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15th January 2015

Dear Keith,

Pension Schemes Bill 2014/15 - Grand Committee

During the course of our discussions on Wednesday 7 January, I offered to write to clarify a point raised in debate relating to State aid and the removal of the transfer restrictions and the annual contribution limit on NEST from 1 April 2017.

National Employment Savings Trust (NEST) annual contribution limit and transfer restrictions

As I said in the debate, DWP's Call for Evidence undertaken during Winter 2012 and Spring 2013 showed that the transfer restrictions and the annual contribution limit were not preventing NEST from serving its target market. Seventy per cent of small and medium sized employers expect to contribute no more than the legal minimum to their workers' pensions. Until October 2017 minimum contribution levels are a total of two per cent on a band of earnings. There is already a substantial amount of headroom within the annual contribution limit - currently £4,600 - for contributions above the minimum. For example, minimum total contributions above the lower limit of the qualifying earnings band for a median earner (£26,000 a year) would be £405.

What is more, individuals in other schemes who can already make transfers rarely do - over 80 per cent of workers fail to transfer their previous company pension funds across to their new employers. In addition, only around 14,000 small and medium sized employers currently provide trust-based workplace pension schemes that could be transferred to another pension provider. Of these employers, DWP estimates that around 5,000 might consider a transfer of their workplace pension provision to NEST, equivalent to less than one per cent of all firms.

The Call for Evidence did however reveal that these constraints were perceived as a barrier to using NEST. Smaller employers have limited experience of providing pensions for their workforce. A perception among

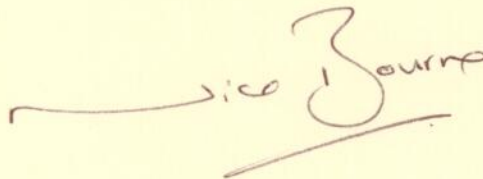
smaller employers that using NEST is unduly complex could make choosing a scheme unnecessarily complicated. This could damage confidence in Automatic Enrolment and undermine its aims.

With this in mind, the Government determined that removing the annual contribution limit and transfer restrictions immediately to address the perception of complexity would not be a proportionate response. Conversely, doing nothing to address this perception creates a risk for the implementation of automatic enrolment. We therefore concluded that legislating now to remove these constraints in 2017 was a balanced approach. It will address any perception that the constraints are a barrier to employers using NEST for automatic enrolment and be consistent with the Government's broader policy objectives, enabling increased levels of saving and consolidation of pension pots.

The European Commission's decision published on 26 June 2014 provided confirmation that removing the annual contribution limit and transfer restrictions from 1 April 2017 is compatible with the State aid measure afforded to NEST. The Commission also agreed that the removal of the restrictions on individuals making transfers into and out of NEST could be brought forward to coincide with the introduction of automatic transfers if this were earlier than April 2017. Therefore our intention is to bring forward further legislation to remove the restrictions on individuals making transfers alongside legislation to introduce automatic transfers.

As I said during the debate, the negotiations with the European Commission to lift these two constraints from 1 April 2017 took over a year to conclude. Even if there were evidence that supported bringing forward the lifting of these constraints on NEST, we would need to refer back to the Commission. There is a risk that the State aid provided to NEST would be unlawful if we are unable to get the Commission's agreement to lifting the constraints before bringing changes into force because this is outside the terms of the Commission's decision.

I have arranged for a copy of this letter to be placed in the libraries of both houses.

A handwritten signature in dark ink, appearing to read "Lord Bourne". The signature is written in a cursive style with a long horizontal line extending to the left from the start of the name.

LORD BOURNE OF ABWERYSTWYTH

The Right Honourable the Lord Bradley
House of Lords