Department for Work & Pensions

Pensions Bill 2013

Information Pack for Peers

November 2013

Contents

Introduction

This pack is designed to provide information on key measures in the Pensions Bill. It is not designed to replace the explanatory notes which accompany the Bill, but should be read in conjunction with them.

To access the Bill's page on the Parliament website, please visit: http://services.parliament.uk/bills/2013-14/pensions.html.

The Bill's series page on GOV.UK contains links to relevant policy publications relating to the reforms in the Bill plus its Impact Assessments, and can be found at: https://www.gov.uk/government/collections/pensions-bill

If you have any queries about the information provided in this pack or about the Pensions Bill, please email the Pensions Bill Team at: pensions.bill@dwp.gsi.gov.uk, or telephone Michael Cordy on 020 7449 7508.

Pensions Bill Provisions

This section provides an overview of, and further information relating to, the key measures in the Pensions Bill. This is designed to complement the Explanatory Notes which provide a description of the Clauses and Schedules in the Bill.

Part 1 - The single-tier pension

The impetus for reform

In his 1942 report, Beveridge wrote that "the problem for the future is how persons who are past work can be given a guarantee against want, in a form which gives the maximum of encouragement to voluntary saving for maintenance of standards above the subsistence minimum, and at the same time avoids spending money which is needed elsewhere or money on a scale throwing an intolerable financial burden on the community".

Beveridge's solution to this was to provide a non-means-tested pension, set above the subsistence level, with direct encouragement for additional voluntary saving.

The concept of a simple, flat-rate pension set above the basic level of means tested support was clearly supported by respondents to the Government's 2011 consultation on state pension reform. Around three-quarters of the organisations who responded to the consultation endorsed the concept of a single-tier pension.

But the proposals, set out in the White Paper *The single-tier pension: a simple foundation for saving* (January 2013),[1] also take account of substantial social change since the Beveridge report - for example:

- **Whereas only a minority of people lived to reach age 65 in the 1940s, the Office for National Statistics projects that 36% of people born in 2013 will live to become centenarians;**
- **The labour market has grown and diversified: in 1948 only around 4 out of 10 women were in paid employment, but today the number of women in work has seen a 50% increase. Over a third of working people in the UK labour market are either self-employed or in part-time work.**

Successive governments have sought to keep pace with these social and economic changes by adding to the foundation established in Beveridge's report. This has resulted in a complicated system which has left many people confused about what they may receive from the state in retirement and in which means tested support is poorly understood, with low take up levels for some elements. Historic inequalities remain: for example, the

---

[1] Department for Work and Pensions, 2013, *The single-tier pension: a simple foundation for saving*, Cm 8528, TSO

National Insurance (NI) contributions paid by the self-employed do not give rise to State Second Pension entitlement and it will not be until the early 2050s that men and women will receive equal state pension payments.

Location of key elements of the state pension reform policy in the Pensions Bill

Element of the policy	Clause/Schedule number	Bill page number (HL Bill 55)
Establishing new State Pension	Clauses 1-3	p1-2
• Eligibility criteria (including 35 qualifying years)	Clause 2	P1-22
• Minimum number of years to qualify	Clause 2(3)	p2
• Start rate (to be set in regulations)	Clause 3(1)	p2
• Annual uprating by minimum of earnings	Schedule 12, para 15	p49
• Crediting arrangements to be established in regulations	Schedule 12, para 3	p48
• Deferral of the new State Pension	Clauses 16-18	p8-9
Arrangements for those with an existing National Insurance record in April 2016	Clauses 4-6, schedules 1-2	p2-3, p26-30
• Entitlement criteria (including minimum number of years)	Clause 4	p2
• Step by step calculation (and revaluation) of the transitional rate	Schedule 1 (introduced by clause 5), Schedule 12, para 13	p26-29, p49
• Uprating of the transitional rate	Schedule 2 (paras 3 and 4), schedule 12 (para 17)	p29-30, p50
Derived entitlement and inheritance	Clauses 7-12 schedules 3 -7 and 12	p3-7, p30-38, p47-66

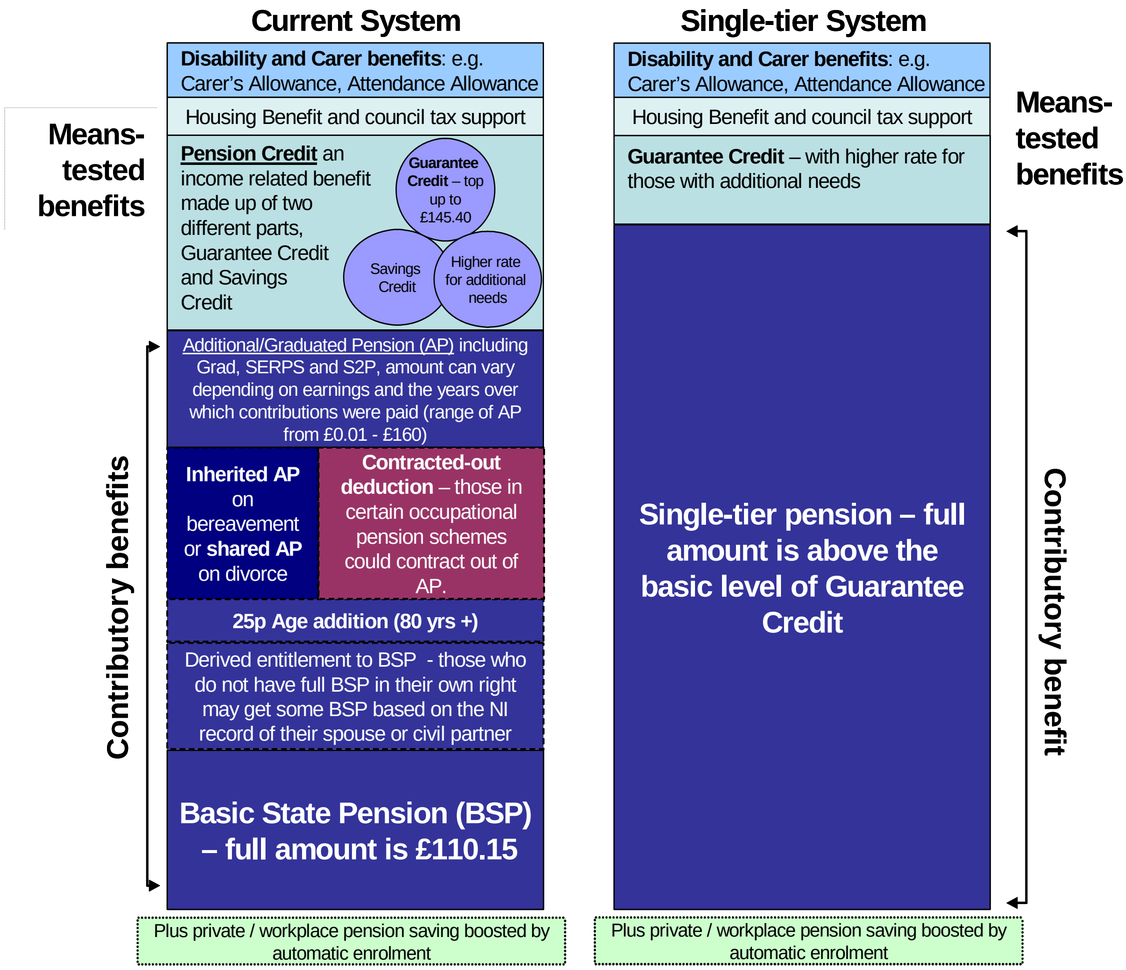
Element of the policy	Clause/Schedule number	Bill page number (HL Bill 55)
• Amendments to existing legislation to allow those in the current scheme to derive or inherit from someone in the new scheme	Schedule 12, paras 52 - 72	p55-62
• Provisions for inheritance for those in the new scheme	Clause 7, clause 10 schedules 3-4	p3, p6, p30-34
• Arrangements for those with a Reduced Rate Election	Clauses 11-12, schedules 6-7	p6-7, p36-38
Pension-sharing on divorce	Clauses 13-15, schedules 8-11	p7-8, p38-47
Amendments to existing system	Clause 23, Schedule 12	p11, p47-66
• Ending of Cat C, Cat D and Age Addition	Schedule 12, paras 73 - 80	p62-63
• Ending of savings Credit for those in the new scheme	Schedule 12, paras 83-86	p63-64
Ending of contracting-out for Defined Benefit schemes	Clause 24, Schedules 13-14	p11-12, p66-80
• Amendments to existing legislation to end contracting-out	Schedule 13	p66-77
• Statutory override for employers changing occupational schemes	Clause 24, schedule 14	p11-12, p77-80

A flat-rate pension set above the basic means test

In this Bill the Government is legislating to introduce a single-tier pension, the full flat-rate level of which will be set above the basic level of means-tested support. From 6 April 2016 the new single-tier pension will replace the basic State Pension, additional State Pension and Graduated Retirement Benefit, providing a clearer foundation to support saving. The reforms will underpin the rollout of automatic enrolment, which will see 6 to 9 million people saving more, or saving for the first time, into a workplace pension.

Simplification under single tier

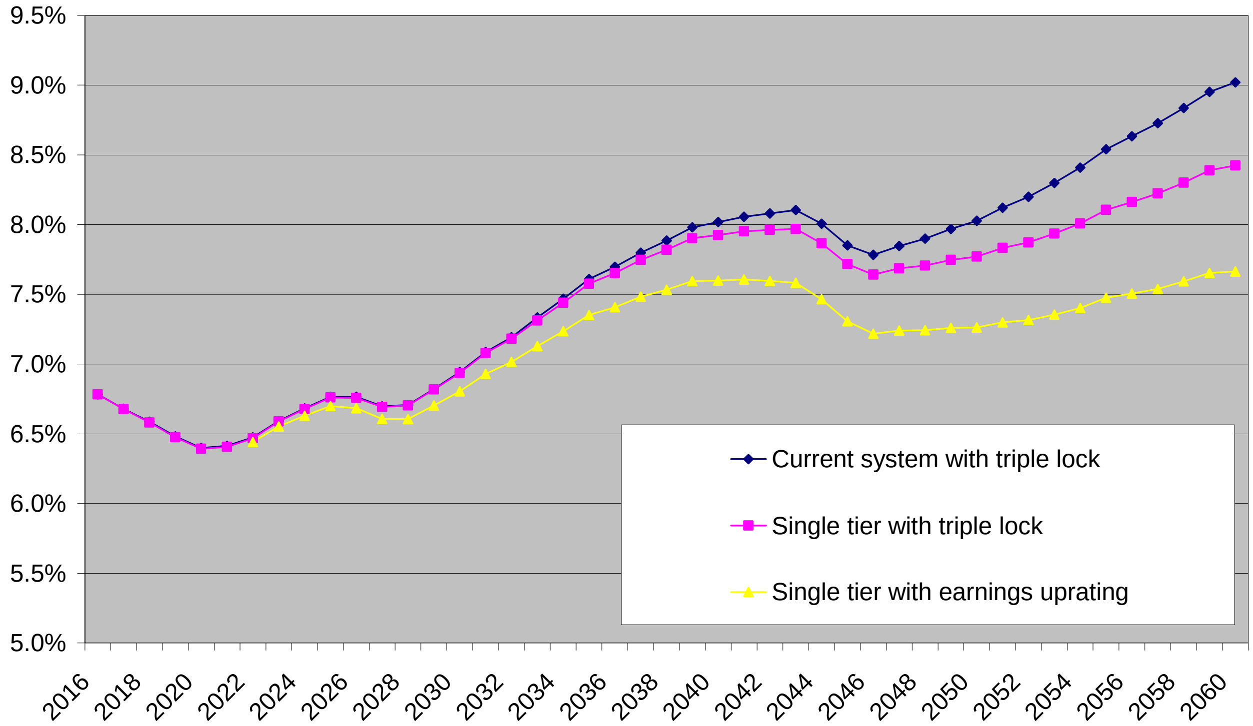
The diagram below compares the current state pension system and the single-tier system, showing how the system will be simplified from 2016. The reforms bring an end to the additional State Pension, contracting-out and outdated additions, such as the Category D pension and the Over-80 Age Addition. The Pension Credit Savings Credit will also close to those reaching State Pension age after the single-tier pension is introduced. The diagram represents what the single-tier system will look like in steady state, excluding the various transitional arrangements that will apply under the reforms.



Cost of single tier

The primary aim of the single-tier reform is to restructure the system to provide clarity and confidence to help people today plan for their retirement. Spending on pensioner benefits under single tier will be very similar to projected spend on the current system rolled forward until the 2040s, increasing from 7.0% of GDP today to around 8% in the 2040. From this point, the reforms slow down the rate of increase in Government spending on pensions (8.4% of GDP under single tier compared to 9.0% based on the current system in 2060).

The graph below (*graph B2* of the October 2013 Impact Assessment) shows the proportion of GDP being spent on pensions under different systems and assumptions:



Who will be eligible?

People will need a minimum number of qualifying years (the Minimum Qualifying Period) to become eligible for a state pension. The number of qualifying years will be set in regulations, but is capped in the Bill at ten years (the equivalent of around 20% of a full working life).

As long as they meet the Minimum Qualifying Period requirement, people who reach State Pension age on or after the implementation date will be eligible for a state pension under single-tier rules. This means

- women born on or after **6 April 1953**; and
- men born on or after **6 April 1951**.

This difference between men and women is entirely due to unequal State Pension ages.

As part of a process begun in the Pensions Act 1995, women's State Pension age is gradually rising to equalise with men's at age 65 in 2018.

Women born between April 1951 and April 1953 will reach State Pension age under the current system, before the single-tier reforms are implemented. The Government has published a detailed analysis of the state pension outcomes of this group which is available on GOV.UK. [2]

---

[2] *Note on the cohort of women born between 6 April 1951 and 5 April 1953:* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/187020/2-note-on-women-cohort-1951-53.pdf

People reaching State Pension age before 6 April 2016 will receive a state pension under the current rules.

Qualifying years

People will gain qualifying years for the single-tier pension in the same way as they do for the current basic State Pension. A qualifying year will be defined as a tax year during an individual's working life in which they paid or were treated as having paid NI contributions, or were credited with NI contributions on earnings of 52 times the Lower Earnings Limit (LEL). The LEL is the point at which a person is treated as having paid NI contributions (£5,688 for the 2013/14 tax year), although actual liability for NI arises at a slightly higher level – the Primary Threshold.

Under the current system, 30 qualifying years of paid or credited NI contributions are required for a full basic State Pension. In contrast, people can add to their additional State Pension over the entirety of their working lives (currently around 49 years for a man, slightly less for a woman due to lower State Pension age.

National Insurance Credits

NI credits are awarded to protect the state pension position and benefit entitlement of individuals who have a gap in their NI record due to a range of specific circumstances, such as unemployment, long term illness or because they are caring for a child or an adult with caring needs. In the current system some NI credits count towards both basic State Pension and additional State Pension entitlement while some count only towards basic State Pension.

The NI crediting system in the UK is comprehensive, and is a contributing factor in the progress towards having equality in state pension outcomes between men and women.

Under Universal Credit the crediting system for working age benefits will be simplified as eligible claimants will be awarded an NI credit and in a joint claim both members of the couple will be awarded a credit.

Under single tier all credits, no matter what class, will count towards the same amount of single-tier pension, providing a significant simplification. As outlined in the White Paper, the reforms are also an opportunity to simplify recording and operating systems.

More information on the NI crediting system is available on GOV.UK.

Start rate and up-rating

The full rate of the single-tier state pension will be set above the basic level of means-tested support - the Pension Credit Standard Minimum Guarantee, currently £145.40 per week in 2013/14. This will help provide a clear foundation for retirement saving.

The rate will be set in regulations closer to the date of implementation. For simplicity and consistency, we have continued to use the illustrative rate of **£144 a week**, the same figure used in the White Paper and Impact Assessment. This is **in 2012/13 earnings terms.**[3]

Under current legislation the basic State Pension is increased annually at least in line with the average growth in earnings. This legislative requirement will also apply to the single-tier pension. However, the Government has committed to increasing the basic State Pension by the triple lock (the highest of earnings, price inflation or 2.5%) for the duration of this Parliament and the White Paper and Impact Assessment assume that the single-tier pension will also be increased by the triple lock. Again for simplicity, the full single tier in future years is also expressed as £144.

Eligibility for the full rate of the single-tier pension

For individuals who build up their entire NI record on or after 6 April 2016, 35 qualifying years of NI contributions will mean a full single-tier state pension. Those with fewer than 35 years but who meet the Minimum Qualifying Period will receive a pro-rata weekly amount.

