Welcome to TISAtalk, this week –

- Malcolm Small, Director of Policy at TISA, outlines why others should emulate the Pensions Regulator approach to regulation.
- Jeffrey Mushens, Technical Director at TISA, invites members to join the Share Class Conversion project.
- Peter Smith, Head of Distribution Engagement at TISA, discusses why the government's plan to prohibit consultancy charging in the auto-enrolment program may reduce the availability of pension advice to employers.

THE PENSIONS REGULATOR – AN EXAMPLE FOR OTHERS?

I've been reading the Corporate Plan 2013-2016 recently published by the Pensions Regulator – well, somebody has to – specifically from the viewpoint of trying to understand the approach to the policing of automatic enrolment into pension saving. Somewhat to my surprise I've found it a very easy and informative read, clearly setting out the regulatory approach to be taken. As such, it should be held as an example for other regulators to follow.

The Pensions Regulator says "….our core competence is to be a risk-based regulator and human judgement, rather than rule-based processing, is our most important capability." The paper sets out six principles for DC scheme operation to "……..set the standard we believe those running schemes should achieve." The regulator also says "…..we have regard to the principles of good regulation. That is, to be Proportionate, Accountable, Consistent, Transparent and Targeted (PACTT)." Although not always perfect in delivery, the experience in the pensions market is that, by and large, this is how the regulator has gone about things – risk based, principle rather than rule-based in approach and proportionate in its actions. And it doesn't cost much in proportion to the £1.6 trillion industry it regulates, at a projected 2013/14 cost of £66.6 million, half of which will be focussed on automatic enrolment.

It will be auto-enrolment compliance which will test this regulatory approach to breaking point and beyond, with 1.35 million employers expected to register their schemes with the regulator and up to 9 million employees being covered. The section covering automatic enrolment compliance, which is a key performance indicator for the regulator by its own benchmark standards, shows a good understanding of the risks for different employer segments. This augurs well, showing the regulator to be close to its market and listening carefully to stakeholders. Very much a model for others, but the challenges ahead are severe.

Malcolm Small, Director of Policy

SHARE CLASS CONVERSION PROJECT – GET INVOLVED!

This has been a busy time for issues affecting wraps, platforms and fund managers.

There is much to consider - changes in the market following the implementation of RDR and the potential impact of accounting for tax on rebates to customers, coupled with the number of new share classes being issued and likely to be issued over the next year or so and the resultant impact on conversions and re-registration. With so many factors requiring review and contingency planning, TISA held an open meeting recently to decide whether to establish a project to develop new and current processes for conversions and re-registration. Around 130 people attended and the result will be the launch of the new project on 4th June – Share Class Conversions. If you, or your firm, would like to get involved with this project, please do get in touch.

We met with HMRC with a view to agreeing practical implementation for the taxation of rebates and to comment on proposed rule changes around the taxation of rebates to offshore investors. The latter is good news and we're expecting the rules to be in place before the end of July. At the same time, we agreed to set up a quarterly meeting between HMRC and TISA to enable HMRC to keep abreast of changes in the market. It will also help the industry develop better relations with HMRC. Further updates on this topic will follow.

Jeffrey Mushens, Technical Director

IN A PARALLEL UNIVERSE

The debate around a possible government enquiry into the resultant advice gap as a consequence of RDR has widened with the government's plans to prohibit consultancy charging in the auto-enrolment program. It is likely that the ban on consultancy charging could reduce the availability of advice and support to employers on pension investments, which would help ensure they make the right pension decisions for their employees, creating a different risk to the success of pension reform. There will be concern in the corridors of Westminster as to how that risk can be mitigated.

Over recent years pensions charges generally have fallen dramatically and the average charge on new automatic enrolment schemes is currently 0.52%. The industry charges agreement announced in January will ensure that pension charges and costs to employees are disclosed in a consistent and transparent way. The pensions industry will have to continue to engage with the government ahead of the proposed consultation.

Since 1st October last year, companies with more than 120,000 employees have had to automatically enrol eligible jobholders between the age of 22 and state pension age earning more than £8105 a year into workplace pensions, within the minimum regulatory requirements deemed to be suitable for auto-enrolment.

Consultancy charging would have allowed financial advisers to deduct a fee directly from the pension pots of employees to pay for advice given to the employer, however the banning decision is based on the principle that these charges can have a disproportionately negative impact on regular job changers and measures are in place to prevent advisers deducting high charges from employee pension pots which are considered to be inadequate.

In certain quarters it has been mooted that consultancy charging could survive the auto-enrolment scheme ban by setting up more generous parallel schemes. This idea means an employer could offer a scheme with contributions above the auto-enrolment minimum that employees are invited to switch to after they have been automatically enrolled in the qualifying pension scheme at the auto-enrolment minimum contribution level.

Employees could be offered membership of the scheme paying more than the auto-enrolment minimum that meets the qualifying pension scheme standards prior to their actual or postponed staging date, with those not taking up the scheme being automatically enrolled into a scheme with minimum contributions.

However, this does seem to fly in the face of what the government is trying to achieve and goes against the aims of the Department for Work and Pensions. It is likely that anyone adopting such a strategy will result in the regulator extending the scope of their rules to outlaw such a procedure.

Technically there is no reason why an employer can't offer two schemes and employees be given the opportunity to transfer up to a more generous scheme than the one they have been automatically enrolled into. If this idea gains wider discussion in the public domain I feel the government would be likely to pick up and change the rules. For advisers it would be a better idea to reconfigure their advice offering and pricing structure to help employers meet their auto-enrolment requirements and it is unlikely that the major providers will have plans to facilitate this sort of arrangement. It will be interesting to see what develops in the forthcoming consultation.

Peter Smith, Head of Distribution Engagement