

Pensions News

Issue 6 October 2012

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1. In Tynwald

At its sitting this month Tynwald approved the making of two Department of Social Care Orders relating to pension schemes–

The Pension Schemes Legislation (Application) (Amendment) Order 2012 (SD 0614/12)

This Order replaces existing section 109 of the Pension Schemes Act 1993 as it has effect in the Island with a new section 109.

The effect of new section 109 is that, instead of the Department of Social Care making an order under that section specifying the rate of increase of guaranteed minimum pensions each year, the relevant order made by the Secretary of State for Work and Pensions in the United Kingdom shall have effect in the Island on being applied to the Island under the provisions of the Pension Schemes Act 1995 of Tynwald.

The changes are necessary to properly reflect the way in which orders are made requiring increases to be made in guaranteed minimum pensions in the Isle of Man.

The Pension Schemes Legislation (Application) (No. 3) Order 2012 (SD 0615/12)

This Order applies to the Island the following 2 statutory instruments of Parliament subject to certain modifications–

[The Guaranteed Minimum Pensions Increase Order 2012](#) (SI 2012/693)

[The Occupational and Personal Pension Schemes \(Prescribed Bodies\) Regulations 2012](#) (SI 2012/1817)



Department of Social Care

Rheynn Kiarail y Theay

Those instruments –

- specify 3 per cent. as the percentage by which that part of any guaranteed minimum pension attributable to earnings factors for the tax years 1988-89 to 1996-97 and payable by contracted-out, defined benefit occupational pension schemes is to be increased; and
- update references to the prescribed body in a number of occupational and personal pension schemes regulations as a consequence of the dissolution of the Board for Actuarial Standards and the Financial Reporting Council becoming directly responsible for issuing and maintaining technical actuarial standards and related functions.

The increase in guaranteed minimum pensions is necessary to ensure alignment with the state pension system in the United Kingdom. The other measures ensure that references in pension schemes legislation to the relevant body responsible for issuing technical actuarial standards, etc. are correct.

If you would like to read SD 0614/12 or SD 0615/12 please contact Nick Gough nick.gough@gov.im and we will provide you with a copy.

2. UK developments

There have been a number of recent pensions developments in the UK, which may be of interest –

a) Introduction of auto-enrolment from October 2012

This month saw the start of auto-enrolment in the UK. Employers there will automatically enrol their workers into a workplace pension if they meet certain criteria. Auto-enrolment is designed to help to address the issues that prevent people from saving into a pension.

It is accepted that many people are not saving enough to have the income they will want in retirement. Life expectancy in the UK is increasing and, at the same time, people are saving less into pensions.

The Isle of Man Government has no plans to introduce auto-enrolment – or anything similar to it – currently, but accepts that the same issues relating to retirement saving and increasing life expectancy are being experienced here as they are elsewhere.

b) A new single tier State retirement pension

The UK Government Pensions Minister, Steve Webb MP, recently confirmed that the single tier pension would go ahead notwithstanding recent press speculation that they were having second thoughts. However, the Minister did admit that some groups of people would not benefit from the changes in the same way as others and that a lot of the details of the new system had still to be ironed out.

The UK Government has promised to publish a White Paper in the autumn on the proposed Pensions Bill introducing the new single tier pension. The Bill will also bring forward the increase in the state pension age to 67 between 2026 and 2028 and ensure that the state pension age is increased in future to take into account increases in longevity.

c) Reinigorating defined contribution schemes

The Pensions Minister is keen to incentivise the current low level of pension saving in UK **defined contribution schemes** and expressed his desire to publish a pensions "reinvigoration document" resurrecting some of the ideas suggested in the [DWP pensions deregulatory review 2006](#).

The Minister said a working party had proposed an alternative to the current defined benefit and defined contribution scheme landscape in the form of a hybrid of the 2 types of scheme, with employers sharing some of the risk of DC investment performance and giving employees more security as to the value of their pension in retirement. Schemes could merge or pool investments to drive down charges by obtaining economies of scale.

d) Method of calculating UK RPI

The UK Office for National Statistics is considering whether to change the existing **method of calculation of the retail prices index (RPI)**. The existing "Carli" method of calculating RPI has an in-built upward result year-on-year, which is illogical, whereas the consumer prices index (CPI) does not (nor do most other countries' RPIs). The way RPI and CPI are constructed is outside Government control. Any change in the current method of calculating RPI is likely to lead to RPI following the CPI trend more closely. Some pension schemes have RPI indexation of benefits hard-wired into their rules, so must continue to pay pensions RPI indexed notwithstanding recent changes in the law allowing CPI indexing.

e) Stranded small occupational pension pots and abolition of short service refunds from occupational pension schemes

The UK DWP is continuing to review the issues of **stranded small occupational pension pots** (which is likely to be important following the start of auto enrolment this month) and the proposed **abolition of short service refunds**.

It is likely that the DWP will decide that small occupational pension pots will follow a worker as they move from job to job automatically rather than by way of normal scheme transfer arrangements unless the worker opts out.

It is also likely that "short service refunds" (whereby a member's contributions to their employer's occupational pension scheme can be returned to them less income tax provided they had pensionable service of less than 2 years) will be abolished. Generally speaking, members lose by this arrangement and their employers gain by it – and the member has no pension under the scheme course.

Both matters are relevant for Isle of Man occupational pension schemes. Some of these changes could be achieved by changing secondary legislation. You can read more about the DWP's plans [here](#).

3. Contact us

We hope that you have found this information useful. If you have any comments or queries about any of it please contact Nick Gough nick.gough@gov.im.