

Premier Pensions Management

Legislation Update : 3/05

1 Purchase of Annuities (DC)

The market for impaired annuities has, according to surveys, doubled in the last 12 months. The types of product now available to individuals on retirement are deemed “enhanced annuities”.

These refer to all annuities providing an enhancement over standard terms to reflect a reduced life expectancy. Enhanced annuities fall into the following categories:

- Smoker : To qualify the member must have smoked an average of 10 cigarettes per day for the last 10 years.
- Lifestyle : These take into account certain behavioural, medical and environmental factors to determine if the member has a reduced life expectancy eg high cholesterol, hypertension and high blood pressure. The member’s occupation and geographical location can also be taken into account.
- Enhanced : Designed for those with less serious medical conditions that reduce life expectancy eg diabetes, mild strokes and heart attacks.
- Impaired life annuities : These pay the highest income for those with significantly reduced life expectancy. Medical conditions such as serious heart attacks, heart surgery or angina, life threatening cancers, major organ diseases and other life threatening illnesses such as Parkinson’s disease and strokes will be considered.

2 Section 67

Section 67 of the Pensions Act 1995 deals with the protection of accrued benefits and is the most ambiguous and problematic section of the Act. In the Pensions Act 2004, the Government has aimed to remedy some of the problems. The changes should come into effect in 2006.

Amendments are divided into two forms together called ‘Regulated Modifications’. The first is ‘Protected Modifications’ which cover a change replacing Defined Benefit rights with Money Purchase benefits or reducing the rate of a pension in payment. Members consent as at present must be obtained.

The second is “detrimental modification” which is any other change that would or might adversely affect any subsisting rights of a member, widow, widower or any person entitled to benefits in respect of a member. These can be made with either the member’s consent or by complying with the actuarial equivalence requirements.

Detailed requirements must be followed to show informed consent. The interesting issue is that where a proposed modification is detrimental the Trustees may opt to follow the actuarial equivalent method rather than gain consent.

In summary the new regime is likely to be more procedural and cumbersome, although on balance the clarification of current uncertainties and the extra flexibility is likely to be helpful.

3 Longevity Bonds

The French Bank BNP has issued a 25 year sterling denominated bond with payouts linked to survival rates of 65 year old men of the English and Welsh population as a whole.

This gives pension schemes the opportunity to hedge longevity risk to an extent. The success will of course depend on the mortality experience of the scheme population measured against the national position.

The issue is currently small. However, it is likely to be the first of a number of investment products which include a link to mortality rates.

4 Age Discrimination

It is still unclear what age related features of pension schemes will remain lawful, but hopefully this will be clarified in the draft legislation which has been promised for Summer 2005.

5 Pension Advice tax break for employers

New income tax regulations mean the cost to employers of providing employees with pension information and advice is exempt from classification as a benefit-in-kind and is therefore not subject to income tax, of up to £150 per employee per year. This commenced on 14 December 2004.

6 PPF Levy

The initial levy is £15 per active member or pensioner
 £ 5 per deferred member
 plus

Administration levy £0.74 to £2.50 per member

Significant increases are expected in subsequent years.

7 Internal Dispute Resolution Procedure (IDRP)

Draft regulations allow simplification of the IDRP to one stage. Further details including timescales will be set out in a Code of Practice.