

# The Pensions Levy

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Frank Downey, FSAI



# Agenda

- Recap on levy
- Surveys
- Options for trustees
- Reduction in benefits
- Accounting treatment



## Pension Levy

- Finance (No. 2) Act, 2011
- Stamp Duty of 0.6% of pension scheme assets for 4 years from 2011 to 2014
- Applies to all occupational pension schemes, personal retirement bonds, PRSAs and personal pensions, except for schemes in wind up where employer is insolvent
- ARFs, annuities and unfunded public sector schemes exempt
- Yield from levy: €463m in 2011



# Chargeable Persons

- Insured assets – insurer, but trustees jointly and severally liable for levy
- Non-insured assets – “administrator”
- “Administrator”: trustees or other persons having the management of the assets of the scheme
- Calculation date 30 June but DB and one member self administered schemes can use previous scheme year end date for non-insured assets



## Assets subject to Levy

- 30 June valuations:
  - Bid/market value of invested assets
  - Balance in trustees' bank account
  - Outstanding contributions due to 31 May
  - Payments from life assurance not yet distributed excluded
  - Assets for any overseas members excluded
  - Value of real property can be reduced for borrowings
  - Immediate annuities have nil value
- Same principles if scheme year end date used but prepaid employer contributions can't be deducted

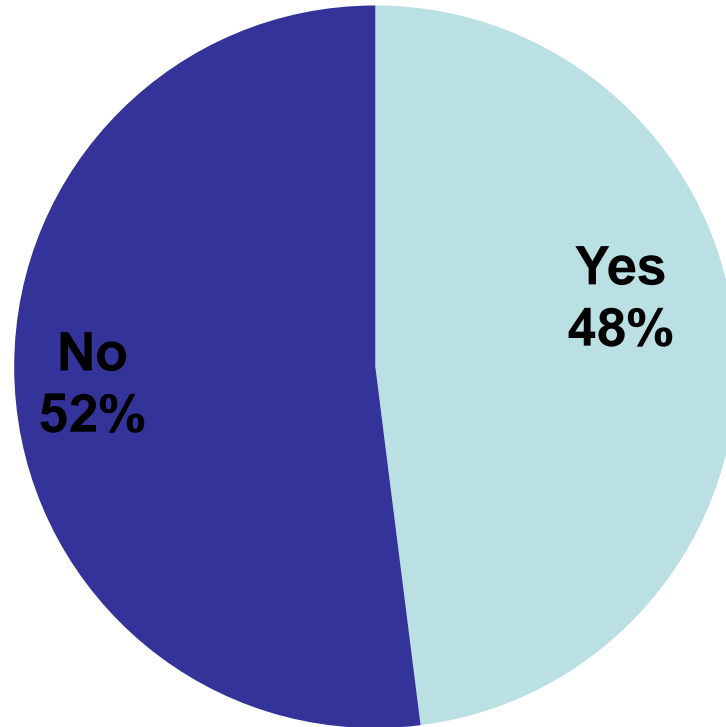


## Pension Levy

- Payment date: 25 September each year
- In practice, insurers have encashed units at 30 June and paid levy in early July
- Fine €380 a day plus interest at 8% p.a.
- Accumulated fine to 30 April 2012 **€82,840**
- Full fine may still apply even if amount of levy “accidentally” understated
- Statutory protection for chargeable person for disposal of assets for payment of levy



