Draft Pensions Bill

SUMMARY OF IMPACTS

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DWP Department for Work and Pensions

Contents

Introduction

1. The draft Pensions Bill (Cm 8529)[1] contains measures to:

    - reform the state pension system through the introduction of a single-tier state pension;
    - manage future changes to the State Pension age including bringing forward the increase in State Pension age to 67;
    - reform the suite of benefits associated with bereavement; and
    - strengthen existing legislation relating to occupational pensions.

2. Further details of the legislation are contained within the explanatory notes for the draft Pensions Bill, available at **www.dwp.gov.uk/draft-pensions-bill**

3. The Government recognises a responsibility to consider the impact, in terms of costs and benefits, of new regulatory proposals. It also has a statutory duty to consider whether new regulatory proposals have impacts on individuals that differ by the protected characteristics of race, disability and gender.

4. This note summarises the Impact Assessments for the provisions contained in the draft Pensions Bill. Individual Impact Assessments for proposals with significant costs to the Exchequer and/or impact on business or civil society organisations are at Annexes A to D. A number of measures do not cause significant cost to the Exchequer or have any impact on business or civil society organisations. Consequently, no Impact Assessment has been conducted for these measures. They are summarised at Annex E.

[1] Department for Work and Pensions, 2013, *Draft Pensions Bill*, Cm 8529, TSO.

Background

5. On 4 April 2011, the Government published *A state pension for the 21st Century* (Cm 8053)[2] which consulted on options for reforming the state pension system for future pensioners and also on how future changes to the State Pension age should be managed. The consultation ran until 24 June 2011 and a summary of responses was published on 27 July 2011.

6. The Government's final proposals for state pension reform were set out in *The single-tier pension: a simple foundation for saving* (Cm 8528)[3], which was published on 14 January 2013.

7. A separate public consultation document on Bereavement Benefit reform was published on 12 December 2011 and the consultation ended on 5 March 2012.

8. The Government set out details of the final proposals to reform Bereavement Benefits in *Bereavement Benefits for the 21st Century: Government Response* (Cm 8371)[4], which was published on 11 July 2012.

9. The draft Pensions Bill (Cm 8529)[5], containing draft legislation for these measures and others, was published on 18 January 2013.

Reform of the state pension system

10. The Government's intention is to provide a simple state pension system for future pensioners that will provide people with clarity and confidence about the support they can expect from the state. In January 2013, the Government published the White Paper *The single-tier pension: a simple foundation for saving*[6] outlining proposals for a single-tier pension designed to provide the necessary foundation to support people in taking greater personal responsibility for saving for their retirement.

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[2] Department for Work and Pensions, 2011, *A state pension for the 21st century*, Cm 8053, TSO.
[3] Department for Work and Pensions, 2013, *The single-tier pension: a simple foundation for saving*, Cm 8528, TSO
[4] Department for Work and Pensions, 2012, *Government response to the public consultation Bereavement Benefit for the 21st Century*, Cm 8371, TSO.
[5] Department for Work and Pensions, 2013, *Draft Pensions Bill*, Cm 8529, TSO.
[6] Department for Work and Pensions, 2013, *The single-tier pension: a simple foundation for saving*, Cm 8528, TSO.

11. The single-tier pension will be a simple flat-rate pension set above the basic level of means-tested support. It will provide a foundation to enable planning and saving for retirement. The state pension reforms will reduce the number of people reliant on Pension Credit by half by 2020 compared to the baseline and help to ensure that those who save for retirement are rewarded for doing so. The reforms will modernise the state pension system to reflect the lives and contributions of today's working age people: the large majority of individuals will build up a sufficient National Insurance record to become entitled to the full single-tier amount in their own right, instead of relying on their spouse's or civil partner's contributions.

State Pension age

12. In his Autumn Statement on 29 November 2011, the Chancellor announced the Government's intention that the State Pension age will now increase to 67 between 2026 and 2028, bringing the increase forward by 8 years. This decision was taken in the light of increasing life expectancy and will help keep the cost of the state pension system sustainable. The proposals will mean that people born after 5 April 1960 but before 6 March 1961 will have a State Pension age between 66 and 67 and people born after 5 March 1961 but before 6 April 1977 will have a State Pension age of 67.