Example 1 – "Tim"

- Tim is still in school when the single-tier pension is implemented and so does not have an NI record yet. For every qualifying year he gets he will add £4.11 per week to his single-tier pension. If he gains 35 qualifying years, he will receive £144 per week when he reaches his State Pension age.
- This puts Tim in a good position to understand how much he needs to be saving in his workplace pension scheme from the start of his working life.
- When Tim reaches the age of 22 he will automatically be enrolled into his workplace pension scheme, making it easier for him to save for his retirement.

Setting the number of qualifying years at 35 for the full level of the single-tier pension will enable a large majority of people to receive the full amount of single tier at State Pension age - including many people, especially women, who have historically had poorer state pension outcomes.

Transitional arrangements for individuals with a pre-2016 National Insurance record

Most people of working age will have made NI contributions prior to April 2016 and will need to have those contributions recognised when they reach State Pension age. It follows that most people reaching State Pension age over the next 50 years or so will have their pre single tier records calculated under the single tier transition arrangements. The key factor in these arrangements is the valuation of pre-2016 contributions into a simple starting amount for the single-tier pension – the 'foundation amount'.

---

[3] Rates referring to the current system, including the Standard Minimum Guarantee, are expressed at today's values.

Such individuals will still need to meet the Minimum Qualifying Period requirement, and can do so using years prior to implementation, as well as subsequently.

It is estimated that in 2020 around 85% of people reaching State Pension age will have at least 35 qualifying years. However, individuals with a foundation amount may require more or fewer than 35 qualifying years to receive the full level of single-tier pension (for example, they may need extra qualifying years to make up for a contracted out deduction). Equally people with fewer than 35 qualifying years may have a foundation amount that is higher than the full single tier amount because of a combination of basic State Pension and additional State Pension.

The 'foundation amount'

We will work out the value of individuals' NI pre-April 2016 record under both

A. The present state pension rules; and

B. The single-tier rules.

For **both** valuations we will make a deduction to take into account any periods spent contracted out of the additional State Pension. This is explained in greater detail on page 14.

There are three possibilities:

- The foundation amount could be more than the full amount of the single-tier pension;
- The foundation amount could be less than the full amount of the single-tier pension; and
- The foundation amount could be equal to the full amount of the single-tier pension

Foundation amount more than £144

This will be the case where people have significant sums of additional State Pension on their record at the point of implementation. Where the amount a person would have received under the current pension system at April 2016 is more than the full single-tier amount (£144), they will receive both a full single-tier pension and a 'protected payment' (the surplus, protected against price inflation). They will not be able to build on this amount. *See "example 2" below*.

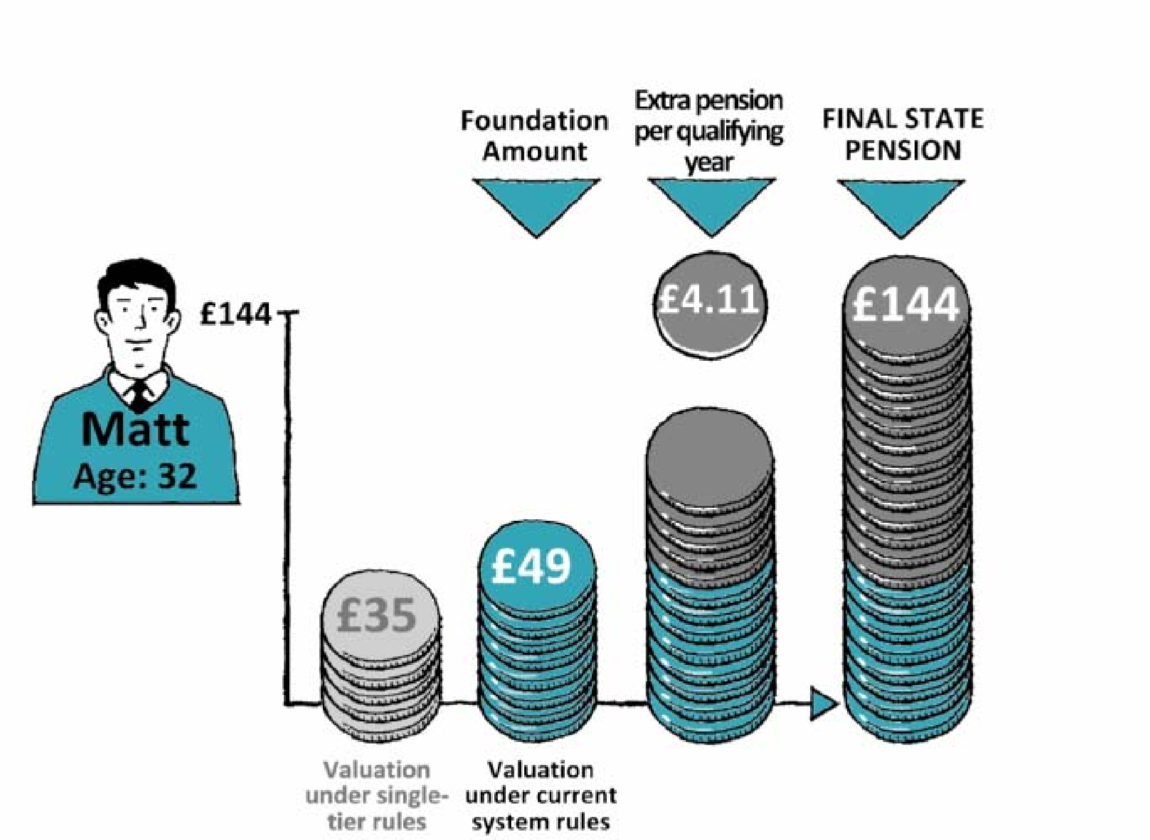
Example 2 – “Jenny”

- Jenny worked as a receptionist for 32 years, and has also spent a number of years working in part-time jobs. Her NI record as at implementation is valued under the single-tier rules, which take into account her qualifying years. As she has not been contracted out, no deduction is applied.
- A check is performed to see if Jenny would get a higher valuation under the rules of the current system. In Jenny’s case, the current system valuation is higher at £147 a week, and therefore becomes her foundation amount. As this amount is more than the full level of the single-tier pension, Jenny will not be able to get extra pension by adding post-implementation qualifying years.
- When she reaches State Pension age, she will get the full single-tier amount of £144, plus her ‘protected payment’ amount of £3 a week.

Foundation amount less than £144

If the foundation amount at April 2016 is less than the full single-tier amount (£144) people will then be able to add qualifying years between implementation and State Pension age, up to a maximum value of the full single-tier amount. *See “example 3” below.*

Example 3 – "Matt"



- Matt has been working as a teacher for ten years prior to 2016.
- His NI record as at implementation is valued under the single-tier rules, which take into account his qualifying years, and also a deduction to reflect lower NI contributions paid during his time spent contracted out.
- A check is performed to see if Matt would get a higher valuation under the rules of the current system. In Matt's case, the current system valuation is higher, and therefore it becomes his foundation amount.
- As his foundation amount is less than £144, he is able to add extra pension at the rate of £4.11 (to the nearest penny) for every further qualifying year he gains, up to the maximum of £144.
- Matt needs 24 post-implementation qualifying years to receive the full level of the single-tier pension when he reaches his State Pension age.

Foundation amount equal to £144

Where an individual's foundation amount is equal to the full single-tier amount, this will be the amount received when the individual reaches State Pension age.

Reflecting contracting out in the calculation of the foundation amount

A significant number of people have been contracted out of the additional State Pension at some point – this means that rather than building up additional State Pension, they were building entitlement to an occupational pension and paying a lower rate of NI.

In the current scheme the final calculation of state pension cannot take place until State Pension age when periods of contracted-out employment can be fully taken into account. Under single tier, an adjustment for contracting out happens as part of the calculation of an individual's 'foundation amount'.

For the foundation amount, the calculation of the value of someone's NI record under current rules will include a contracted-out deduction as it would for someone reaching State Pension age now. For the amount they would have received if the single-tier pension had always existed, a comparable amount (the Rebate Derived Amount) is deducted. More information about the Rebate Derived Amount is available on GOV.UK.[4]

As well as increasing clarity, making a deduction for periods of contracted-out employment as part of the calculation of the foundation amount gives people the opportunity to off-set that deduction by gaining single-tier qualifying years after 2016.

Example 4 – "Mark"

- Mark has worked for 32 years prior to 2016 and has always been contracted-out of the additional State Pension.
- A check is performed to see if Mark would get a higher valuation under the rules of the current system. In Mark's case, the current system valuation is higher, and therefore it becomes his foundation amount. His foundation amount is equal to the full basic State Pension as he has a full 30 year record but no additional State Pension.
- As his foundation amount is less than £144, he is able to add extra pension at the rate of £4.11 (to the nearest penny) for every further qualifying year he gains, up to the maximum of £144.

[4] *Single-tier transition- contracting out:* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181233/single-tier-pension-transition-technical-note.pdf

Derived and inherited entitlement

A key part of single tier is that it will be based on individual qualification - without the facility to inherit or derive a state pension from a spouse or civil partner.

The concept of derived and inherited entitlement was originally introduced because married women were unlikely to have any state pension entitlement in their own right. This dates back to an age when men were normally the breadwinners and the women stayed at home. Changes in labour market participation and reforms to the state pension system to recognise time out of the labour market to care for family members have rendered this assumption highly anachronistic.

Over 75% of women reaching pension age this year will receive a full basic State Pension based on their own NI record, and the number of women reliant on derived entitlement to the basic State Pension is set to decline further in the future – without action being taken the bulk of derived pensions would end up going to non-UK spouses of UK pensioners.

This Bill therefore abolishes 2 aspects of the current State Pension system

- **Derived entitlement to basic State Pension; and**
- **Inherited additional State Pension.**

Transitional measures will also be put in place (as outlined below).

The Government has published a detailed note on this issue which is available on GOV.UK.[5]

Derived entitlement to the basic State Pension

Under the current system, both women and men can boost their basic State Pension through their spouse or civil partner's NI record. There are three main ways of doing this:

- "**Married person's pension**": a maximum of **£66 per week** (2013/14 – roughly 60% of the full basic State Pension value). People may be eligible for this once both parties to a marriage or civil partnership have reached State Pension age, and while both parties are still alive;
- "**Survivor's basic State Pension**": a maximum of **£110.15 per week** (2013/14 – the full **basic** State Pension value). People receiving the "married person's pension" would therefore have their basic State Pension increased automatically on the death of their spouse or civil partner;
- "**Substitution**": if a marriage or civil partnership legally ends, individuals can **use** their ex-spouse's or ex-civil partner's NI record instead of their own (for the period until their marriage or civil partnership ended) if it would give them a higher basic State Pension - up to a maximum of the full basic State Pension value.

[5] *State pension entitlements derived from a current or former spouse's or civil partner's National Insurance Contributions:*
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181235/derived-inherited-entitlement.pdf

Inherited additional State Pension

Under the current State Pension system, a surviving party to a marriage or civil partnership is able to inherit at least 50% of the deceased's additional State Pension.

Abolishing these two elements will **ensure that the Government can deliver simplicity for single-tier pensioners**, since being able to add to your pension in different ways – dependent on who you marry or divorce – makes it impossible to achieve simplicity and clarity of outcome.

Couples where both members reach State Pension age before the implementation of single-tier in 2016 will be unaffected by these measures.

Transitional measures

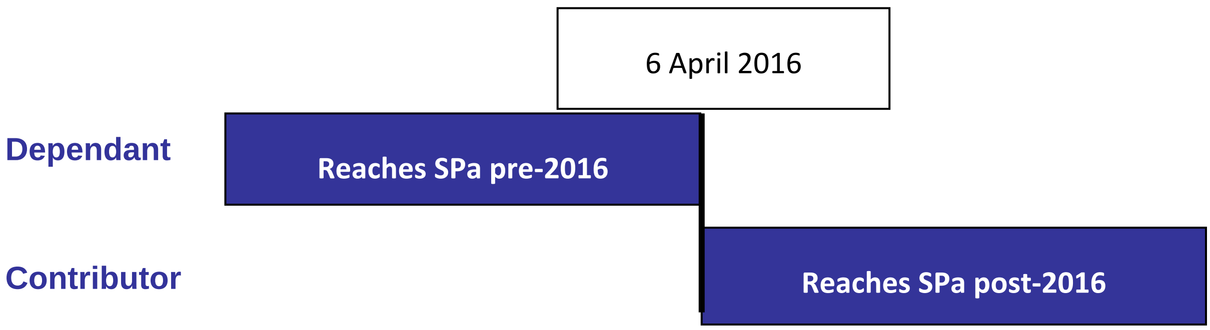
A number of transitional arrangements will be put in place for derived entitlement to basic State Pension, inheritance of additional State Pension and also arrangements for certain women who have paid the Reduced Rate Election (see page 20).

These arrangements depend on

- whether the "dependant"[6] reaches State Pension age before or after April 2016,
- whether their deceased spouse or civil partner reached (or would have reached) State Pension age before or after April 2016, and
- in some cases, whether the "contributor"[7] died before or after April 2016.

There are many permutations but the main scenarios are illustrated in the case studies below.

Scenario 1 - Charlotte reaches State Pension age before 2016, but her husband does not.



Transitional arrangement

The dependant will be entitled to derived and inherited State Pension as under the current system but based on the contributor's National Insurance record up to 5 April 2016 only.

---

[6] The person deriving or inheriting from their spouse or civil partner's NI record
[7] The spouse or civil partner on whose NI record the dependant is deriving or inheriting an entitlement.

Situation

Charlotte reaches State Pension age before 2016 with £40 per week in basic State Pension. Her husband reaches State Pension age in 2020 and, as at 2016, had 30 qualifying years plus £20 per week in additional State Pension.

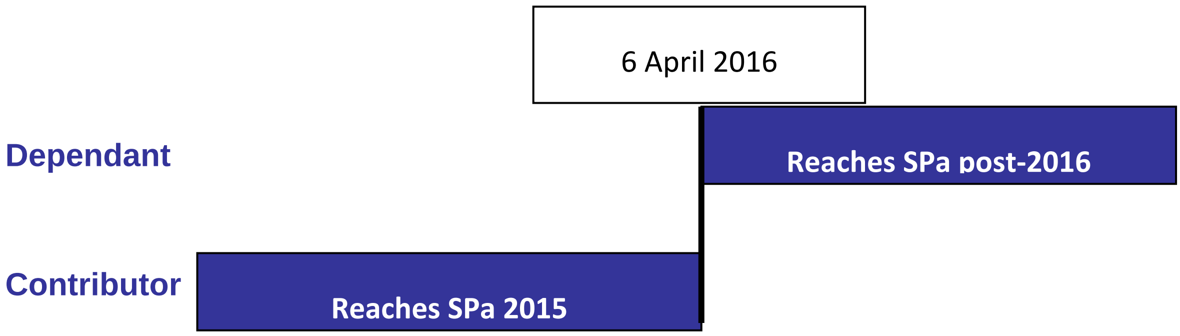
Outcome

Charlotte will be eligible to receive a "married person's pension" top-up to a maximum of £66 per week (plus any additional pension she has in her own right) in 2020, when her husband reaches State Pension age. Upon her husband's death, she will also have her basic State Pension increased to the full amount of £110.15 per week.

The extent of this top-up will be limited to her husband's record as it stood at 2016. Because Charlotte's husband had 30 qualifying years (i.e. a full basic State Pension) at 2016, Charlotte will get exactly the same basic State Pension as if the current system continued.

Charlotte will also receive inherited additional State Pension of £10 per week (which is 50% of her husband's additional State Pension as at 2016) when her husband dies.

Scenario 2 - Bob reaches State Pension age after implementation, but his wife reaches State Pension age before



Transitional arrangement

The dependant will qualify for a single-tier State Pension on his or her own NI record only but will be able to inherit the contributor's additional State Pension as under current rules, provided the marriage began before 6 April 2016.

Note: this scenario also applies if the contributor dies under State Pension age before 6 April 2016.

Situation

Bob reaches State Pension age after the implementation of single tier in 2016 with £90 of single-tier pension in his own right, but his wife reaches State Pension age under the current system.

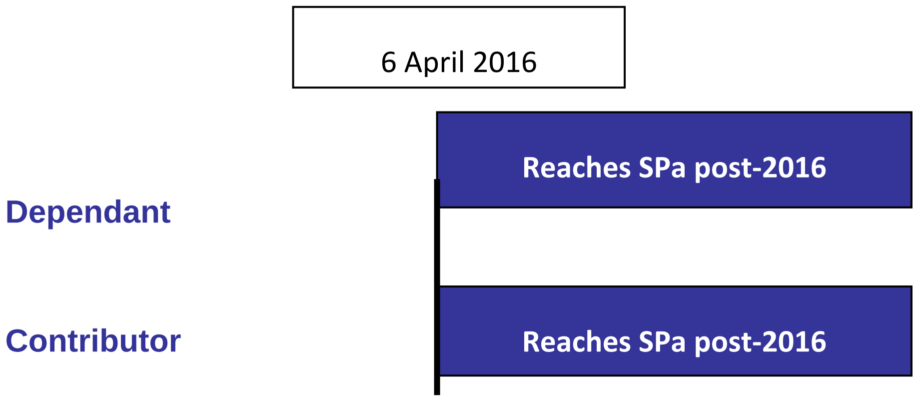
Outcome

Bob receives entitlement to £90 of single-tier pension in his own right. He is not entitled to any ‘top-up’ on the basis of his wife’s basic State Pension.

