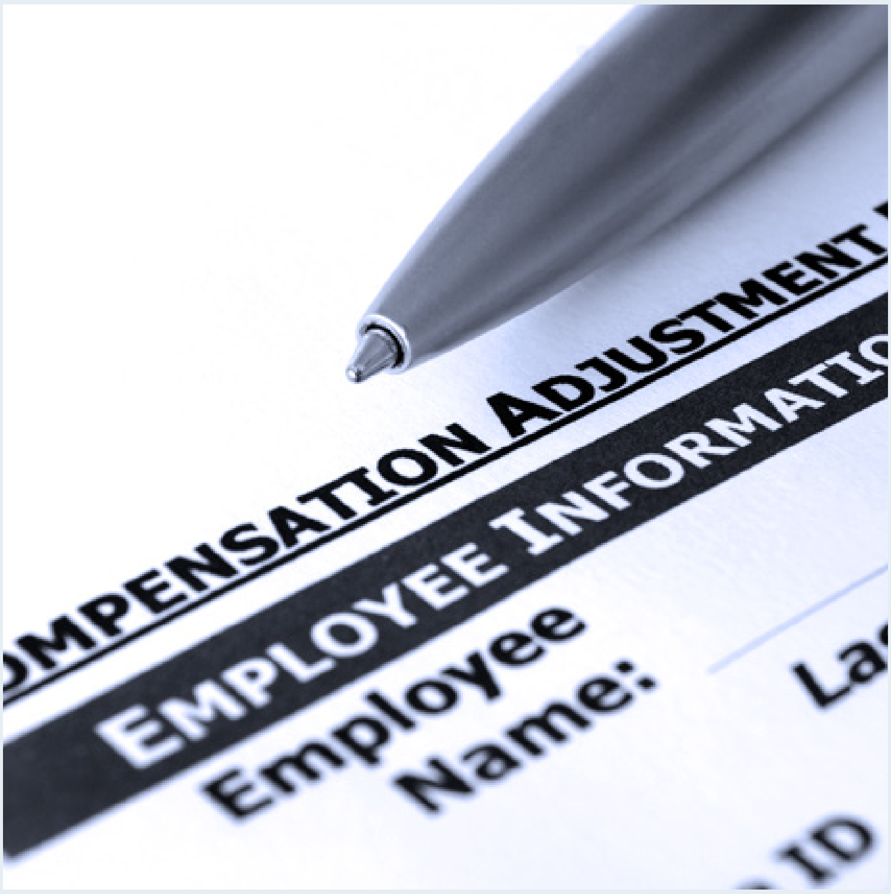
As the long service cap will be applied for capped members with service in excess of 20 years we would again like to remind scheme trustees and administrators of the importance of correct data.

There is, as yet, no timetable for extending this to FAS.

➜ Bridge

There has been progress on the legislation setting out the changes that will be required as a result of the change in the definition of money purchase benefits in the Pensions Act 2011.

Regulations are expected to come into effect in July 2014 that will require any schemes subsequently entering a PPF assessment period to apply the new definitions.



The effect on schemes already in assessment will be discussed in the next Newsletter. For now we will continue to treat money purchase benefits under our established procedures. If you have any questions about benefits in your scheme please contact your scheme delivery associate.

➜ Schemes outside of PPF and FAS

In 2010, a scheme identified as not being eligible for the FAS or the PPF because, while the scheme began to wind up after 6 April 2005, the employer in relation to the scheme at that time did not meet the definition of a statutory employer needed for entry to the PPF.

Rather than leave the members of that scheme ineligible for both the PPF and the FAS, DWP decided to extend the qualifying conditions for the FAS.

The Financial Assistance Scheme (Qualifying Pension Scheme Amendments) Regulations 2014 extends FAS eligibility to cover a defined benefit scheme where:

- the scheme began to wind up after 23 December 2008 but before the regulations came into force;
- the scheme's employer ceased to be a statutory employer before 10 June 2011; and
- that statutory employer had become insolvent before 6 April 2005.

The regulations came into force on 28 March 2014.

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

PPF Technical Team, June 2014.

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