13. *The single-tier pension: a simple foundation for saving*[7], published in January 2013, outlined the Government's proposed framework for considering further changes to the State Pension age following the rise to 67.

14. The intention is for a quinquennial review to be conducted by the Secretary of State. The review will receive reports from the Government Actuary's Department and an independently-led body on longevity and wider socio-economic factors.

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

Bereavement Benefit reform

15. On 12 December 2011 the Government published a consultation document, *Bereavement Benefit for the 21st Century* (Cm 8221)[8] which set out the Government's key principles and proposals for reform of Bereavement Benefits. The Government acknowledges that it has a role to play in providing relief from the financial pressures associated with spousal/civil partner bereavement. However, the Government believes that the financial support provided via Bereavement Benefits should be short term, designed to aid the process of readjustment, and support those without employment in making a return to work.

16. In response to the consultation, the Government published a Command Paper[9] on 11 July 2012, setting out how it planned to reform Bereavement Benefits through the introduction of the Bereavement Support Payment - a single benefit to support people after bereavement. The reform will significantly simplify the system by moving to a more uniform payment structure and a single contribution condition, irrespective of age and child dependent status.

Other measures in the draft Pensions Bill

17. The draft Pensions Bill contains a number of measures relating to private and workplace pensions, the majority of which strengthen existing legislation relating to regulation or automatic enrolment.

18. In summary these are:-

- a new power to make regulations to prohibit the offer of non-pension incentives to transfer pension scheme rights;
- measures relating to the prohibition of corporate trustees, the operation of automatic re-enrolment where a member has deferred, and the powers of the Pensions Regulator to issue penalty notices;

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8 Department for Work and Pensions, *Bereavement Benefit for the 21st Century*, Cm 8221, TSO.

9 Department for Work and Pensions, 2012, *Government response to the public consultation Bereavement Benefit for the 21st Century*, Cm 8371, TSO.

- an amendment to the Companies Act 2004 so that a body preparing guidance in relation to pension illustrations may benefit from the exemption from liability for damages (such as financial loss); and
- a reduction in the minimum period between scheme returns for micro schemes (4 members or fewer).

Summary of impacts

Reform of the state pension system

19. The Government proposes to introduce a single-tier State Pension, replacing the current two component system (basic State Pension and additional State Pension) with a single-tier pension for individuals reaching their State Pension age after implementation, currently planned for 2017 at the earliest.

20. The single-tier pension will be a flat-rate payment set above the basic level of means–tested support, uprated by at least the growth in earnings. 35 qualifying years of National Insurance contributions or credits will be needed for individuals to receive the full amount. Those with fewer than 35 qualifying years will receive a pro-rated amount. Entitlement to the pro-rated amount will be subject to the individual having a minimum number of qualifying years, which will be set out in regulations.

21. The impact of the reform package on individuals' income from the State is 'notional'. Existing recipients of basic and additional State Pension will be unaffected by the reforms. Some groups of people due to receive the new State Pension will experience notional 'gains' from the reforms as they will receive more from the State than they would have done if the current system remained until their State Pension age. Conversely other groups may see notionally lower outcomes under the reforms. No individuals will receive less than the value of their State Pension under the current system based on their National Insurance contribution record at the point the single-tier pension is implemented, unless they do not have the required minimum number of qualifying years.

22. The proportion of pensioners with higher notional state pension outcomes peaks in the 2020s before falling in later years. Improved notional outcomes are largely a result of a boost to people who would have reached State Pension age with a lower entitlement to additional State Pension (particularly women and carers); the extension of coverage to self-employed people, and groups who were contracted-out of the additional State Pension and will benefit from the opportunity to get extra state pension.