In the current system he would not have qualified for any increase while his wife was alive as he already has at least the married person’s pension in his own right. **However,** he may have received a “basic pension” top up upon the death of his wife.

Bob does, however, receive 50% of the additional State Pension which his wife built up in the current system.

Scenario 3. Both Elizabeth and her civil partner reach State Pension age under single-tier



Transitional arrangement

The surviving member of the couple will inherit half the deceased’s “protected payment” provided the marriage or civil partnership began before 6 April 2016.

Note this scenario also applies where the deceased dies on or after 6 April 2016 while still under State Pension age.

Situation and outcome

Both Elizabeth and her civil partner reach State Pension age in 2020. Elizabeth has £80 of single-tier pension per week in her own right. She would not be eligible to receive any “survivor’s basic State Pension” upon the death of her civil partner but Elizabeth’s civil partner has a Protected Payment of £6, so Elizabeth would inherit £3 of that when she dies.

Women who have paid the Reduced Rate Election

From 1948 to 1977 married women (and certain widows) who were employed could opt to make a Reduced Rate Election (RRE). This meant they would pay initially no, and from 1975 lower, NI contributions in exchange for relying on their husband’s contributions for state pension entitlement. Self-employed women could opt not to pay the flat-rate self-employed stamp. Most elections in force have now lapsed but a very small number of women are still paying the 'married woman's stamp' and they will be able to continue to do so after single tier is implemented.

Women who elected to pay the RRE may have few or no qualifying years as a result of their election, which would leave them with potentially no state pension under single-tier rules despite a long history of paying NI contributions and their explicit deal with the state to rely on their husband's NI record when they reached retirement.

The Government therefore intends to make provision for married women and widows who paid these reduced rate contributions. Where a valid election existed at any point in the last 35 complete tax years before State Pension age, they will be entitled to the higher of

- a single-tier pension equivalent to the full rate of the 'married person's' lower-rate basic State Pension in the current system or, if widowed or divorced, the full rate of the basic State Pension, plus any additional State Pension they had built up to 2016; or

- a single-tier pension based just on their own contributions, including any post-2016 qualifying years.

Widows with a RRE will also qualify for an inherited amount (either the applicable proportion of their late spouse's additional State Pension, or half his protected payment, depending on whether he was a current system or single-tier pensioner) on the same basis as other surviving spouses or civil partners.

Pension sharing on divorce

Pension sharing, introduced in the Welfare Reform and Pensions Act 1999 enables marital assets following the dissolution of a marriage to be shared more fairly between the parties to achieve a financial "clean break". The rules have applied to civil partners since December 2005. In the existing system the additional State Pension is treated in the same way as other marital assets and so is shareable on divorce or the dissolution of a civil partnership. When making a pension sharing order a court will award a 'pension credit' and a 'pension debit' to the relevant parties accordingly.

Financial arrangements decided by the courts will not be disturbed and pre-April 2016 pension sharing orders will be honoured. After the single-tier pension is implemented, Courts will still have the option of including state pension assets in Pension Sharing Orders, but only in relation to the protected payment. Just as basic State Pension is not shareable now, so amounts up to the full value of single tier will not be shareable under the new system.

Category C and D state pensions and the Age Addition

This Bill removes several aspects of the current system for people who will reach State Pension age after the introduction of the single-tier pension in 2016:

- Category C state pension;

- Category D state pension; and

- the over-80 Age Addition.

For people currently in receipt of these benefits their entitlement will continue unchanged, and these will all remain in place for eligible claimants who reach State Pension age before the introduction of the new system in 2016. Money saved from the withdrawal of these benefits for new pensioners has been factored into the spending “envelope” for the single-tier pension.

A Category C pension was originally paid to certain men who reached State Pension age before 5th July 1948 who were not entitled to the basic State Pension. None of the original recipients are still alive, but a small number of Category C pensions (around 20) are still in payment to their former spouses and widows. These pensions will remain in payment after 2016.

A Category D pension is a non-contributory state pension for people aged 80 and over, subject to certain residence conditions. It can also be paid as a top-up amount to an individual’s state pension when they reach the age of 80 if they receive State Pension at a lower rate. Those people who reach State Pension age before 6 April 2016 will still be entitled to a Category D pension if they meet the residence conditions and as such, new awards of Category D pension will continue until 6 April 2033 (the latest someone reaching State Pension age on 5 April 2016 could reach the age of 80). The subsequent payments for these awards may continue into the 2040s or later.

In 1971 the Age Addition was introduced for all pensioners aged 80 and over. It provides an additional payment of 25p per week on top of the basic State Pension and was introduced to provide extra support for pensioners at a time of high inflation. Although the Age Addition continues to the present day, it has never been uprated and it will be removed for people reaching State Pension age after the introduction of single tier in 2016.

Deferring the single-tier pension

People who reach State Pension age after April 2016 will be able to defer their state pension in return for an increment to their weekly state pension. The accrual rate for the amount will be set in regulations. The rate will be designed to broadly reflect the value of the state pension foregone, and will be set with reference to a figure based on published advice from the Government Actuary’s Department (GAD). This is likely to be lower than the rate of increments in the current system.

The reforms will simplify the current system, as there will no longer be an option to claim a lump sum payment instead of increments; nor will a surviving spouse or civil partner be able to inherit the deferral increments. However, a single-tier pensioner whose late spouse or civil partner had deferred their pension under the current system may be able to inherit a deferral payment from them.

Current pensioners and those who reach State Pension age before 6 April 2016 will continue to be able to defer their state pension in line with current rules, even if they defer beyond April 2016. It is the date on which a pensioner reaches State Pension age, rather than when they begin to claim their pension, that determines whether the current rules or the single-tier rules apply.

Abolition of Savings Credit

The Bill provides that the Savings Credit element of Pension Credit will not be available to people who reach State Pension age after the introduction of single tier in April 2016.

Pension Credit was introduced in 2003 and is a tax-free income-related benefit for those who have reached the minimum qualifying age (linked to women's State Pension age) and live in Great Britain. There are two parts to Pension Credit – the Guarantee Credit and the Savings Credit.

Guarantee Credit provides a basic safety net of support by topping up income to a minimum level. This is currently £145.40 for an individual and £222.05 for a couple (in 2013/14) but higher levels are available for people with additional needs such as a disability, caring responsibilities or certain housing costs, provided they meet certain conditions.

When Pension Credit was introduced the full basic State Pension was below the means-tested minimum income level, which meant that people who had saved above the level of the basic State Pension but did not have income higher than the minimum income level were no better off than those who had not saved.

The Savings Credit element of Pension Credit was therefore introduced to address this by providing additional money - a "reward"- for those with income above the level of the basic State Pension, allowing pensioners with modest savings to receive extra money to bring them above the minimum income level.

Savings Credit is currently available to people aged 65 and over and to couples where at least one member is this age or above. The maximum award of Savings Credit for 2013/14 is £18.06 per week for an individual and £22.89 per week for a couple. People can be entitled to savings credit on its own or with the Guarantee Credit.

Savings Credit is extremely complex and the take up level for Savings Credit alone is low- between 43% and 48%.

However, with the introduction of single tier the problem which Savings Credit sought to resolve will be removed, because the full rate of the single-tier pension will be higher than the minimum income available through the basic means test via Guarantee Credit.

Those reaching State Pension age before April 2016 will continue to have access to Savings Credit provided that they meet the relevant eligibility criteria.

Guarantee Credit and Savings Credit – illustrative case studies

Current system (2013/14 figures)

Mary has a full basic State Pension of £110.15 a week and has no other income or savings. Her income is topped up to £145.40 by the Guarantee Credit element of Pension Credit.

Jim has a full basic State Pension of £110.15 a week but he also has a small occupational pension of £11. He receives Guarantee Credit to top his income up to £145.40 and also receives an additional amount on top of this through the Savings Credit worth £3.51. Without Savings Credit, Jim's overall income would have been the same as Mary's – despite the fact he had saved in an occupational pension to bring his overall income above the level of the basic State Pension.

After April 2016

Anne and Paul both have a full single-tier state pension – an amount set above the standard Guarantee Credit level.

Anne has made no additional provision for her retirement so she just receives the single-tier pension.

Paul, like Jim, has a small occupational pension of £11.00 per week. Paul will receive the full single-tier pension and will also see the full value of his £11.00 occupational pension on top of this.

Under single-tier, both Anne and Paul have been lifted clear of the basic means test so an additional amount of Savings Credit to recognise additional retirement provision is unnecessary.

Payment of State Pensions outside the UK

Currently, people are still able to draw their state pension (where they have paid sufficient NI contributions) even if they live outside the UK.

State Pension paid outside the UK is uprated if the claimant is a resident of:

- the European Economic Area (EEA);
- Switzerland;
- the Channel Islands; or
- a country with which the UK has a bilateral social security agreement that provides for pensions to be up-rated.

However, the UK State Pension is not up-rated for people who live outside these areas. These arrangements will also be the same under the single-tier pension.

Ending of contracting out – implications for employees and employers

The closure of the additional State Pension is integral to the single-tier reforms. As a result of this, contracting-out of the additional State Pension for Defined Benefit (DB) schemes will come to an end when single tier is introduced in April 2016. From this time, all employees will pay the same rate of NI and become entitled to state pension in the same way. Because of this, employees who are contracted out at April 2016 will see an increase of 1.4% in their NI contribution rate to bring them into line with the same rate of NI paid by other employees. However, the majority of people who pay a higher rate of NI as a result of the end of contracting out will be eligible to receive extra state pension for years worked or credited after the implementation of single tier.

The statutory override

In the same way that employees who are contracted out pay a lower rate of NI, employers who run a contracted-out pension scheme receive a NI rebate in respect of each contracted-out employee. Therefore, when contracting out ends in 2016, employers who run a salary-related occupational pension scheme that is contracted out of the additional State Pension will have to pay the same rate of NI as all other employers, which will mean an increase of 3.4% in respect of each contracted-out employee. Whilst some employers may be free to recoup this additional expenditure by making changes to their scheme, others may be prevented by their scheme benefit structure or rules from doing so. The Bill therefore provides for a statutory override which will enable employers to make changes to their schemes once contracting-out ends to recoup the loss resulting from the loss of the NI rebate. These changes could, for example, be changing the member accrual rate or member contributions. However, changes can be made only to the extent that they offset the increase in employer NI contributions.

The statutory override will be discretionary, and will not remove an employer's requirement to consult their workforce before making changes as is currently required under legislation.

The override will be time-limited to the five years following the abolition of contracting-out in April 2016. However, an extension power is provided to assist employers who find the timescale challenging. The override will be usable more than once, and may possibly allow scheme changes to be phased in, but without breaching the time-limit as described above. The details of how the power will operate will be provided in secondary legislation.

For 85% of employees who will be paying higher NI and reach State Pension age in the first two decades following reform, their extra state pension will be enough to offset both the increase in NI they will pay over the rest of their working lives and any potential adjustments to their occupational pension schemes.

Communicating these changes to customers

The Government recognises that effective communications will play a critical role in the successful delivery of the single tier reforms.

A high-level summary of the DWP's communication strategy for communicating the reforms is available in the House library.

This summary outlines the Government's overarching objectives for the single tier reforms: if the simplified state pension is to support individuals in financial decision making for retirement planning, communications must:

- inform people about the impact of reforms on their individual circumstances, and about the actions they can take to improve them; and
- engage members of the public, including those identified through Departmental research to be less inclined to actively plan for retirement provision, or less likely to consider the State Pension as part of their retirement income.

In addition, effective communications will support employers, trustees and schemes in preparing for the ending of contracting out for DB pension schemes.

The Government is in the process of developing a more detailed communication strategy for the reforms, taking into account findings from fieldwork carried out over the summer and autumn, and input from interested parties, including industry bodies, consumer bodies and Trades Unions. This will set out detailed objectives for different audience groups (e.g. people within five years of State Pension age at Royal Assent), the principal channels and products for achieving these objectives and how the Government will assess the strategy's effectiveness. The revised strategy will be placed in the House library.

State Pension Statements

State Pension statements are available to people who are more than 30 days away from reaching their State Pension age, and provide an estimate of how much State Pension an individual may be entitled to receive based on their current NI position. Statements are an important element of our communications strategy. We will use them to help individuals understand how the changes to the State Pension may affect them and to help them decide whether their current savings arrangements will provide them with an adequate income in the future.

We will be need to have information about people's contributions and credits up to and including the 2015/16 tax year to be able to give people an estimate of their foundation amount. From Royal Assent and until this point, we plan to make staged changes to the State Pension Statement service to support people to understand the broad impacts of the single-tier changes.

Royal Assent

Following Royal Assent we will continue to provide State Pension statements to those affected by the reforms. These statements will be based on the current system rules but will be accompanied by supporting information which will:

- explain how we have worked out their estimate state pension amount;
- provide an overview of the single tier changes; and

- emphasise the relevance of the estimate in terms of calculating the individual's single tier starting position.

We are also exploring whether we could provide more specific information to reflect individual circumstances.

From implementation (2016)

Our intention is to continue to provide an "on demand" state pension statement service as now, but we expect it to be a largely digital service. This will allow individuals to quickly get an up-to-date picture of their single-tier pension position and how this may change with further NI qualifying years. We are also exploring the possibility of providing supporting tools to help customers model the effect future scenarios may have on their final single-tier pension (such as deferring and paying Voluntary National Insurance Contributions).

Voluntary National Insurance contributions (VNICs)

Under the current system people who have gaps in their NI records, for example as a result of time spent in full-time education, may be able to enhance their basic State Pension by paying VNICs. The normal rule is that VNICs must be paid for within six years from the end of the tax year they relate to. The rate depends on when you pay and increases if you pay more than two years after the end of the relevant tax year.

The ability to pay VNICs will continue under the single-tier system. Once the single-tier pension is introduced we will be able to provide individuals with state pension statements with a single-tier foundation amount valuation and explain how future qualifying years may build on this. It is important that people know their foundation amount in the single tier before they make a decision on whether to buy voluntary contributions. Therefore Her Majesty's Revenue and Customs (HMRC) have extended the time limits for paying VNICs so that people who reach State Pension age on or after 6 April 2016 can delay taking action until they can get a State Pension statement which will include their foundation amount based on the new single-tier rules. This easement means that:

- people considering paying VNICs for the tax years 2006/07 to 2015/16 inclusive will have until 5 April 2023 to pay;
- the 2012/13 rate will be payable until 6 April 2019 in respect of the tax years 2006/07 to 2009/10 for Class 3 contributions (and years 2006/07 to 2010/11 for voluntary Class 2 contributions for the self-employed); and
- for the remaining tax years up to and including 2015/16 no higher rate provisions will be applied until 6 April 2019.

Part 2 – State Pension age

In the Pensions Act 2011, the Government brought forward the increase in pensionable age to 66 which ensured the short-term sustainability of the UK's state pension system. Now, through two clauses in Part 2 of this Bill, the Government is taking action to ensure the fairness and affordability of the state pension system into the medium and long term. These provisions accelerate the increase to age 67 and provide for a regular review of the State Pension age every six years.

The latest data shows that life expectancy is increasing….

- **1 in 9** current pensioners are expected to survive to 100; and
- **1 in 3** children born in 2013 are expected to survive to 100.[8]

… and that it is increasing across all socio-economic groups. The table below details the increase in life expectancy since 1982 for men aged 65 across different professions, according to latest data:

	1982	2006	Increase	Increase
Managerial & Professional	15.1	18.4	3.3	22%
Intermediate	13.9	17.5	3.6	26%
Routine & Manual	13.0	15.8	2.8	21%

Source: Office for National Statistics (ONS) 22 February 2011, *Trends in life expectancy by the National Statistics Socio-economic Classification 1982–2006*

The State Pension age needs to rise more quickly to keep pace with these longevity gains. In the Pensions Act 2011, the Government accelerated the point at which equalisation in State Pension ages between men and women will complete and brought forward the rise to State Pension age 66. However, it is clear from the demographic evidence that we need to do more. To illustrate this point, a man in the UK reaching age 65 thirty years ago (in 1983) could expect to spend 14.5 years in retirement. Today, a man reaching that same age can expect to spend over 21 years in retirement- an increase of almost 45%.

