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Brexit

Some pension scheme members may have concerns about the impact of 'Brexit' on the funding and security of their pensions. For many pension schemes, a significant impact of Brexit will be the financial impact it has on sponsoring employers' business. Trustees should therefore consider whether and how companies' covenants may now change.

Pension scheme funding

The immediate impact of the EU referendum result, as far as pension schemes are concerned, has been in relation to investment markets. The effect on pension scheme funding will vary depending on the scheme's funding and investment strategies, whether there is any currency hedging in place, and the extent to which the assets and liabilities are mismatched.

Some schemes will see very little change in their funding level, while for others, the position at the end of June will look significantly worse than a few weeks before.

However, trustees should avoid being too concerned by short-term volatility and take a long-term view of funding. Where schemes are reducing transfer values, trustees may wish to review the level of reduction to ensure that members are being treated fairly, whether leaving the scheme or remaining in it.

The Pension Regulator's (TPR) statement

TPR have issued a statement guiding pension trustees to:

- understand risks and opportunities of their employer's business and the industry sector they operate in;
- monitor developments and be prepared to explain investment approaches to members with DC benefits;
- consider scenario testing and review contingency plans, especially if a funding valuation is underway;
- consider investment and funding volatility with their advisers, without being focused on short-term market movements; and
- remain vigilant to their schemes' circumstances, maintaining a focus on the longer term.

New lifetime allowance (LTA) regime

Following the reduction in the standard LTA from £1.25 million to £1 million on 6 April 2016, HM Revenue & Customs (HMRC) has introduced two new LTA protection regimes:

- **Individual Protection 2016 (IP16)** – if pension savings were more than £1 million (HMRC value) on 5 April 2016, IP16 gives individuals a protected LTA, equal to the value of their pension savings at that date, up to a maximum of £1.25 million. Individuals with IP16 can continue to make pension savings, but savings above their protected LTA will be subject to a LTA charge.
- **Fixed Protection 2016 (FP16)** – FP16 enables individuals to retain a £1.25 million LTA, but they are not permitted to earn any further benefit from, or contribute to, any pension savings after 5 April 2016. For example, they need to have opted out of their pension scheme(s) on or before that date.

There is no specific cut-off date for IP16 or FP16 applications, which must be made via HMRC's website. However, it is essential that individuals wishing to register for these protections do so before accessing any pension benefits.

HMRC is also still accepting applications for the existing Individual Protection 2014 (IP14) which was introduced on the 6 April 2014 when the standard LTA was reduced from £1.5 million to £1.25 million. The deadline for IP14 applications is 5 April 2017.

DC code of practice

TPR's revised code of practice for trust-based DC schemes is now in force. Using an 'educate and enable' approach, TPR hopes to drive up standards for DC scheme governance.

Based on responses to the consultation, TPR made a number of minor changes to the code, including renaming the code to make it clear that it applies to all trust-based schemes which offer DC benefits.

TPR has also issued a range of 'how to' guides designed to help trustees implement the new DC code and explain how trustees can demonstrate compliance with the law.

August 2016

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