Department for Work & Pensions

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Committee Member
Pension Schemes Bill 2014
House of Commons

19 November 2014

Dear Colleague,

I writing to inform you of a package of amendments to the Pension Schemes Bill the Government tabled on Wednesday 19 November. These include:

Amendments for Defined Ambition pensions:

- Measures following the testing of different Collective Defined Contribution (CDC) models and Defined Ambition models – to provide additional clarity and safeguards for members.
- Additional measures relating to the wind-up of schemes offering collective benefits to supplement the provisions included when the Bill was first introduced.

Amendments to give scheme members greater freedom and choice in pensions:

- Necessary procedural or enabling provisions to deliver the guidance guarantee, such as allowing data sharing between HM Treasury and delivery partners and putting in place a duty to cooperate between the parties involved in providing the guidance service, along with amendments making a number of consequential changes.
- Introduction of a ban on transfers from unfunded public service schemes to schemes from which it is possible to drawdown flexibly, to protect tax-payers from significant cost risk if members of unfunded public service pension schemes were to transfer out to, for example, a defined contribution scheme and draw down their pension flexibly.
- Introduction of a Ministerial power to require the reduction of Cash Equivalent Transfer Values to reflect the level of funding in a scheme, in the case of transfers from funded, defined benefit, public service pension schemes to schemes from which it is possible to drawdown flexibly. This power would be exercisable in the event that transfers,

either singly or in combination with other factors, significantly increased the risk or level of intervention by tax-payers in the pension scheme.

- A financial advice safeguard for transfers between defined benefit and defined contribution schemes. This safeguard was recommended by a large number of stakeholders to ensure that defined benefit pension fund members are fully informed before taking a decision that changes their benefits, and to counteract the risk that a members may act against their own best interests or be subject to pension scams. The government has also issued an impact assessment for this measure, which is available in the House Library.

We have also tabled a number of consequential amendments to DWP legislation to ensure that the new pension flexibilities operate as intended. These are:

- Introducing new legislation to extend current transfer rights for members with benefits to which the flexibilities apply up to the point of benefit crystallisation (the date that a pension begins to be paid, is designated as a drawdown fund or applied to the purchase of an annuity or insurance policy). This will mean that scheme members with these benefit types will now have a statutory right to request a transfer out after their scheme normal retirement age if they have not already crystallised those benefits.
- Amending the current transfer rights to give scheme members a statutory right to transfer specific categories of benefits, where a member has two or more categories of benefits within their pension pot. Members will also have a statutory right to continue accruing rights to categories of benefits which remain in the scheme.
- To amend existing legislation relating to the Pension Protection Fund (PPF) and the winding up of occupational pension schemes to introduce new restrictions to prevent the conversion of benefits which are not money purchase benefits into money purchase benefits when a scheme is in a PPF assessment period or is in the process of winding up, and to restrict the payment of lump sums during the assessment period to those which the member would be entitled to as compensation if the scheme entered the PPF. This is to ensure that schemes are not destabilised whilst they are being assessed for entry into the PPF and to protect against the potential for the flexibilities to be used to avoid restrictions currently in place where a scheme is in a PPF assessment period or is winding up.
- Requiring that benefits which are not money purchase benefits must be converted into money purchase benefits before they can be used to set up a drawdown pension fund, and providing a power to make regulations about the calculation of certain benefits paid flexibly in particular circumstances.
- An amendment to ensure that advice paid for by employers under the financial advice safeguard does not count as a benefit in kind and cause individuals or employers to suffer adverse tax consequences.

- As a consequence of this, HMRC are introducing an amendment to provide an income tax exemption for employer-funded independent financial advice, which would otherwise be treated as a taxable benefit-in-kind.

I will place a copy of this letter in the House Library and have copied it to all members of the Work and Pensions Select Committee. I am also copying it to the Financial Secretary to the Treasury.

Best wishes

RT HON STEVE WEBB MP
MINISTER OF STATE FOR PENSIONS