Men and women reaching 65 in 2008-10 could expect to enjoy almost an additional three years of life free from limiting illness or disability, on average, when compared to 1981. Furthermore, Healthy Life Expectancy (HLE) at age 65 has increased by 0.7 for men and 0.9 years for women over the period 2000-02 and 2008-10. However, neither HLE nor disability-free life expectancy (DFLE) is rising as quickly as overall life expectancy.

---

[8] ONS (2011) Period and cohort life expectancy tables, 2010-based.

Men in the UK are fifth highest in the EU-28's Healthy Life Years Index and women rank third. This means that men and women in the UK can expect more healthy life years than Italy, Ireland and the Netherlands – all of which are moving to a State Pension age of 67 earlier than the UK.

Increase in pensionable age to 67 (Clause 25)

In response to this increasing longevity, the Government has taken action to ensure the sustainability of the state pension system. In 2011's Autumn Statement, the Government announced its intention to legislate to bring forward the increase in State Pension age from 66 to 67 by eight years, to complete in 2028.

This will affect around 8 million men and women born between 6 April 1960 and 5 April 1969 who are currently aged between 44 and 53. The transition will be phased in gradually over two years:

- men and women born between 6 April 1960 and 5 March 1961 will have a State Pension age of between 66 and 67; and
- men and women born between 6 March 1961 and 5 April 1969 will have a State Pension age of 67.
- People born after 5 April 1969 will not be affected by this change. This is because they already have a State Pension age of 67, 68, or somewhere in between the two (as legislated for by the Pensions Act 2007).

Based on projections used in the Pensions Act 2007, the Office for National Statistics' 2004-based life expectancy projections suggest that a man aged 67 in 2028 would survive for a further 19.9 years. However, the latest projections available suggest that the same man is projected to survive for a further 21.4 years – 1.5 years longer than when the original timetable for State Pension age 67 was set in the Pensions Act 2007.

State Pension age legislated in previous Pensions Acts

To provide some context around changes to the State Pension age, the table below sets out past changes since the Pensions Act 1995, showing the date at which the specified age was legislated to complete by (and the proposed increase to 67 contained in this Bill):

SPa	Pensions Act 1995	Pensions Act 2007	Pensions Act 2011	Pensions Bill 2013-14
65	2010-20 (women)		2010-18	
66		2024-26	2018-20	
67		2034-36		2026-28
68		2044-46		

Beginning the increase in the State Pension age to 67 in 2026 will mean that **no individuals affected by the changes introduced by the Pensions Act 2011 will face a further change.** No individuals – men or women – will find their State Pension age increased by more than 12 months under these proposals.

State Pension age increases in other Organisation for Economic Cooperation and Development (OECD) countries

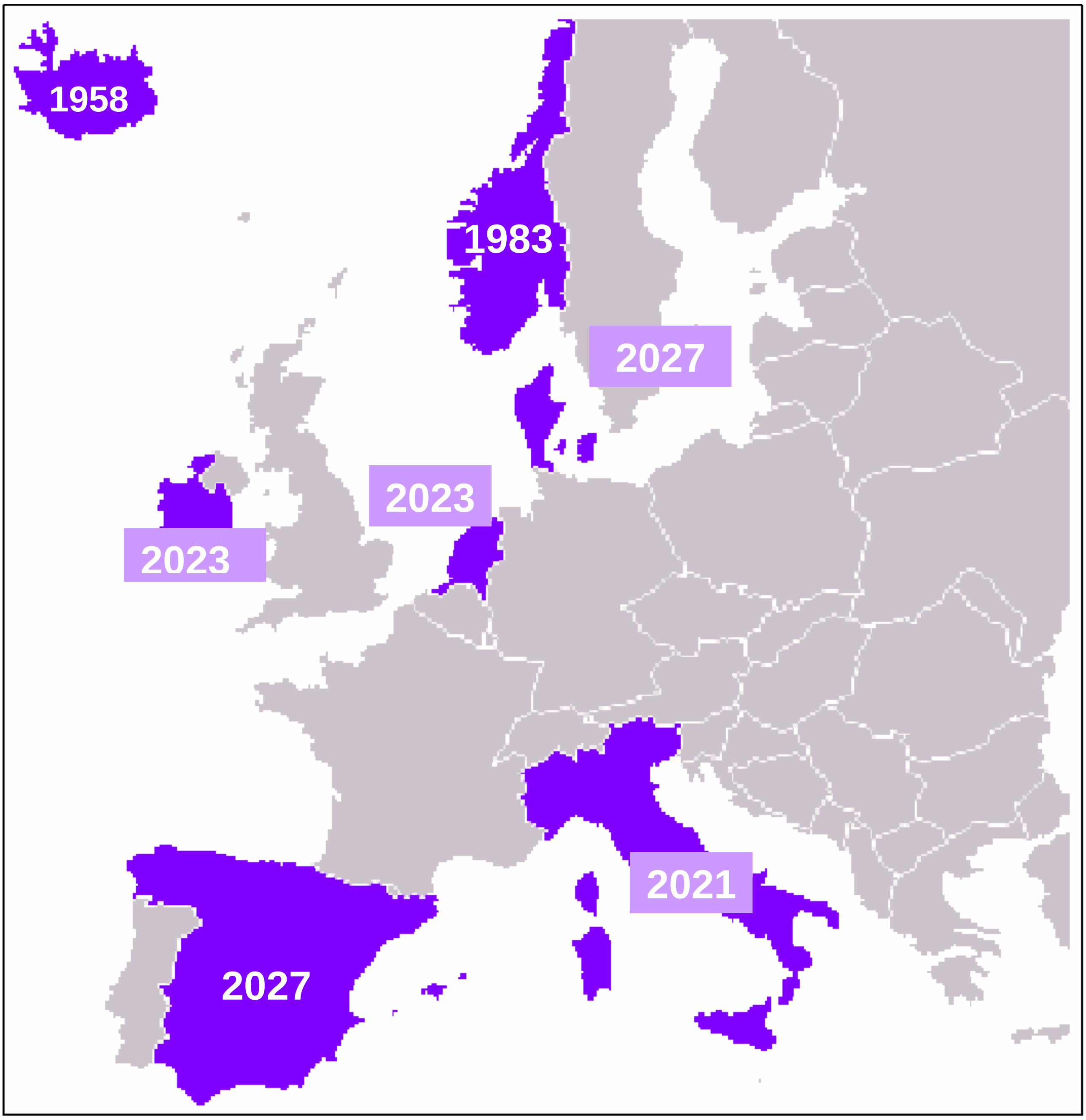
A number of international organisations, including the European Union, OECD and International Monetary Fund (IMF) have supported increases to the State Pension age in order to control costs and ensure the long-term sustainability of state pension systems:

"Further structural reforms to promote fiscal sustainability and growth, for example further increasing the state pension age, should… be pursued".

OECD, Economic Outlook, 2011

"Reforms of pension systems should be stepped up to align retirement age with life expectancy, restrict access to early retirement schemes, and enable longer working lives" – European Commission, 2013

The map below page shows countries which have already legislated to reach State Pension age 67 before 2028. It demonstrates that even with a State Pension age of 67 in 2028, the UK will still be behind many other similar economies.



Sources: OECD, *Pensions Outlook 2011*; Analytical Support of the Socio-Economic Impact of Social Protection Reform, *Annual Report 2012*.

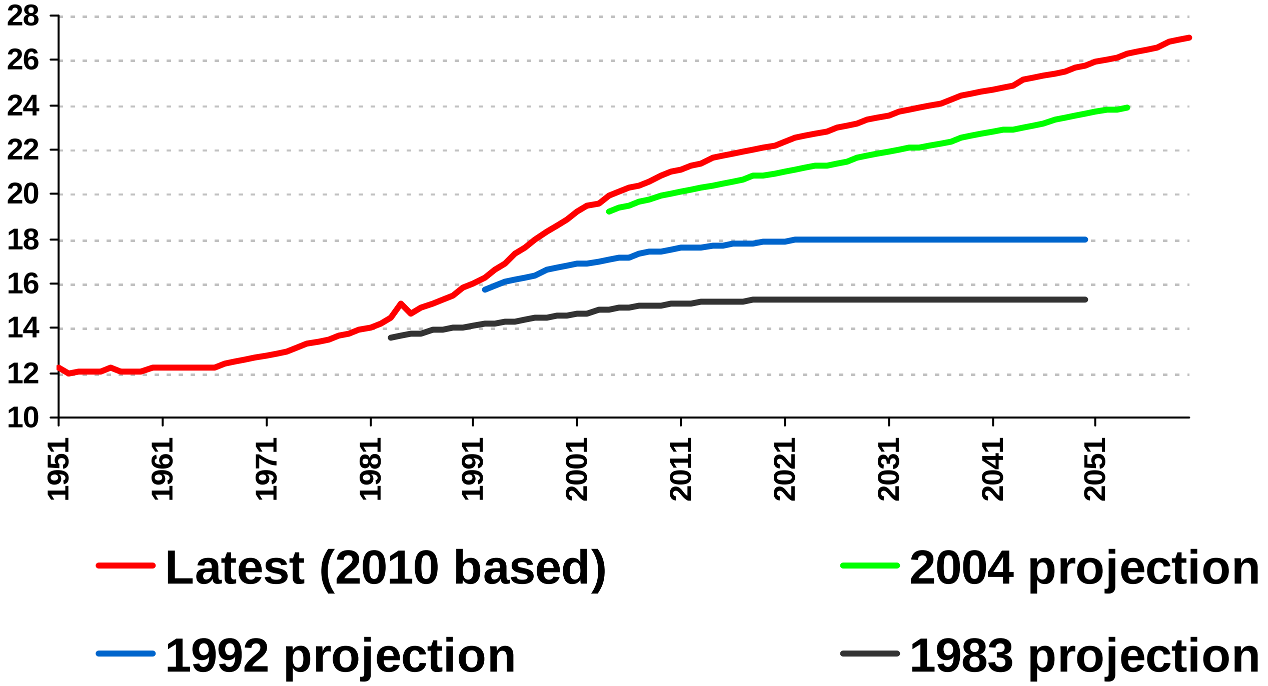
With a State Pension age of 67 in 2028 the UK will still be behind many European countries, including **Iceland, Norway, Denmark, Ireland,** and **the Netherlands.** Looking further afield, the State Pension age in the USA will rise to 67 in 2027 and in Australia in 2023.

While not shown on the map above, Germany is set to reach State Pension age 67 in 2029.

The review of State Pension age (Clause 26)

As life expectancy continues to increase, the Government believes there is a need for a more structured framework within which to consider changes to State Pension age in the future. The 2005 Pensions Commission described increases in State Pension age as *"essential to keep the increase in public expenditure within limits which are fair between generations and sustainable over the long term".* The Commission recommended that the State Pension age should be increased in line with future rises in life expectancy.

The graph below illustrates increasing longevity projections over time, demonstrating that successive Governments have continued to underestimate life expectancy:



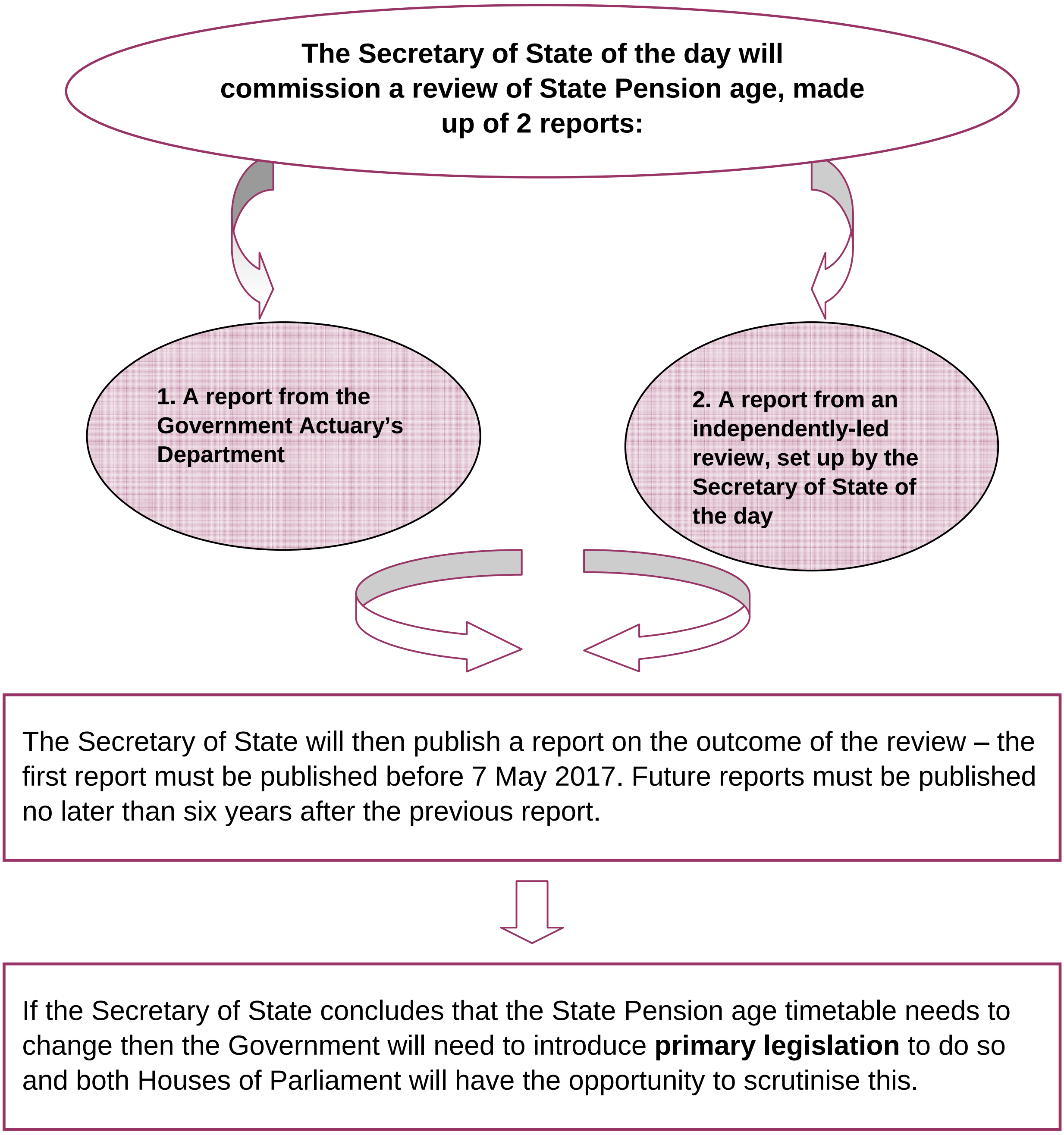
Therefore the Government is also legislating in this Bill to review State Pension age once every Parliament. The review will be based around the principle of maintaining a given proportion of adult life in receipt of the state pension.

The Bill provides that a report must be published once every six years, to ensure that State Pension age is considered every Parliament. The Government has specified six years in order to provide some flexibility around the publication date, to allow for instances where there may be valid reasons for delaying or bringing forward a review (including, for example, the publication dates of relevant source material).

Notice period

As set out in the White Paper, the Government believes that a ten-year notice period for changes to the State Pension age strikes the right balance between responding to the frequent revisions in projected life expectancy and giving people enough time to prepare for a change.

The review process



1. The first report, from the **GAD**, will consider latest life expectancy projections and analyse what proportion of their lives an individual can expect to spend in receipt of state pension in the future, and how the State Pension age could be changed in order to maintain the proportion specified by the Government.

2. The second report from the **independently-led review** will consider other factors, specified by the Secretary of State of the day, relevant to setting the State Pension age. Such factors may include, for example, healthy life expectancy, socio-economic variations, regional variations and wider economic concerns. However, the Government believes that it is right to retain flexibility in the review so has not set out in legislation what factors the

body must consider.

Finally, the Secretary of State must also publish a report, which takes into account the findings of the GAD and independently-led review, and which sets out the outcome of the State Pension age review.

The aim of the review is to ensure that every Government considers State Pension age in light of the latest life projections and other relevant data. It will be up to the Government of the day to decide the variables and we do not want to bind future Governments.

Any proposals to change the State Pension age as a result of the review would, as now, need to be set out in legislation and approved by both Houses of Parliament.

Part 3 – Abolition of the Assessed Income Period in Pension Credit

The decision to abolish the Assessed Income Period (AIP) in State Pension Credit was announced as part of the Spending Round 2013.

What is an Assessed Income Period?

When Pension Credit was introduced in 2003 it included a new approach to case maintenance for customers aged 65 and over called the Assessed Income Period (AIP).

The AIP effectively fixes a person's retirement provision (capital and retirement income such as non-state pensions) for 5 years or, where the person is over 75, indefinitely. This removes the burden upon pensioners to notify certain changes in their circumstances as soon as they occur, thereby reducing the maintenance process and minimising intrusion.

