

### It's the end of the world as we know it

haven't read anything for a while regarding the imminent demise of UK state pension provision as we know it and the resulting cessation of contracting-out. Time is running out and unless this has already been considered and put to bed you should not feel fine.

If your scheme is one of the dying breed of defined benefit schemes still open to accrual you have to be thinking about three main issues:

1. Contracting out rebates are coming to an end. All else being equal, employer costs are about to increase by 3.4%, and member's take home pay will drop by 1.4%, on the majority of earnings under £40,000 per member per year.
2. Your rules may include references to the current regime such as integration with state pension via some level of state pension offset.
3. You have until the end of 2018 to reconcile your scheme's contracting out data with that held by HM Revenue and Customs (HMRC).

If your scheme is closed to future accrual you can count out the first issue but you still have to think about the other two.

Additional costs are mostly an issue for employers, the cessation legislation provided employers with a statutory override to make changes to future benefit accrual to offset the additional costs. I expect most employers would prefer to work collaboratively with trustees, it is important that trustees understand their primary duty to protect accrued benefits and what is actually happening.

The state currently allows pension schemes (and their members) to pay less national insurance contributions in return for the Scheme providing a portion of the state benefit. From 6 April 2016 the state will be providing that benefit as part of the new single tier state pension, without a benefit amendment employers and members will be paying more for a higher combined benefit.

The Government have recently announced that for the foreseeable future they will be continuing to publish the level of the basic state pension so, offsets based on the basic state pension can continue. The question that employers and trustees have to ask is should they? Do they still accomplish their intended purpose? As the format of state pension provision changes many of the methods used to integrate with the existing system are unlikely to remain effective in

that goal – but legal advice should be sought.

All trustees must review their rules to consider the impact that the change in state provision will have on any integration attempts and whether they remain appropriate under the new system. Whilst it is often the employer's place to drive benefit change, it is almost always best in the long term for trustees to make sure that the employer understands what is going on and that a conversation commences at the earliest possible point.

Come 2018 HMRC are going to be writing to everyone who was contracted out to tell them who has responsibility for providing them with their associated benefits. If HMRC have not been properly updated regarding refunds and transfers and the like schemes could find themselves carrying additional liabilities. If you haven't started a 'GMP' (don't forget about the post April 1997 contracted out liabilities) reconciliation, its past time that you had that chat with your administrators and you should be asking them why they haven't raised it yet. Even if your scheme is active and will continue to have contracted out members right up until next April there are many preparatory steps that can be underway before the actual cessation of contracting out.

We are at T – 6 months, the clock is ticking. In certain cases doing nothing might be the right thing but, you have to have the conversations and make informed choices. ■



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