

PREMIER PENSIONS MANAGEMENT

LEGISLATION UPDATE: 12/07

PROPOSED GOVERNMENT POLICY

Limiting Pension Revaluation to 2.5% per annum

The Government has recently put forward a proposal to amend the current requirement to increase deferred pensions between leaving employment and normal retirement age.

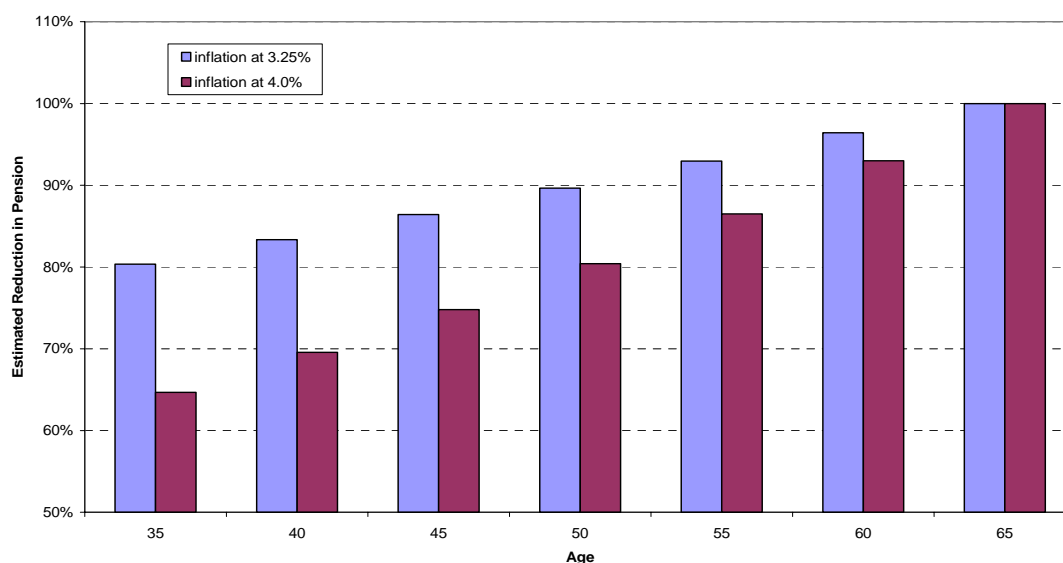
Since 1991 the requirement has been to provide increases in line with the increases to the retail prices index (currently 3.9% pa) subject to a maximum of 5% pa. The proposal is to continue this practice of indexation but limit the overall maximum to 2.5% pa. In addition, the change will only apply to future benefits so pensions built up in the past will not be affected.

Much of the comment so far has focussed on how much people will lose when they change jobs (and predictably that there will be no negative impact for Public Sector employees).

Final Salary Schemes

Active members (who continue to accrue future pension benefits) will be entitled to reduced increases once they have left service and hence lower benefits at retirement. The impact depends on future inflation but will be greater for younger members.

Impact of Capping Future Increases at 2.5%





If inflation remains at its current level (nearly 4% per annum) then members could lose up to one-third of the value of their pension at retirement.

From the employer's perspective the cost of providing future pension benefits (based on salary at retirement) will be reduced. Using a typical long term inflation assumption (3.0%-3.25%) the savings would be around 10% where the average age of active members was around 50. These savings are likely to apply not only to the cash flow funding requirement but also to the pension cost reported through the P&L.

Given the significant increase in cost over the last few years this is unlikely to be sufficient to reverse the strong trend towards closure to pension accrual.

Since pensions built up so far are likely to be protected (and will not be subject to this change) then the current funding position is unlikely to change. Technical Provisions, Accounting Deficits and 'buy out' positions will be largely unaffected.

Achieving these savings may also require changes to the scheme rules.

Career Average Schemes

It is likely that existing benefits built up so far (including any revaluation already applied) would be protected by legislation. However, it may be possible to apply this relaxation to future pension benefit accrual (which would lead to a reduction in the cost of future pension accrual).

Once again achieving these savings may require changes to the scheme rules.

Closed Schemes

There will be no impact for closed schemes where accrual has ceased. Any employees are effectively current deferred pensioners and hence this proposal will not affect their benefits.

PPF Position

If these changes are made then it is possible that the PPF benefits will be reduced to this level. This could potentially be applied retrospectively to accrued benefits and existing deferred pensioners which would reduce the level of protection provided by the scheme.

Any changes of this nature would reduce the PPF liabilities and hence reduce the deficit used to calculate the PPF Levy.

November 2007

This update includes general information and cannot be relied upon for individual schemes issues. You should contact your adviser or Paul Couchman at Premier Pensions Management Ltd, Capital Business Centre, Units 14 & 15, 22 Carlton Road, South Croydon, Surrey, CR2 0BS. DL: 020 8916 2129. Email:

*paul.couchman@premierpensions.co.uk,
if you require definitive advice*