The AIP was introduced on the basis that pensioners were assumed to have more stable incomes and fewer changes in their circumstances, so a lighter touch to maintenance and review was deemed appropriate.

The AIP does not fix the award of Pension Credit. During this period, annual adjustments are made to non-state pension income (for example occupational or private pensions, annuities) automatically, usually alongside up-rating, and awards revised accordingly. People can report changes and (if their overall retirement provision has decreased) have their award increased. However, any increase in capital or income (for example from a cash windfall) can be legitimately ignored until the end of the AIP term. Other changes such as changes in earnings, couple status, change of address etc. still need to be reported when they happen and if appropriate these may end the AIP regardless of its status or maturity date.

Ignoring increases in customers' retirement provision during an AIP has caused significant inaccuracies to build up in the system. Many also see the AIP as unfair, particularly in the current fiscal climate, because some customers can keep their benefit despite having obtained significant amounts of capital or new income streams. The Government therefore announced in the Spending Round in June 2013 that the AIP would be abolished from April 2016.

The indefinite AIP

The indefinite AIP was introduced through the Pensions Act 2008. This specified that when an AIP is set for someone aged 75 or over, it would be for an indefinite period and not time limited. To ease transition, it also allowed for customers with an existing 5 year AIP that spanned their 80th birthday to have this automatically converted to an indefinite AIP without the need for a further review.

Provisions in the Bill

Clause 27 provides that no new AIPs will be set from April 2016 and that existing 5-year AIPs will be phased out over an operationally-managed programme from April 2016. Existing indefinite AIPs will remain in place until such time as they end under existing rules, but no new indefinite AIPs will be awarded. As with all other income-related benefits, customers will therefore have a responsibility to report all changes of circumstance in future and have their awards revised accordingly from the point of change.

Clause 28 of the Bill will also remove a potentially defective “sunsetting” provision in existing Pension Credit legislation which could have the unintended consequence of terminating, on 6 April 2014, AIPs that should be treated as continuing indefinitely under section 9(6) of the State Pension Credit Act 2002. This clause therefore ensures that the law operates in the way it was always intended to, so that those existing indefinite AIPs will continue beyond 6 April 2014.

Part 4 - Bereavement Support Payment

"the need for additional support is greatest in the first few months following bereavement when considerable costs can be faced".

IFF Research, February 2012

Research by the IFF in February 2012 has shown that for most people, regardless of household income or whether or not they are in work, the death of a working-age spouse or partner has a significant financial impact, which is particularly acute in the first few months immediately following bereavement.

Whilst bereavement benefits are recognised as providing an important safety net during a spousal bereavement, in the past reform to the system has been piecemeal, and bereavement benefits have fallen outside the recent reviews of the welfare system. Piecemeal reform to the system has resulted in a complicated payment and contribution system, which can harm people's long term job prospects by distancing recipients from the labour market. Whilst some claimants qualify for a lump sum, others can receive payments for as long as 20 years with no encouragement or support to return to work.

Between 12 December 2011 and 5 March 2012, a public consultation sought views on proposals to simplify the payment system and contribution conditions and rename the benefit so it better reflects the function of the payment. Following this, the Government's response paper, *Bereavement Benefit for the 21st Century*[9], was published on 11 July 2012. Clauses 29 to 31 of this Bill contain reforms to the system of bereavement benefits through the introduction of the Bereavement Support Payment. The main aim of the reform is to ensure that bereavement benefits provide effective support after the death of a spouse or civil partner, with support focused on the period immediately following bereavement. The new payment will act as a short term intervention to help bereaved spouses deal with the immediate additional costs of bereavement, rather than the longer term income replacement or pension, which can be seen as discouraging rehabilitation into mainstream life, and, potentially, the labour market.

The Government will ensure that existing recipients of bereavement benefits are protected by targeting additional resources on Bereavement Benefits in the short term. The Government is spending £110 million on bereavement benefits over the next four years. This will also ensure that claimants of the new Bereavement Support Payment will get the help they need, when they need it most.

The current system

The current system of bereavement benefits is made up of three separate payments (as outline below). Since state protection for widows was initially introduced as part of the

[9] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181257/bereavement-benefit-consultation-response.pdf

Widows' Orphans' and Old Age Contributory Pension Act of 1925, bereavement benefits have been through a series of reforms but the incremental and rather piecemeal nature of the changes has led to the principles behind the benefits becoming blurred. As a result, the payment and contribution system has become complex, leaving many people confused as to what they are entitle to from the state upon bereavement, and which can also have the effect of harming peoples' long-term job prospects by distancing recipients from the labour market.

Bereavement Payment

A one-off tax-free payment of £2,000 payable to an individual after the death of their spouse or civil partner.

Bereavement Allowance

A taxable weekly benefit which can be paid to an individual for a maximum period of 52 weeks from the date of death of their spouse or civil partner. The claimant must be over 45 and under State Pension age.

Widowed Parent's Allowance

A taxable weekly benefit payable to a parent whose spouse or civil partner has died if they have at least one child for whom they receive Child Benefit. It is payable until claimant reaches State Pension age or upon cohabiting or remarriage/formation of civil partnership.

Complexity of the current system

An example of the complexity of the current system is the eligibility criteria and calculation of Bereavement Allowance.

To qualify for Bereavement Allowance, the deceased spouse or civil partner's National Insurance record must satisfy 2 contribution conditions:

1. They must either have paid 50 flat-rate contributions at any time before 6 April 1975, or they must have one qualifying year since 6 April 1975 which is derived from the actual payment of Class 1, 2 or 3 contributions.

2. To receive the standard basic rate (100%) of Bereavement Allowance, the late spouse or civil partner must have had qualifying years for about 90% of the years in their working life. If the late spouse or civil partner has fewer qualifying years than needed for a standard basic rate allowance, a smaller basic rate may be paid, provided that the number of qualifying years was at least a quarter of the number needed. The calculation is further complicated as consideration has to be given to the number of contributions paid in each year as the rules on the number of contributions needed to make a year a qualifying year has changed over the years. Unlike the first condition, the second condition can be made up of both paid and credited National Insurance contributions.

The basic rate allowance

The chart below shows how the basic rate allowance is calculated (in percentage terms), taking into account an individual’s working life and the number of reckonable qualifying years of National Insurance they accrued prior to their death.

Number of years in working life

Number of reckonable years achieved	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	Number of reckonable years achieved
1	100	100	50	34	25																						1
2		100	100	67	50	40	34	29	25																		2
3			100	100	75	60	50	43	38	34	34	30	28	25													3
4				100	100	80	67	58	50	45	45	40	37	34	31	29	27	25									4
5					100	100	84	72	63	56	56	50	46	42	39	36	34	32	30	28	28	27	25				5
6						100	100	86	75	67	67	60	55	50	47	43	40	38	36	34	34	32	30	29	28	27	6
7							100	100	88	78	78	70	64	59	54	50	47	44	42	39	39	37	35	34	32	31	7
8								100	100	89	89	80	73	67	62	58	54	50	48	45	45	43	40	39	37	35	8
9									100	100	100	90	82	75	70	65	60	57	53	50	50	48	45	43	41	40	9
10										100	100	100	91	84	77	72	67	63	59	56	56	53	50	48	46	44	10
11											100	100	100	92	85	79	74	69	65	62	62	58	55	53	50	48	11
12												100	100	100	93	86	80	75	71	67	67	64	60	58	55	53	12
13													100	100	100	93	87	82	77	73	73	69	65	62	60	57	13
14														100	100	100	94	88	83	78	78	74	70	67	64	61	14
15															100	100	100	94	89	84	84	79	75	72	69	66	15
16																100	100	100	95	89	89	85	80	77	73	70	16
17																	100	100	100	95	95	90	85	81	78	74	17
18																		100	100	100	100	95	90	86	82	79	18
19																			100	100	100	100	95	91	87	83	19
20																				100	100	100	100	96	91	87	20
21																					100	100	100	100	96	92	21
22																						100	100	100	100	96	22
23																							100	100	100	100	23
24																								100	100	100	24
25																									100	100	25
26																										100	26
27																											27
28																											28
29																											29
30																											30
31																											31
32																											32
33																											33
34																											34
35																											35
36																											36
37																											37
38																											38
39																											39
40																											40
41																											41
42																											42
43																											43
44																											44
45																											45
46																											46
47																											47
48																											48
49																											49
Number of requisite years		1	2	3	4	5	6	7	8	9	9	10	11	12	13	14	15	16	17	18	18	19	20	21	22	23	

Please note: for the purposes of this pack, the top ‘X’ axis of the chart relates to bereavement benefits. The bottom ‘X’ axis was used when calculating entitlement for individuals who had the number of years in their working life reduced by Home Responsibilities Protection (HRP).

The chart illustrates that if the deceased spouse had 20 years in their working life and had less than 5 reckonable qualifying years, the surviving spouse would have no entitlement to Bereavement Allowance. If they had 18 or more qualifying years, the surviving spouse would be entitled to the standard rate (100%) allowance. If the deceased spouse had any number of years in between 5 and 18, the allowance would be adjusted.

The new benefit: Bereavement Support Payment

As the diagram below shows, contribution conditions will be simplified under the new system, and people will be entitled to receive the full bereavement support payment if their late spouse or civil partner paid NI contributions at 25 times the Lower Earnings Limit (LEL) for any **one year** prior to their death.

The new payment has been designed to provide **a lump sum payment plus twelve monthly instalments** in order to avoid the risks associated with making a large lump sum payment to an individual. This period is not intended to reflect the time required for 'recovery' from bereavement but instead to provide a buffer for the immediate financial impact of bereavement. Ongoing financial assistance will be addressed through contributory Jobseekers Allowance, Employment and Support Allowance or Universal Credit, depending on an individual's circumstances. Under the new system, **payments will be disregarded from Universal Credit and the Benefit Cap for a period of 12 months**, and recipients of the payment who also receive Universal Credit, contributory Jobseekers Allowance or Employment and Support Allowance will also be able to access Jobcentre Plus support on a voluntary basis from three months following bereavement. They will also not be subject to conditionality for a further three months.

No overlapping benefit provision means receipt of the Bereavement Support Payment will not affect access to Contributory Jobseekers Allowance or Employment and Support Allowance, and payments made under the War Pensions Scheme or Armed Forces Compensation Scheme will not be affected.

We will protect existing recipients of bereavement benefits because the reform will not impact upon people already in receipt of bereavement benefits when the new system is introduced.

Overview of the new benefit

Please note: the amounts below are indicative. The final decisions on the value or tax status of payments of bereavement benefits under a revised scheme have not yet been made as HMRC continues to consider the tax treatment of Bereavement Support Payment. The amount and duration of the payment will be provided for in regulations in due course. It is envisaged that a document outlining the regulations will be available for Lords Committee stage with draft regulations becoming available later in 2014.

	Individuals with dependent children	Individuals with no dependent children
Initial lump sum	£5,000	£2,500
+	+	+
12 monthly payments	12 x £400	12 x £150

- **Payments will be disregarded from Universal Credit and the Benefit Cap for 12 months.**
- **Receipt of Bereavement Support Payment will not affect access to Contributory Jobseekers Allowance or Employment and Support Allowance.**

Part 5 – Private Pensions

Currently, 13 million people are not saving enough to ensure an adequate income in retirement. The number of employees saving into a workplace pension has declined from 12.9 million in 1997 to 12.1 million in 2012.

In addition to reforming the state pension system to provide a clear platform for private saving, the Bill also contains a number of private pensions measures designed to build on the successful introduction of automatic enrolment and to give people greater confidence in pension saving.

The facility to make 'short service refunds' of employee contributions is to be withdrawn from money purchase occupational pension schemes, to support the aim of automatic enrolment that workplace pension saving becomes the norm.

The Bill contains powers to introduce a system of automatic transfers to help people to better keep track of their pension savings and ensure they reap the benefits of consolidation.

It also extends powers to set minimum standards for workplace pension schemes in order to ensure that schemes used for automatic enrolment and transfers are of good quality. In October 2013 the Government published a consultation document[10] which sought views on options for ensuring there is transparency in pension scheme charges and for capping default fund charges. The consultation closes on 28 November 2013 and the Government will publish its response in due course.

In addition, the Bill contains a number of measures to clarify and strengthen existing private pensions legislation, including a power to prohibit the offering of incentives to transfer pension rights.

Finally, the Bill gives the Pensions Regulator a new objective to minimise the impact on the sustainable growth of an employer when exercising specific functions and it also makes changes to the calculation of the Pension Protection Fund's compensation cap to reflect long service.

Automatic transfer of pension benefits (Clause 32 and Schedule 16)

Clause 32 and Schedule 16 of the Bill place a duty on the Secretary of State to set out in regulations a system for the automatic transfer of pension benefits when a person moves jobs and has a small pension pot (the 'pot follows member' system). This system will amalgamate an employees' pension savings when they change jobs to help them to engage with their retirement saving and to tackle the number of small, dormant pension pots in the system.

---

[10] *Better workplace pensions: a consultation on charges:*
https://www.gov.uk/government/consultations/better-workplace-pensions-a-consultation-on-charging

The rationale for automatic transfers

Under the current system, individuals can transfer their pension pots voluntarily, but the onus rests with the individual to do so, and both trustees and providers have ultimate discretion as to whether to accept a pot. The Government wants to make it easier for people to consolidate their pension savings so that they can easily see how much they have saved; so that they do not lose track of small pension pots, or have difficulties when buying their pension income at retirement.

Although **the average person changes their job 11 times throughout the course of their working life**, most people do not also transfer their pension: four out of five workers fail to transfer their pension pots to their new employers' scheme. This allows small pension pots to build up in the system which employees can easily lose track of. One in six people have reported losing track of a previous pension pot and nearly 70% of those using the Pensions Tracing Service lost track of their pension when moving on from a previous employer.

Because the number of people saving into a workplace pension is set to increase with the rollout of automatic enrolment, the number of small pension pots in the system is also set to increase **and it is expected that, without reform, by 2050 there will be 50 million dormant workplace Defined Contribution (DC) pension pots in the system** - of which 12 million will be worth less than £2,000. This is inefficient and administratively costly for both schemes and members alike. This policy therefore aims to help people keep track of their pension saving, particularly savings built up under automatic enrolment. Through the introduction of automatic transfers, the Government expects the number of dormant pots which the industry have to administer to be halved by 2050.

'Pot follows member'

In December 2011, the Government published its consultation document[11] which set out options ranging from small changes to the current system to encourage voluntary transfers to the automatic transfer of small pension pots. The key principles for reform were to promote good retirement incomes and engagement with savings for individuals, whilst minimising administrative and cost burdens for employers and schemes. There was a general agreement amongst respondents that a solution was needed.

In July 2012 the Government published its response to the consultation[12] which set out its intention to bring forward legislation to allow for a system of automatic transfers of small pots **-** the 'pot follows member' system. Further detail was set out in a paper[13] published in April 2013. The 'pot follows member' approach to automatic transfers is considered the most suitable as it will allow for greater consolidation of pension pots and achieve the greatest level of savings. As a result of this model, it is expected that the proportion of

---

[11] *Meeting future workplace pension challenges: improving transfers and dealing with small pension pots* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/176874/small-pension-pots-consultation.pdf.pdf

[12] *Improving transfers and dealing with small pension pots*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/184963/gov-response-small-pots-automatic-transfers-consultation.pdf

[13] *Automatic transfers: consolidating pension savings*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191697/automatic-transfers-consolidating-pension-savings.pdf

people reaching retirement between 2050 and 2060 with 5 or more dormant workplace DC pots could fall from a quarter under current arrangements to nearly one in thirty.

This Bill provides a legal framework for automatic transfers, the detail of which will be set out in regulations that will be subject to formal consultation. This provision will be made by regulations rather than primary legislation for a number of reasons. Firstly, this allows the provisions to be future-proofed and retains the flexibility to design an implementation approach which meets the diverse pension arrangements that will fall within scope of these changes. Furthermore, there are a number of key aspects relating to eligibility criteria where the Government would want to retain flexibility to ensure that Ministers can modify the details in light of operational experience following implementation and to respond to the changing pensions landscape.

Whilst the Government has set out its intention on the key aspects of the automatic transfers system there are some areas, particularly in relation to detailed issues of delivery, that are the subject of ongoing consideration and consultation with interested parties to ensure the approach is both cost effective and delivers the policy intent. The flexibility to set out the detailed requirements in regulations will help ensure that the potential for innovation in relation to the implementation approach is not constrained.

The intention is that initially the pot size limit will prescribe that only pension pots with a value of up to £10,000 will be able to be transferred, but provisions in the Bill also require the Secretary of State to review the pot size limit at least every 5 years.