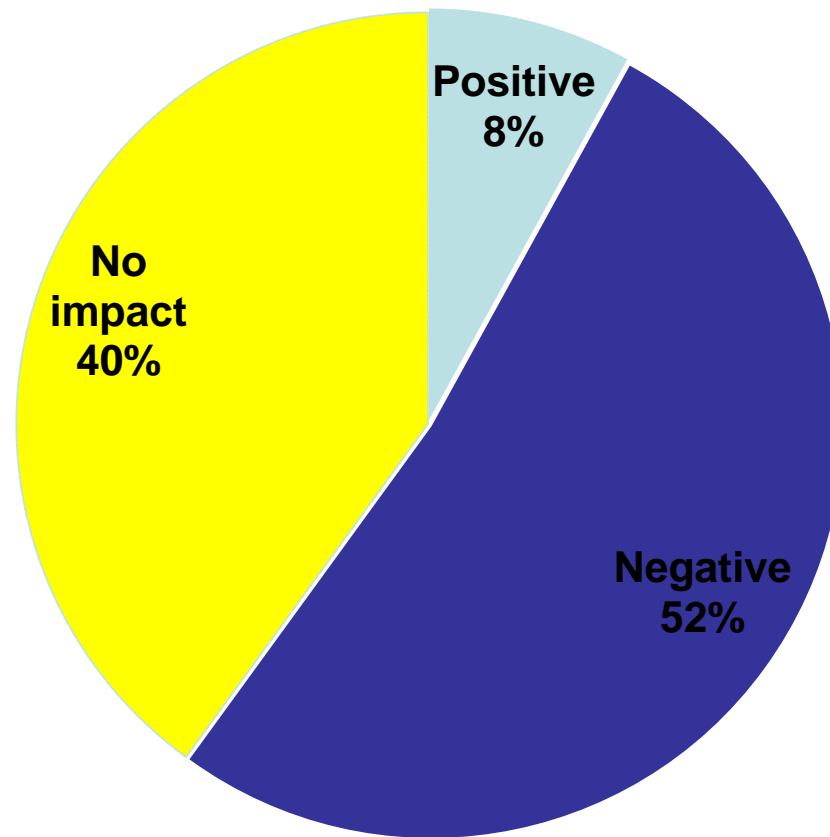
# Awareness of levy



Invesco Red C Poll



# Impact of levy on view of pensions

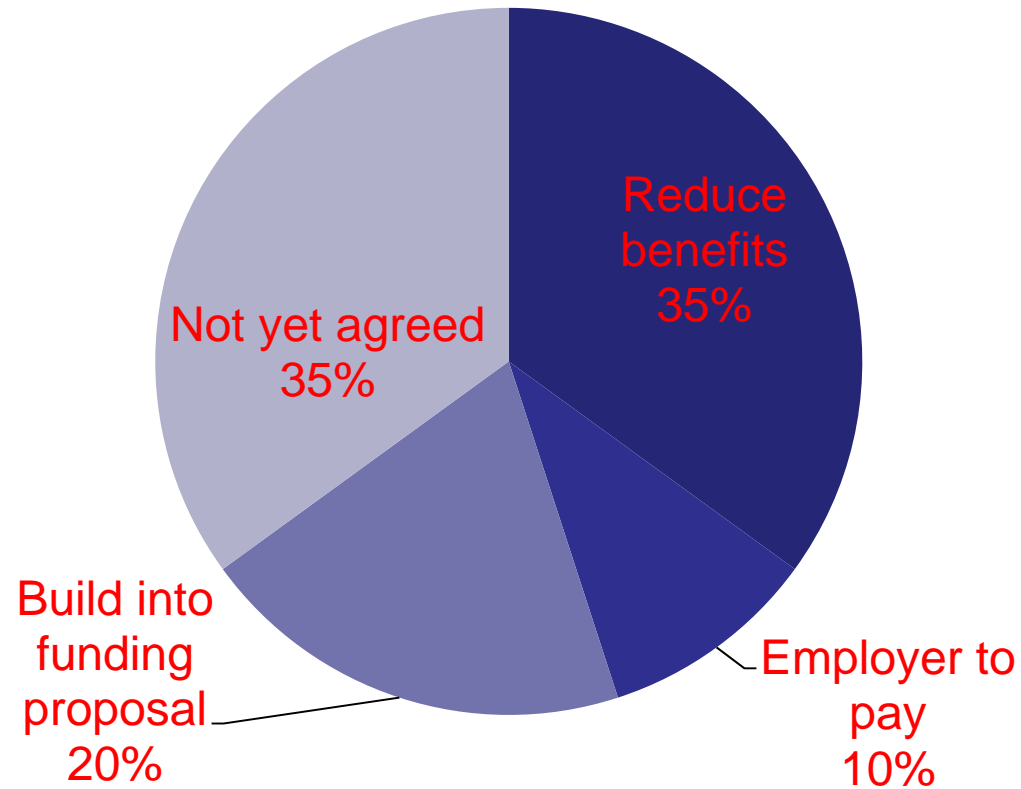


Invesco Red C Poll





# What are schemes doing?



IAPF DB Survey



## Reduction in benefits

“..... the benefits payable ... may be adjusted by the trustees, **but the diminution in value of those benefits shall not exceed the amount disbursed from the assets attributable at the valuation date to the scheme’s liabilities in respect of that member....”**



## Reduction in benefits

- **DC schemes** – assets/benefits have already been reduced
- Default position is benefits stay reduced unless employer pays levy back to scheme
- **DB schemes** – Benefit reduction not automatic
- Trustees must decide to reduce benefits
- Default position is benefits not reduced and funding level disimproves



## Reduction in benefits

- How can reduction in benefits be in best interests of members?
- Ask employer what its intention is
- Look at contribution provisions in trust deed and rules
- Need to carefully consider position in overall context of scheme funding



## Why might employer pay?

- Accept as obligation under trust deed and rules
- Benefit reductions already agreed or proposed
- Cost of paying levy less than administration and other costs associated with reducing benefits
- Pay levy for DC scheme also?



## Trustee / Employer conflicts

- Contribution rule “trustee friendly” and there is also a notice period
- Employer has resources to pay levy
- Employer refuses to pay
- What should trustees do?
- Is possible obligation to pay levy an unintended additional employer liability?
- Should / can trustees force the issue?



## Justification for not reducing benefits

- Employer pays immediately or as part of funding proposal/ ongoing contributions
- Scheme in “surplus”
- Funding proposal still remains on track
- Offset by investment or other gains
- Discretionary benefits