Quality standards for automatic transfer schemes

The introduction of automatic transfers makes it all the more important that work-based DC schemes are well governed, well administered, and offer value for money. Over the summer, the Government ran a call for evidence on DC quality standards seeking evidence and views on how schemes and default investments are governed, administration and record keeping and scale. The Government is currently considering the responses to this call for evidence, as well as the findings of the recent Office of Fair Trading market study into workplace DC pensions.

On 30 October the Government also published a consultation on pension scheme charges which consults on a range of measures to protect pension savers from excessive charges and other practices that may be detrimental to their interests. (Further information on the consultation is provided below in the description of Clause 41 and Schedule 17).

The Government will continue to work closely with the pensions industry, regulators and consumer groups in the development of quality and charges standards. Clause 41 and Schedule 17 of this Bill will allow the Government to set these quality standards or restrict charges in work-based pension schemes.

Power to prohibit offer of incentives to transfer pension rights (Clauses 33 and 34)

Clause 33 provides a power for regulations to be made to prohibit the offering of incentives with the intention of inducing a member of a salary-related occupational pension scheme to agree to transfer their rights to another pension scheme or arrangement.

This power will only be used if there is evidence that the existing voluntary Code of Good Practice on Incentive Exercises[14] produced by an industry working group is not being followed and that regulation is necessary to prevent cash incentives or similar being used to tempt pension scheme members into accepting a transfer.

Clause 33(4) (b) provides that the regulations may create exceptions to the prohibition. As the pensions market is continually evolving it would not be appropriate to set out in clause 33 the specific incentives to transfer that would be prohibited, as the Government wants to ensure that the power is, as far as possible, future-proofed. The power therefore provides for regulations to set out a ban of incentives generally but with exceptions that could be set out in subsequent regulations if necessary.

Clause 34 provides that if no regulations have been made under clause 33 within seven years from commencement, the powers will end.

Short service refunds (Clause 35)

Under current rules, occupational pension schemes can make 'short service refunds' of pension contributions when a member leaves the pension scheme with more than three months'[15] and less than two years' service and has no entitlement to short service benefit under the scheme rules.

Clause 35 of this Bill effectively removes the facility to make such refunds from money purchase occupational pension schemes. It does so by making a member of an occupational scheme entitled to short service benefit as soon as he or she has completed thirty days' qualifying membership of the scheme. Where a member gives up membership before completing thirty days' service, any contributions paid may be refunded. This will help to ensure that pension savings remain in pensions and is in line with the wider move to encourage saving, for instance through automatic enrolment.

Money purchase pension schemes currently make around 20-30,000 short service refunds from DC schemes annually. As automatic enrolment is expected to see up to 9 million people newly saving or saving more in to a pension, the number of short service refunds is likely to rise. We estimate that between £70 million and £130 million could be lost to pension saving every year.

The additional small pension pots created by the withdrawal of short service refunds will be addressed by the Government's automatic transfer arrangements.

Withdrawing short service refunds is consistent with the Government's policy that pension contributions should stay in pension saving - particularly for those who change jobs regularly- and it brings the treatment of money purchase occupational pension schemes in line with personal pension schemes, which have never been able to make short service refunds.

---

[14] http://www.site-fusion.co.uk/files/writeable/uploads/webfusion47278/file/thecode.pdf
[15] Treatment of contributions for members who leave the scheme before 3 months has elapsed is at the scheme's discretion.

Automatic enrolment (Clauses 36 to 40)

Clauses 36 to 40 of the Bill relate to automatic enrolment and are mostly minor amendments to existing legislation (primarily the Pensions Act 2008) to ensure that automatic enrolment works as intended ahead of the next staging milestone in April 2014 (for small and medium-sized employers). These amendments are designed to address issues identified through the live running of automatic enrolment since July 2012. The Government has also laid a package of changes to secondary legislation which are similarly designed to address issues identified in live running.

The most significant amendment in these clauses relating to automatic enrolment is clause 37 which provides a power for regulations to be made to exclude certain workers from automatic enrolment in instances where it would be detrimental to them. The Government is taking this power in response to the increasing evidence of some specific circumstances in which the benefits of being automatically enrolled are outweighed by either the practical, financial or legal consequences and, in particular, situations in which being automatically enrolled is likely to cause detriment to some jobholders. Under the current arrangements, it is up to the employee to opt out of pension saving and the Pensions Act 2008 does not contain a general provision to provide exceptions to the employer duty.

Clause 37 has therefore been designed to allow the Government to specify in regulations some limited exceptions to the automatic enrolment duty to exclude individuals from being automatically enrolled where it would be detrimental to them.

Examples of instances where it would not be appropriate to automatically enrol certain workers are likely to emerge over time, as automatic enrolment continues to roll out. However, from an initial call for evidence in the technical consultation on automatic enrolment simplifications in March 2013 there are certain examples where it would clearly be detrimental to automatically enrol certain individuals:

- **Individuals with HMRC fixed or enhanced protection provisions and flexible drawdown**: in such cases, the individual would be put in financial jeopardy if they were automatically enrolled as their pension pot would exceed the lifetime allowance and they would face a tax surcharge;

- **Employees who have handed in their notice:** currently, even if an employee hands in their notice, an employer is obliged to automatically enrol them;

- **Employees who have given notice of retirement:** where such a member stops making contributions before the purchase of an annuity, it would not make sense to automatically enrol them.

The Government intends to publish a follow-up consultation in early 2014 with more detailed proposals on how this power will be exercised.

Power to restrict charges in, or impose requirements on, work-based pensions schemes (Clause 41 and Schedule 17)

Through both automatic enrolment and the introduction of automatic transfers, the Government is taking action to ensure more people are able to save into a workplace pension and that they do not lose track of their pension savings. This makes it all the more important that all schemes meet minimum legislative standards to ensure they deliver the best possible value for money for the member. This Bill therefore contains a power (Clause 41 and Schedule 17) to restrict and/or ban charges and set administration and governance requirements for work-based pension schemes as specified in regulations.

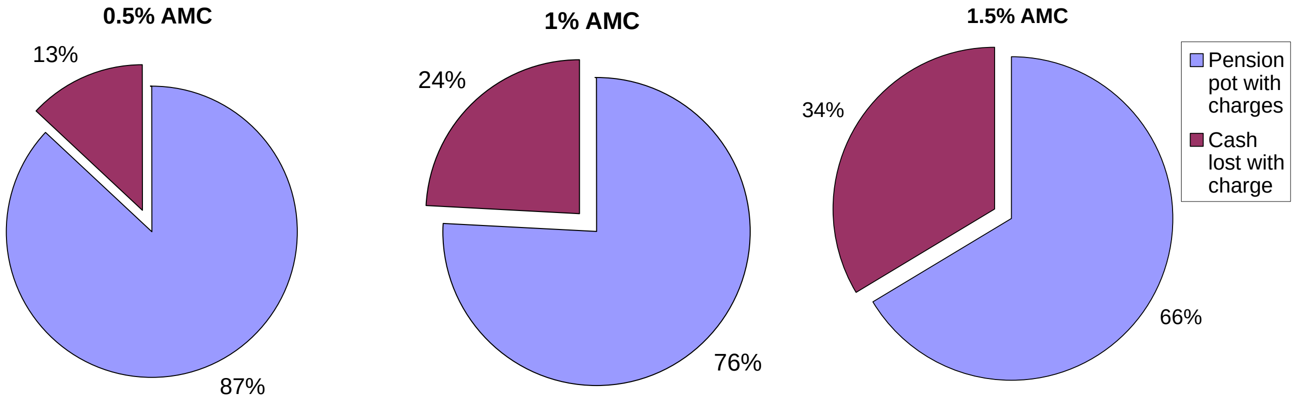
This power replaces previous provisions in Schedule 16 of the Bill, which provided for quality standards and charge requirements to be made for automatic transfer schemes, with a new, broader power to potentially widen coverage and allow for greater flexibility. It will enable the Government to set quality standards for schemes that are closed to new members and to new accruals as well as for open schemes.

As mentioned above, the Government ran a call for evidence on DC quality standards in summer 2013 seeking evidence and views on how schemes and default investments are governed, administration and record keeping, and scale. In October the Government the Government also published a consultation on pension scheme charges seeking views on a range of measures to protect pension savers from excessive charges and other practices that may be detrimental to their interests. The powers in Clause 41 and Schedule 17 will allow the Government to take action in response to the findings of both the call for evidence on quality standards and the consultation on charges.

The impact of charges on pension saving

The impact of the charges levied on a person's pension savings over the course of their lifetime can be significant, and seemingly small variations in charges can result in a considerable difference in people's final retirement savings.

The effect will depend on a range of factors including the amount the individual saves, the level and persistency of the contributions and the level of investment returns. The pie charts below illustrate the proportion of an individual's retirement income which could be lost to the annual management charge for someone who saves throughout their working life (46 working years), for different charge levels:



Assumptions:
1. Initial annual contribution: £1,200
2. Annual contributions growth: 4%
3. Investment growth: 7%
4. Individual who saves from age 22 to 68

In this example, an individual who saves throughout their working life into a scheme with a 0.5% charge could lose around 13% of their pension pot from charges. By contrast, at the 1% level, the individual could lose almost a quarter of their pot (24 per cent), and at the 1.5 % level could lose a third (34%).

The table below (based on DWP modelling) shows the impact which different charge levels could have on the cash value of a person's pension pot at retirement, given assumptions on annual investment growth, the amount contributed and the length of time an individual contributes for:

		Pension pot without charges	Pension pot with charges	Cash lost with charge
Individual A	**0.50%**	£701,800	£610,000	£91,800
Saves throughout	**0.75%**	£701,800	£569,500	£132,300
their working life	**1%**	£701,800	£532,100	£169,700
(46 years)	**1.25%**	£701,800	£497,600	£204,200
	1.50%	£701,800	£465,800	£236,000
Individual B	**0.50%**	£20,800	£20,300	£600
Saves for 10	**0.75%**	£20,800	£20,000	£900
years	**1%**	£20,800	£19,700	£1,200
	1.25%	£20,800	£19,400	£1,400
	1.50%	£20,800	£19,100	£1,700
Individual C	**0.50%**	£158,600	£132,600	£26,000
Saves for 10	**0.75%**	£158,600	£121,200	£37,400
years, then	**1%**	£158,600	£110,800	£47,800
remains deferred	**1.25%**	£158,600	£101,300	£57,400
for 30 years	**1.50%**	£158,600	£92,500	£66,100
Individual D	**0.50%**	£57,500	£51,800	£5,700
Saves for 10	**0.75%**	£57,500	£49,200	£8,300
years, then	**1%**	£57,500	£46,700	£10,800
remains deferred	**1.25%**	£57,500	£44,300	£13,200
for 15 years	**1.50%**	£57,500	£42,100	£15,400

Assumptions:
1) Initial annual contribution: £1,200
2) Annual contributions growth: 4%
3) Investment growth: 7%
4) SPa assumed to be 68 for all individuals except Individual B who is assumed to reach SPa at age 67
5) Figures rounded to nearest £100, and as a result may not sum

Tackling pension scheme charges

In January 2013, the Office for Fair Trading (OFT) launched a market study into DC workplace pensions. In September, it published its report: *Defined Contribution Workplace Pension Market Study*.[16] The analysis covered both the level and types of charges in workplace pensions, and issues related to scheme quality – including governance, investment and administration. The study found that in several respects the market was not functioning in a way that benefited consumers. One particular concern was the charges within so-called 'legacy-schemes' - schemes set up before the introduction of stakeholder pensions in 2001. The OFT estimates that the charge levels for such schemes are currently 26% higher on average than those sold after 2001.

[16] http://www.oft.gov.uk/shared_oft/market-studies/oft1505

While large employers have generally been able to secure low charges for their employees, there is no guarantee that this trend will continue when automatic enrolment is rolled out to medium and small employers from April 2014. The OFT report suggests that size can affect an employer's ability to drive competition and that smaller employers can lack the resources to achieve similar outcomes for their employees.

The Government's charges consultation (published in October 2013) therefore sought views on:

- how to improve disclosure of information about charges; and
- what action can be taken to address high pension charges.

The consultation also sought opinions on capping default fund charges and presented a range of structures to set out the issues involved with this. The main objective for a cap would be to protect people in the default funds of DC schemes, who will not have made active decisions about their pension saving, from extremes in terms of the level of charge they face. The consultation sets out three different options for setting the level of a cap, as detailed below:

1. **a higher charge cap of 1 per cent of funds under management**, reflecting the current stakeholder pension cap for certain scheme members;
2. **a lower charge cap of 0.75 per cent of funds under management,** reflecting the charging levels already being achieved by many schemes; or
3. **a two-tier 'comply or explain' cap.** There would be a standard cap of 0.75 per cent of funds under management for all qualifying schemes. A higher cap of 1 per cent would be available to employers who reported to the Pensions Regulator why the scheme charges in excess of 0.75 per cent.

   In particular, employers, with the support of providers, would be expected to satisfy a series of conditions in respect of scheme quality to ensure this higher charge level delivered a benefit to members. A higher cap would not be available for combination charging structures.

Under all three options, the Government anticipates that employers would need to pass details of their scheme's charges, received from their provider, on to the Pensions Regulator at the point of scheme regulation to ensure compliance. Providers and scheme managers may then be required to provide information on charges to the Pensions Regulator on an ongoing basis.

The consultation closes on 28 November and the Government will respond in due course.

The BT Pension Scheme and the Pension Protection Fund (PPF) (Clause 42)

The Pension Protection Fund (PPF) provides compensation to members of eligible defined benefit schemes whose sponsoring employer becomes insolvent, leaving the scheme under-funded. Levies are payable by pension schemes to fund that compensation and the administration of the PPF *(further information relating to the PPF and other provisions in* *the Bill relating to it is set out on page 48)*

In 2009 the European Commission examined the BT Pension Scheme in which an exemption from the levy was applied to those individuals who were members of the scheme at privatisation (as they benefited from the protection of a Crown guarantee). The Commission concluded in respect of the scheme, that whilst the guarantee itself did not constitute unlawful State aid, exemption from the PPF levies was unlawful State aid. In order to comply with the Commission's decision going forward, regulations were laid in 2010 to provide that where a Crown guarantee gives rise to incompatible State aid, the scheme is eligible for the PPF and must pay the appropriate pension levy.

However, in order to fully comply with the Commission's decision it is necessary to make provision to allow levies to be recovered for the earlier tax years, 2005/06 (the first year PPF was in existence) to 2009/10. Clause 42 of this Bill therefore provides a power to allow regulations to be made to provide that those sections of the Pensions Act 2004 relevant to payment of pension levy to have effect as if the regulations laid in 2010 had always had effect. Regulations under this clause will allow the recovery of payment of levies due in respect of 2005/06 to 2009/10 and will apply to those schemes covered by a Crown guarantee where an exemption from payment of the levies would give rise to incompatible State aid.

Prohibition and suspension orders: directors of corporate trustees (Clause 43 and Schedule 18)

The Pensions Regulator has powers to ban a trustee if they are deemed not to be a fit and proper person to act in that capacity.

Clause 43 of the Bill contains amendments to the suspension and prohibition-related powers in the Pensions Act 1995, as amended by the Pensions Act 2004. It automatically prohibits a company from being a trustee (i.e. a corporate trustee) if one or more of its directors have already been prohibited by the Pensions Regulator. This closes a loophole in the prohibition regime, which could allow a banned individual to by-pass their prohibition by operating as a corporate trustee.

Preparation of guidance for pensions illustrations (Clause 44)

Money purchase pension schemes are required to provide their members with a Statutory Money Purchase Illustration (SMPI) every year, which includes an illustration of what pension the member may receive at retirement. In producing these SMPIs, schemes must comply with 'relevant guidance' that sets out methods and relevant assumptions to be used when calculating the pension protection. Currently, this guidance is issued by the Financial Reporting Council (FRC) and contained in the document *AS TM1: Statutory Money Purchase Illustrations* (known as TM1).

Clause 44 amends section 16 of the Companies (Audit, Investigations and Community Enterprises) Act 2004 so that grants may be made to a body (currently the FRC) for the purposes of producing the TM1 (or successor documents). This has the effect that the exemption from liability provided by section 18 of that Act applies to the production of the

TM1 (or successor documents), making the position consistent with the approach for the rest of the FRC's functions on accounting and actuarial matters set out in section 16 of the Companies Act.

The Pensions Regulator's Objective (Clause 45)

The Pensions Regulator, amongst other things, has a general review role in relation to the scheme specific funding regime for DB pension schemes. How the Regulator undertakes its scheme funding related functions, for example when considering deficit recovery plans submitted by trustees, is influenced by its statutory objectives, set out in section 5 of the Pensions Act 2004. These include objectives to:

- protect the benefits of members of occupational pension schemes;
- reduce the risk of situations arising which may lead to compensation being payable from the PPF; and
- promote, and to improve understanding of, the good administration of work-based pension schemes.

Clause 45 provides a new statutory objective for the Regulator to minimise any adverse impact on the sustainable growth of an employer when undertaking its functions in respect of scheme funding.

The wording of the new objective is intended to acknowledge the value of strong sponsoring employers to pension schemes and their members. It also responds to calls from employers, following a call for evidence in January 2013[17], who feel that an employer-focused objective is needed to provide balance to the Regulator's other objectives (in respect of members and the PPF) at a time when unusual economic conditions have led to rising pension deficits, with the effect that some employers are having to divert funds away from business investment and ultimately, economic growth.

Maximum period between scheme returns to be 5 years for micro schemes (Clause 46)

Scheme returns allow the Pensions Regulator to capture information about the pension schemes it regulates. It uses this information to ensure that its register of pension schemes is up to date, to identify schemes where there is a risk or potential risk to members' benefits and to calculate its annual levy charges to cover its administration costs.

At the moment, micro schemes (which are schemes with 2-4 members) have to produce a scheme return for the Regulator every three years. As these micro schemes are generally self-administered, members are more intimately involved in running the scheme. As such, the Regulator considers them to be low-risk and suitable for less frequent scheme returns. Clause 46 therefore allows the Pensions Regulator to choose to allow these micro

---

[17] *Pensions and Growth: A call for evidence:* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/183264/pensions-and-growth-call-for-evidence.pdf.pdf

schemes to submit scheme returns every five years, rather than every three years. This is a de-regulatory measure which could save these very small pension schemes up to £292,000 per annum.

The Pension Protection Fund (PPF) – increased compensation cap for long service (Clause 47 and Schedule 19)

The PPF was established in 2004 to provide a safety net for members of DB occupational pension schemes should their employer become insolvent at a time the scheme is under-funded.

Where the sponsoring employer of a DB occupational pension scheme becomes insolvent and, as a consequence, the scheme is unable to pay its members benefits of at least PPF levels, the scheme will enter the PPF, which then pays compensation to members. Where someone is below the scheme's retirement age at the date of insolvency, this compensation is based on 90 per cent of the protected pension (the accrued pension, re-valued to the date of payment), subject to a cap (currently £34,867.04).

The Government proposes to restructure the PPF compensation cap to address the fact that, under the current arrangements, long-serving scheme members whose schemes enter the PPF may see their retirement income disproportionately affected by the compensation cap. This will benefit those members who would have been capped, but who might now be lifted out of the cap entirely or, at least, be paid a higher level of compensation. The extent to which individuals benefit will depend upon their precise circumstances.

The standard maximum will continue to apply to anyone with fewer than 21 full years' service. For anyone with 21 years service or longer, the maximum will be increased by 3 per cent for each full year above 20 years. There will be a ceiling to these increases: no one will be able to have a cap higher than twice the standard maximum (currently £69,734.08). In cases where the long service cap would be applicable, there is provision for an increase to a terminal illness lump sum paid to anyone in the year up to the date the change in compensation cap comes into force

These provisions were introduced to the Bill during its passage through the House of Commons.

Pre-legislative scrutiny of Part 1 of the Draft Bill

The Work and Pensions Select Committee (WPSC) conducted pre-legislative scrutiny on Part One of the draft Pensions Bill (the single-tier provisions), which was published in January 2013. Their report was published on 4 April 2013[18] and the Government published its response to the WPSC's report when the Bill was introduced to Parliament in May 2013[19].

In addition to receiving written evidence, the Select Committee held oral evidence sessions over 3 days, at which the following people appeared as witnesses:

Witness	Role/Organisation
Sally West	Income and Poverty Strategy Adviser; Age UK
Dr Ros Altmann	Independent expert and former Government pensions policy adviser
Emily Holzhausen	Director of Policy and Public Affairs; Carers UK
Craig Berry	Pensions Policy Officer; Trade Unions Congress
Baroness Hollis of Heigham	House of Lords
Paul Johnson	Director, Institute for Fiscal Studies (IFS)
Gemma Tetlow	Programme Director of Pensions and Public Finances, IFS
Chris Curry	Research Director; Pensions Policy Institute
Professor Jay Ginn	Women's Budget Group
Joanne Segars	Chief Executive, National Association of Pension Funds

[18] http://www.publications.parliament.uk/pa/cm201213/cmselect/cmworpen/1000/1000.pdf
[19] https://www.gov.uk/government/publications/part-1-of-the-draft-pensions-bill-resonse-to-select-committee-report

Otto Thoresen	Director General, Association of British Industry
Neil Carberry,	Director for Employment and Skills, Confederation of British Industry
Malcolm Small	Senior Adviser, Pension Policy, Institute of Directors
Steve Webb, MP	Minister of State for Pensions

WPSC recommendations

The WPSC's report contained **14 recommendations**, which are summarised in the table below along with the Government's responses to the recommendations, which have been updated here to reflect latest progress since the Bill was introduced to Parliament.

The Government made two changes to the Bill prior to its introduction to Parliament as a result of the WPSC's recommendations:

1. specifying a 2016 start date for the single-tier pension on the face of the Bill; and

2. specifying on the face of the Bill that the Minimum Qualifying Period for the single-tier pension will be 'not more than 10 years'.

WPSC Recommendation	Government Response (and latest progress against recommendations)
1. Government to carry out a further Impact Assessment to take into account impact of 2016 single tier start date on employers and industry.	We published an updated Impact Assessment when the Bill was introduced to Parliament in May 2013 and are continuing to work with the pensions industry and employer representatives. A further updated Impact Assessment was published when the Bill was introduced to the House of Lords in October 2013.

WPSC Recommendation	Government Response (and latest progress against recommendations)
2. Government to develop and publish explanation of how means-tested benefits, including passported benefits and transitional housing protection, will operate under single tier.	We indicated in our response that the removal of the savings credit element of Pension Credit may have linked reductions in support for housing costs and signaled an intention to provide protection for those reaching State Pension age in the first five years of single tier if so. Customers who have reached the qualifying age for Pension Credit will continue to receive, or have access to, Housing Benefit. We have recently announced to Local Authorities that Housing Benefit for pensioners will remain in place until at least 2017/18 and this will initially provide the appropriate protection envisaged. We will consider the longer term position in due course as part of the development of future rent support for pensioners. **Passported benefits** DWP does not own/administer most passported benefits and decisions on passporting criteria are for the relevant administering authority. However, most schemes tend to use receipt of the Guarantee Credit element of Pension Credit so much passported support will not be affected. DWP administered schemes are reviewed annually to ensure that expenditure is targeted at those in greatest need, which will generally be those in receipt of Guarantee Credit and those with income below that of the basic means tested level. Guarantee Credit will continue to give access to Cold Weather Payments and the Warm Home Discount Scheme. Winter Fuel Payments will continue to be a universal pensioner benefit. **Savings Credit** Savings Credit will not be available to those reaching State Pension age post-2016 (including mixed age couples with certain exceptions) but Guarantee

WPSC Recommendation	Government Response (and latest progress against recommendations)
	Credit will remain as a safety net.
3. Government to publish assessment of impact of the introduction of automatic enrolment, single tier and State Pension age on different groups, including at a range of income levels, separately for men and women, at 10-year intervals over the period to 2060.	We published a framework for the analysis of future pension incomes in September 2013[20], which contained information on impact of broader pension reforms.
4. 2016 start date to be put on face of the Bill.	Accepted – Bill amended accordingly for introduction to Parliament.
5. Specify in Bill that the Minimum Qualifying Period for single tier is 'no more than 10 years'.	Accepted – Bill amended accordingly for introduction to Parliament.
6 & 8. Department should publish a high-level communications strategy to inform the public about the reforms, setting out timings for each stage of the communications process and the broad approaches to be adopted for different groups of individuals. **8:** This strategy should contain information on purchasing voluntary National Insurance Contributions where applicable.	We are committed to providing information and are monitoring areas of misunderstanding. We have placed a high-level communications strategy in the Commons library and will publish a more in-depth strategy in the New Year. We have already published FAQs and are engaging with stakeholders on how to ensure high quality communications.
7. Government to conduct further analysis on the 10% who may lose out in the short term due to increased National Insurance Contributions and pension scheme contributions as a result of the end	We published an updated Impact Assessment when the Bill was introduced to Parliament in May 2013, which contained information on notional losers from the end of contracting out. A further updated Impact Assessment was published when the Bill was

[20] *Framework for the analysis of future pension incomes:*
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254321/framework-analysis-future-pensio-incomes.pdf

WPSC Recommendation	Government Response (and latest progress against recommendations)
of contracting out.	introduced to the House of Lords in October 2013.
9. The requirement for Single tier to be higher than the Pension Credit Guarantee rate is a fundamental principle of the reform and should therefore be set out on the face of the Bill.	There is a clear policy intention for the start rate of the single-tier pension to be above the Standard Minimum Guarantee – the actual start level will be announced by HM Treasury at a fiscal event closer to implementation. The Bill provides for the single tier to be uprated by earnings or higher, while under existing legislation the Standard Minimum Guarantee (SMG) is uprated by earnings, so provided that the start rate is set above the SMG, it will remain above it. Parliament will have the opportunity to debate the start rate (as it is set in affirmative regulations).
10. Government should publish an analysis of the higher start rates for single tier and the level it could be funded at using the National Insurance rebate.	The White Paper Impact Assessment shows impact of £143.50 and £144.50. The Bill Impact Assessment also shows £145. We have been clear that the new system won't be more generous and that the NI rebate will contribute to the Employment Allowance and the cap on social care costs.
11. Government should set out how the calculation of the Rebate Derived Amount will be calculated for those who have been contracted out of the State Second Pension in the past and paid less NI during this time, and to ask the GAD to report on the actuarial fairness of the Government's calculation.	We have published a technical note on the Rebate Derived Amount and have published a further paper which clarifies areas that are frequently misunderstood and adds further examples. In the transition calculation, the current scheme valuation is based on existing legislation, so a question of actuarial fairness does not arise.

WPSC Recommendation	Government Response (and latest progress against recommendations)
12. Government should find a solution for women who did not build up their own National Insurance record because they relied on their husband's entitlement to the basic State Pension. Women within 15 years of State Pension age should retain this right to derived entitlement, and DWP should publish the costings for adding in this transitional protection.	We have put in place transitional protection for those who paid a Reduced Rate Election at some point in 35 years prior to reaching State Pension age. Single-tier will be an individual pension for today's workers, most of whom will receive the full amount in their own right. The original provisions for derived entitlement to basic State Pension were put in place in the 1940s, when far fewer women participated in the labour market and the NI crediting regime was far narrower. As both society and the crediting regime have changed, only a very small proportion of women in GB will receive a notionally lower pension as a result of removing these provisions.
13 & 14. Government should publish an assessment of the impact on State Pensions of the 51-53 cohort of women whose State Pension age had been increased a second time in the Pensions Act 2011. The range of impacts should be set out in the revised Single Tier Impact Assessment to be published when the Bill is introduced (as per recommendation 1). **14:** Women affected by increases to their State Pension age should be prioritised in the Department's single tier communications strategy. Detailed information should be published on GOV.UK to help these women understand their state pension entitlement, and information should also be provided on deferral.	We have updated the note on this cohort of women, illustrating their pension outcomes to reflect the new start date of the single tier pension. This paper also provides a link to further detailed info on deferral available on GOV.UK.

The Bill in the House of Commons

The Pensions Bill was introduced to the House of Commons on 9 May 2013, and its Second Reading debate took place on 17 June.

The Hansard transcripts for the Bill's stages in the Commons can be found on the Pensions Bill's Parliament website.

Public Bill Committee

Commons Committee stage took place over three weeks in June and July 2013. This included one week (4 sessions) of oral evidence. The witnesses at oral evidence were:

Witness	Role/ Organisation
Sally West	Income and Poverty Strategy Adviser, Age UK
Jane Vass	Head of Public Policy, Age UK
Craig Berry	Pensions Policy Officer, Trades Union Congress
Phil McEvoy	National Pensions Officer (GMB), Trades Union Congress
Debbie Kerslake	Chief Executive, Cruse Bereavement Care
Di Stubbs	Network Development Officer, Childhood Bereavement Network
Darren Philp	Director of Policy, National Association of Pension Funds
Dr Yvonne Braun	Assistant Director—Head of Savings, Retirement and Social Care, Association of British Insurers
Bill Galvin	Chief Executive, The Pensions Regulator
Stephen Soper	Executive Director, Defined Benefit Regulation, The Pensions Regulator
Dr Ros Altmann	Independent expert and former Government pensions policy adviser

Dr Hari Mann	Independent pensions expert; Director, Tomorrow's Investor, Royal Society of Arts
Chris Curry	Director, Pensions Policy Institute
Neil Carberry	Director of Employment and Skills, Confederation of British Industry
Dominic Lindley	Financial Services Policy Team Leader, Which?
Catherine Kirby and Marion Rees	Representatives from the "700,000 Group" – representing women born between 1951 and 1953.
Bryn Davies	Director, Union Pension Services Limited
Professor David Blake	Director, Pensions Institute
Baroness Hollis of Heigham	House of Lords
Steve Webb MP	Minister of State, Department for Work and Pensions

Following the week of oral evidence sessions, the remainder of the Bill's Commons Committee stage took place over a further two weeks (eight sessions). In total 7 Government amendments and 24 opposition amendments were tabled.

The second week (sessions 5 – 8) covered the single tier, State Pension age and bereavement benefits Parts of the Bill, beginning with the first few clauses of the Bill (single tier) and focusing on the qualifying years' requirements, indexation, inheritance provisions and derived entitlement as well as pension sharing on divorce. Following this, debate moved on to the uprating of state pensions abroad, Savings Credit and deferral provisions (in particular the removal of the lump sum with the introduction of single tier) and then covered the end of contracting out and the State Pension age provisions, before a brief discussion of the Bereavement Support Payment provisions brought the first weeks' proceedings to a close.

The final week of Committee (sessions 9 – 12) focused on private pensions as well as briefly on the back of the Bill provisions. The debate began with a discussion of automatic transfers, and the most effective model to use for implementation. Opposition amendments were tabled on pension scheme quality and automatic transfers which also led to a debate on governance, charges and scale as well as the eligibility of legacy pots for automatic transfer. After automatic transfers, the Committee discussed Enhanced Transfer Value exercises plus the removal of short service refunds, before discussion moved on to automatic enrolment, PPF compensation cap and, finally, NEST constraints.

Commons Report & Third Report

Commons Report and Third Reading took place on 29 October 2013. The Government tabled 35 amendments, the majority of which were technical amendments to provisions already in the Bill, and there were 34 Opposition and Backbench amendments. There were 4 divisions on Opposition amendments – these were all negatived.

The majority of Commons Report focused on amendments relating to private pensions - particularly around quality standards for Defined Contribution pensions (especially charges), fiduciary duties of trustees, decumulation and automatic transfers. Following this there was a brief discussion of the Government's amendment to abolish Assessed Income Periods for Pension Credit. Finally there was a wide ranging debate on state pensions, encompassing the impact on the state pension reforms on women, the statutory override for employers with schemes affected by the end of contracting-out and 'frozen' pensions overseas.

Queens Consent was signalled at Third Reading and, following a short debate, the Bill passed to the House of Lords.

Annex A: Commons Committee Correspondence

This section contains PDF copies of correspondence sent to the Chairs of the Public Bill committee, Martin Caton and Anne Main, during the Pensions Bill's Committee in the House of Commons. The letters were sent between 26 June and 4 July 2013.

DWP Department for Work and Pensions

Caxton House
Tothill Street
London
SW1H 9DA

Telephone
020 7340 4000

Email
ministers@dwp.gsi.gov.uk
www.dwp.gov.uk

Martin Caton MP and Anne Main MP
Chairs, Pensions Public Bill Committee
House of Commons
London
SW1A 0AA

26 June 2013

Pensions Bill 2013 - Public Bill Committee

Following our first Committee sessions yesterday, I would like to take this opportunity to indicate where the Committee can find additional information that may be of interest, including an analytical paper on Bereavement Support Payment, a note on National Insurance crediting arrangements and a Keeling version of the Bill, and to outline the Government amendments that have been tabled.

Additional information on the measures in the Bill

The Pensions Bill provides for the introduction of the single-tier pension: a flat-rate pension set above the basic level of means-tested support for people reaching State Pension age on or after 6 April 2016. The new pension will simplify pension provision and enable people to better understand what they will receive from the state in their retirement and to save with confidence.

The Bill also contains a number of other measures including:

- establishing a framework for the regular review of the State Pension age to consider future changes in light of increasing longevity
- the introduction of the new Bereavement Support Payment to simplify today's complex system of bereavement benefits
- provision to establish a system of automatic transfers of small private pension pots which will reduce the number of dormant pension pots in the system and enable people to keep better track of their pensions saving.