***Otherwise trustees may have no option but to reduce benefits in order to protect funding level of scheme***



## Reduction in benefits

**“diminution in value ... shall not exceed amount disbursed from the assets attributable at the valuation date to the scheme’s liabilities in respect of that member”**

Per Revenue guidance, any reduction must “essentially be applied in an equitable fashion across the different classes of scheme members .... In no case may the reduction ..... exceed the member’s or class of member’s share of the levy”





## Basis of reduction

1. Based on ongoing funding level with same reduction applied to all members
2. Based on MFS funding level and either
  - same reduction for all members or
  - reduction based on coverage for each class of member

***Use MFS funding level with same (permanent) reduction for all members as this is how schemes are typically being funded?***



## Other issues

- Definition of member is “any person admitted to membership under the rules of the scheme”
- Does this include to all beneficiaries?
- Pension adjustment orders
- Is a full valuation of liabilities required each year at 30 June?



## Documentation

- Will trust deed and rules have to be amended to allow for benefit changes?
- Should / must actual changes be made by way of a deed of amendment?
- Changes to booklets
- Communication to members



## Administration and implementation

- Pensioners: reduction in pensions or adjust next increase?
- Deferreds: reduction in benefit or adjustment to revaluation?
- Actives: reduction in service credit?
- Benefit statements
- SORPs for DC
- Overseas schemes and members



## Accounting for Levy

- Account for levy payment each year at 30 June
- For **2011** reduction in ***actual return*** in STGRL /  
SORIE
- For **2012** onwards reduce ***expected return*** in  
P&L



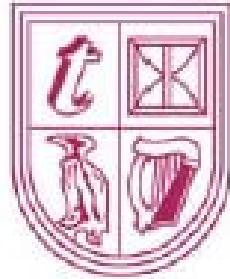
# Accounting for Benefit Reductions

- Account for any benefit reductions when decision is made to reduce benefits
- Will give rise to Past Service “gain” in P&L



## Summary of issues

- Will / should employer pay?
- If employer doesn't pay, can / should benefits be reduced?
- Manner of any reduction in benefits
- Documentation of benefit reductions
- Administration
- Accounting



# Questions and Discussion