The Library holds a list of relevant older papers that may provide useful background information on the Bill measures. A copy of this list is attached as an annexe to this letter.

A Keeling version of the Pensions Bill will also be available later today on the Pensions Bill page on GOV.uk at: https://www.gov.uk/government/organisations/department-for-work-pensions/series/pensions-bill

Bereavement Support Payment analysis

As I mentioned in the oral evidence sessions yesterday, my Department has undertaken further analysis on the impact of bereavement benefits reform and this has been published today. This includes estimates of notional net beneficiaries in each group and overall and the volume of new claims expected. It accounts for differences in the earnings of recipients, which influences how much they receive in Universal Credit payments and taxation.

You can find this paper at the following link: https://www.gov.uk/government/publications/further-analysis-on-the-reform-of-bereavement-benefits-for-new-claims-from-april-2016

National Insurance Credits

A note entitled *National Insurance credits and the single-tier pension* has also been published today on the GOV.uk website. This note provides a summary of information about National Insurance (NI) credits and covers the current NI system, the range of credits that are available and what entitlement they confer. It goes on to cover the changes under Universal Credit, which is currently being rolled out, and potential changes under single tier. This note is available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209093/20130620_crediting_note_-_Final.pdf.

Government Amendments

We have tabled a small number of Government amendments to clauses in the Bill. These include a technical amendment to the automatic enrolment provisions, and a clarification regarding the regulation making power and addition to the eligibility criteria for the new Bereavement

Support Payment. I have provided a brief explanation of the effect of these changes at annexe B.

In addition, I tabled a Written Ministerial Statement yesterday outlining planned changes to the operation of the Pension Protection Fund compensation cap to recognise long service. Under these proposals, the cap will be increased by 3 per cent for every full year of service above 20 years, up to a maximum, which will be double the standard cap. I will be tabling an amendment to this effect shortly, and will write to the Committee with further information in due course.

I am copying this letter to all members of the Pensions Public Bill Committee and am placing a copy in the House Library.

STEVE WEBB MP
MINISTER OF STATE FOR PENSIONS

Please note that Annexe A (a list of relevant older papers) has not been included because an updated version was published upon introduction to the House of Lords and is available in the House Library.

Annexe B

Summary of Government Amendments

Automatic enrolment

Amendments 4 and 5 relate to the transitional provisions for automatic enrolment into workplace pensions. These provisions differ depending on whether the jobholder will be enrolled into a money purchase pension arrangement, or has the right to join a defined benefit (DB) scheme. In money purchase arrangements there is a gradual phasing in of contribution rates but this approach doesn't work for a DB scheme, so in that case the automatic enrolment for some jobholders can be deferred to the end of a transitional period.

At the moment, however, there are some limited circumstances in which an individual who is due to be automatically enrolled into a money purchase pension scheme is subject to the transitional provisions intended for DB schemes. This situation may arise where a pension scheme offers both defined benefit and money purchase benefits (known as hybrid or sectionalised schemes).

The intention of Clause 36 as originally drafted was therefore to ensure that jobholders are subject to the appropriate transitional arrangements, so that employers cannot defer automatic enrolment for jobholders who are eligible to only accrue money purchase benefits.

This amendment arose as a result of industry feedback pointing out that, although Clause 36 as drafted works in the majority of situations, there is one very limited set of circumstances where the wrong transitional provision still applies. This amendment corrects this position.

Bereavement Support Payment

The Bill contains provisions to reform the existing suite of bereavement benefits and introduce the new Bereavement Support Payment, which simplifies the contribution conditions by basing full payment on any single tax year of National Insurance contributions. This means that people will be entitled to receive full payment as long as their late spouse or civil partner paid Class 1 or 2 contributions at 25 times the Lower Earnings Limit for any one tax year prior to their death.

However, this could result in people who work in the UK for any one tax year qualifying, even if they were living abroad at the time of death. Amendments 1 and 3 will therefore introduce an ordinary residence test to ensure that only those with a close connection to Great Britain, or other territory specified in regulations, will be entitled and prevent those without such links coming to this country for the purpose of claiming this benefit.

The meaning of "ordinarily resident" is not defined in legislation. However the courts have held that the words should be given their natural and ordinary meaning and refer to "…a man's abode in a particular place or country which he has adopted voluntarily and for settled purposes as part of the regular order of his life for the time being, whether of short or long duration".

Following introduction of an ordinary residence test, we estimate that claims from outside of the EU/EEA and reciprocal agreement countries will make up around 3.5 per cent of new claims. If we do not introduce this amendment, this figure is likely to increase.

Amendment 2 also relates to Bereavement Support Payment and clarifies that the Secretary of State has the power to make regulations under subsection (2) of Clause 27.

DWP Department for Work and Pensions
Caxton House
Tothill Street
London
SW1H 9DA
Telephone
020 7340 4000
Email
ministers@dwp.gsi.gov.uk
www.dwp.gov.uk

Martin Caton MP and Anne Main MP
Chairs, Pensions Public Bill Committee
House of Commons
London
SW1A 0AA

2 July 2013

Pensions Bill 2013 - Public Bill Committee

Further to my previous letter of 26 June, I would like to make you aware of a number of papers relating to provisions in the Bill which have been published this week, alongside draft regulations to ban consultancy charges in automatic enrolment schemes.

Automatic enrolment: powers to create general exceptions

A background note on the issues underpinning clause 34, Automatic enrolment: powers to create general exceptions, was published yesterday and is available at: https://www.gov.uk/government/organisations/department-for-work-pensions/series/pensions-bill

The employer duty to enrol workers into a workplace pension scheme applies to all jobholders who meet the eligibility criteria set out in section 3 of the Pensions Act 2008 (i.e. that the individual is not already a member of a qualifying pension scheme and is aged between 22 years and State Pension age). The jobholder has the right to opt out of pension saving.

However, there is increasing evidence of some specific circumstances in which the benefits of being automatically enrolled are outweighed by either the practical, financial or legal consequences, and, in particular, situations in which being automatically enrolled is likely to cause detriment to some jobholders. Clause 34 will therefore allow the Government to specify some limited exceptions to the automatic enrolment duty, and the paper published today outlines the initial thinking behind this.

The Government invited views on its current thinking in the recent public consultation *Technical Changes to Automatic Enrolment.* A further consultation, with draft proposals, is planned for the autumn.

Rebate Derived Amount

I am attaching as Annex A to this letter a note describing part of the transitional arrangements from the current State Pension scheme to the single tier, which is due to be published on GOV.UK in due course. On 24 January, the Department published a technical paper which covered the transitional arrangements in detail. However, feedback received from the Work and Pensions Select Committee, pension professionals and members of the public indicates that the treatment of contracted out pension (built up through the National Insurance rebate) was particularly difficult to understand. This note, with an accompanying worked example, is therefore intended to aid understanding in this area.

Multiple jobs below the Lower Earnings Limit

In 2007 DWP published figures showing the number of people who were working in two jobs below the Lower Earnings Limit, with combined earnings above the limit but not accruing any State Pension. This analysis was sent to the Work and Pensions Select Committee during their pre-legislative scrutiny of Part One of the Bill. DWP has now updated this analysis for 2012/13 and has included some consideration of the impact that Universal Credit may have for people in this group. This analysis was published online yesterday, and can be found at https://www.gov.uk/government/publications/state-pension-coverage-lower-earnings-limit-and-multiple-jobs

Draft regulations to ban consultancy charges in automatic enrolment schemes

I would also like to take this opportunity to let you know that, following my statement on 10 May, I yesterday laid draft regulations before Parliament to ban consultancy charges in automatic enrolment schemes. I intend to include proposals to extend the prohibition on consultancy charges to all qualifying schemes as part of the Department's broader consultation on charges planned for the autumn, and regulations to this effect could be introduced using the power in clause 35 of the Bill.

I am copying this letter to all members of the Pensions Public Bill Committee and am placing a copy in the House Library.

STEVE WEBB MP
MINISTER OF STATE FOR PENSIONS

Annex A

The Single-Tier Transition and Contracting Out

Introduction

1. The Department published a technical note on 24 January 2013 describing the transition arrangements for the single-tier state pension. The note explains how we will undertake two valuations at the introduction of the single-tier pension. The higher of these amounts becomes the Foundation Amount.

2. Both calculations will take into account periods when people were contracted out of the additional State Pension (since 2002 this has taken the form of the State Second Pension and between 1978 and 2002 it was the State Earnings-Related Pension Scheme or SERPS). This reflects the fact that, whilst people were contracted out, they paid lower National Insurance contributions and received a National Insurance rebate to fund their workplace pension.

3. To ensure these periods are reflected fairly we use slightly different ways of recording contracting out in the two valuations. This note is intended to explain why.

4. The following is an overview of the way we have recognised amounts of workplace pension paid for by the contracted-out rebate over the years:

- **1978/79-1996/97 – The Guaranteed Minimum Pension (GMP).** For this period we work out what SERPS a person would have got based on the earnings they had - this amount is called Gross Additional Pension. We then work out how much pension a contracted-out scheme should pay based on the rebate received – the Guaranteed Minimum Pension (GMP). The GMP is then subtracted from the Gross Additional Pension, this is called the Contracted-out Deduction. If there is any net Additional Pension after this calculation the State pays this at State Pension age. The Contracted-out Deduction is calculated in the same way for Defined Benefit and Defined Contribution pension schemes.

- **1997/98-2001/02 – not recorded.** For the 5 tax years between 1997/98 and 2001/02 a contracted-out person had no Additional Pension recorded on their account - there was no need to do any form of offsetting.

- **2002/03-until implementation of the single tier.** From 2002/03 onwards a modified form of the 1978/97 arrangement is used to take account of the new State Second Pension rules.

The Single-tier valuation

5. On the introduction of single tier in 2016 we will undertake two valuations:

- the current scheme valuation – which uses exactly the same rules as if someone has reached State Pension age at that point;
- the single-tier valuation – which calculates what entitlement someone would have if the single tier had been in place at the beginning of their working life.

Both valuations take full account of people's contracted-out record. But the way it is recorded is slightly different in the two calculations.

Current Scheme Valuation

6. The calculation comprises basic State Pension (and any graduated pension) plus:

1. Gross Additional Pension minus the Contracted-out Deduction for any contributions until 1997;
2. Any SERPS built up through being contracted in between 1997/98-2001/02;
3. S2P for people who were contracted in (plus any S2P top-up for low to moderate earners who were contracted out) between 2002 and 2016.

7. There is no need to factor anything in for the period 1997/98 to 2001/02 (and from 2002 onwards) if the person had been contracted out.

Single-Tier Valuation

8. We take the Qualifying Years a person has at 2016 and multiply them by 1/35th of the full amount of single-tier pension up to the maximum of £144 (the illustrative amount of full single tier in 2012/13 earnings terms). This will provide an increase in pension for many people retiring in the early years of the single tier. However, we still need to take account of the National Insurance rebate (otherwise the person would get the benefit of the increase and any pension they built up as a result of being contracted out).

9. For the period to 1997 this is straightforward as there will be a Contracted-out Deduction as per paragraph 6 (1) above. However, we also need to reflect that during the periods 1997-2002 and from 2002 onwards if someone had been contracted out they would be building the private pension equivalent of Additional Pension in the contracted-out scheme. So the Rebate Derived Amount is calculated as follows:

1. Contracted-out Deduction from 1978-97;
2. A new notional deduction in respect of being contracted out between 1997 and 2002 - this amount will be the amount of SERPS the person would have had if they had been contracted in;
3. The deduction made from gross S2P in respect of being contracted out from 2002 to 2016.

Transition calculation - an example

The example is of a man born in 1957 who will reach State Pension age on 6 April 2023 at age 66. He started to work at age 21 in 1978. For the calculation we have assumed that this person has over 35 qualifying years and their Additional Pension is £2 a week for each year in which they have worked (plus £0.85 a year in S2P top-up). We have also assumed that the man has always been contracted out in a Defined Benefit scheme.

Period	Gross Amount of AP recorded in current scheme valuation	Net AP recorded in current scheme valuation	Rebate-Derived Amount in single-tier valuation	Approximate amount paid by private pension
1978-97	£38	£0	£38	£38
1997-02	£0	£0	£10	£10
2002-16	£37	£11 (1)	£26	£26
Total	£75	£11	£74	£74

Note (1) This amount is the S2P "top up" which provides low to medium earners with an uplift

Current Scheme Valuation

Using existing rules as if this person had reached State Pension age at the point of single-tier implementation in 2016 the current scheme valuation would be:

Basic State Pension	£107
Gross SERPS	£ 38
Minus Contracted Out Deduction	-£38
"Gross" S2P[1]	£ 37
Minus S2P "contracted out deduction"	-£26
Total Amount	**£118**

Single-Tier Valuation

Single-tier pension (35 qualifying years)	£144
Less Rebate-Derived Amount	£ 74
Total Amount	**£ 70**

[1] The terms "gross" S2P and S2P "contracted-out deduction" are used to simplify this example (the actual calculation is more complicated and including it here would not aid clarity)

Foundation Amount = **£118**
So in this case the current scheme valuation is the higher of the two valuations and becomes the Foundation Amount - this person receives a pension payable from the State of £118 and a further £74 paid by their workplace pension scheme. They can build a further 6 Qualifying years (through contributions or credits) until they reach State Pension age. If they do this they could increase their pension by £24.66 (6x £4.11) and could retire on a single-tier pension of £142.66.

DWP Department for Work and Pensions

Caxton House
Tothill Street
London
SW1H 9DA

Telephone
020 7340 4000

Email
ministers@dwp.gsi.gov.uk
www.dwp.gov.uk

Martin Caton MP and Anne Main MP
Chairs, Pensions Public Bill Committee
House of Commons
London
SW1A 0AA

4 July 2013

Pensions Bill 2013 - Public Bill Committee

Further to my letter of 26 June, I am now writing to let you know that I have tabled the first amendments relating to the Pension Protection Fund (PPF) cap on 2 July 2013. These amendments change the structure of the compensation cap as it will apply to people who are members of schemes that join the PPF in the future.

I would also like to make you aware that the Government will today publish a call for evidence on quality standards in workplace defined contribution pension schemes.

The Pension Protection Fund compensation cap

Where the sponsoring employer of a defined benefit occupational pension scheme becomes insolvent, the scheme enters what is known as “the PPF assessment period”. During this period, the scheme’s funding is examined to determine whether it is able to pay its members’ pensions to at least the same amount that the PPF could pay in compensation. If the scheme is unable to do so it is transferred to the PPF, which then pays compensation to the members.

Anyone over the scheme’s retirement age at the beginning of the assessment period is paid compensation equivalent to 100 per cent of the pension in payment by the scheme. Anyone below that age is paid compensation based on 90 per cent of the accrued pension, subject to a standard maximum (currently £34,867.04).

The amendments change the structure of the maximum to recognise long service in the scheme. The standard maximum will continue to apply to anyone with less than 21 full years’ service. For anyone with longer service, the maximum will be increased by 3 per cent for each full year above 20 years. There will be a ceiling to these increases: no one will be able to have a cap higher than twice the standard maximum.

The amendments tabled on Tuesday will ensure that the revised structure applies to anyone not yet in the PPF. However, in my Written Ministerial Statement on 25 June I made it clear that the change in the structure of the cap will also apply to people who are currently receiving a pension from the PPF. We are continuing to work on the legislation to provide for this, and I expect to table further Government amendments at a later stage; however I hope you will agree that it is helpful to table these amendments now to allow us to debate the issue while still in Committee. I will also be publishing an Impact Assessment relating to the changes to the compensation cap, which will be available on the Pensions Bill page on GOV.UK this week (https://www.gov.uk/government/organisations/department-for-work-pensions/series/pensions-bill).

Call for evidence on quality standards

The Government wants to ensure that every defined contribution scheme used for workplace saving delivers value for money and meets some essential minimum legislative standards. Schedule 16 of the Pensions Bill therefore makes provision for the Government to impose quality requirements for automatic transfer schemes in regulations, providing protection for those who are automatically transferred between workplace money purchase schemes, as well as those who are automatically enrolled into, or otherwise join such schemes. The Government is today publishing a call for evidence on quality requirements, responses to which will form an important part of the development of a set of minimum standards that workplace money purchase schemes will have to meet. The four key areas under consideration are: scheme governance; default strategies; administration and record keeping; and scale.

The Bill also makes provision for the automatic transfer regulations to limit or prohibit charges, and I plan to publish a consultation this autumn setting out proposals on this issue, including introducing a charge cap. I will place a copy of the call for evidence in the House Library and it will also be available on the GOV.uk website later today at the following address: https://www.gov.uk/government/publications. I am copying this letter to all members of the Pensions Public Bill Committee and will place a copy in the House Library.

Steve Webb

STEVE WEBB MP
MINISTER OF STATE FOR PENSIONS