23. The removal of Savings Credit for people reaching their State Pension age on or after the date the new system is introduced has an impact on notional outcomes in the first few years. It also contributes to an overall reduction in the numbers of individuals reliant on means-tested benefits. Under the current system, eligibility for Pension Credit for the single tier population is expected to be around 15% in 2020 and fall to around 8% by 2060. Under the new state pension, eligibility for Pension Credit is approximately halved in 2020 and ultimately falls below 5% by 2060.

24. Under the current system, the proportion of women in Great Britain who qualify for a full basic State Pension is not expected to catch up with the proportion of men who qualify until 2020 and it will take a further 30 years for women to catch up with men in respect of additional State Pension. Under the new state pension, the gap between median men's and women's pensions is projected to close 15 years earlier than under the current system (in 2042 rather than 2057).

25. Under the current system, employers receive a National insurance rebate for employees who are contracted out of the additional State Pension. As the additional State Pension will be closed under the single-tier pension, employees will no longer be able to contract out. As a result, employers will no longer receive the rebate.

26. The loss of the rebate could therefore increase the costs of running a Defined Benefit scheme for sponsoring employers if the terms of those schemes remain unchanged.

27. A time-limited, single-use statutory override power is included in the draft Bill to enable employers to make a one-off alteration to their Defined Benefit schemes. This will allow them to compensate for the increased costs brought about by the end of contracting out.

28. It is assumed that private sector employers will make these changes to offset the loss of rebate in full and before implementation so this cost will fall on individuals. Employers are likely to incur costs associated with making the changes to the schemes (e.g. actuarial and legal costs). These costs are unknown but are likely to be relatively small.

29. The Government is consulting on whether this statutory override should extend to certain schemes that are protected by statute - those of former nationalised industries whose benefits are protected under the terms of privatisation.

30. The future cost of the reformed state pension is broadly in line with the forecast cost of the current system as a proportion of GDP. The relative cost of the reformed system does fall in the longer term due to achieving a slower rate of increase compared with the rapid growth in additional State Pension expenditure under the current system. The ending of contracting out also brings revenue to the Exchequer through the higher National Insurance paid by those previously contracted out of the additional State Pension.

31. A full Impact Assessment for the single-tier State Pension can be found at Annex A.

Bringing forward the rise in the State Pension age to 67

32. The Government proposes to bring forward the increase in the State Pension age to 67 to be phased in between 2026 and 2028. This brings forward the increase by 8 years but means that those who have been subject to an increase in their State Pension age due to the Pensions Act 2011 do not face a further rise.

33. The main fiscal benefit of this proposal is delivery of net benefits-related savings of £62.6 billion in real terms, with a further £10.3 billion gain from

increased income tax receipts and National Insurance contributions as a result of longer working lives. The proposal is estimated to affect around 8 million people in Great Britain born after 5 April 1960 and before 6 April 1969, who will have their State Pension age delayed. No individual would experience an increase in their State Pension age of more than 12 months, relative to the timetable set in 2007.

34. A rise in the State Pension age of one year is projected to decrease the lifetime pension income of men and women by an approximate maximum of between 2 and 4 per cent, based on DWP modelling of hypothetical individuals. Working longer and saving into a private pension would redress part of this loss in lifetime pension income. Working longer would also increase an individual's overall lifetime income.

35. For men, the projected proportion of adult life in receipt of a State Pension is expected to remain slightly lower than for those retiring in 2013 in the cohorts reaching their State Pension age between 2027 and 2032. However, this must be considered in context of the substantial upwards revisions in projected longevity which have taken place in the last decades. Between 1981 and 2000, the proportion of adult life in receipt of a State Pension grew by 6 percentage points for men (23.7% to 29.6%) and 4 percentage points for women (35.9% to 40.2%).

36. Despite this small, temporary reduction in the projected proportion of adult life in receipt of a State Pension, the time spent in retirement by those reaching their State Pension age after 2026 following the proposed increase is projected to remain similar to those aged 65 today – 21.4 years for men and 24.1 years for women on average today, compared to 21.4 years and 23.9 years respectively for the first cohorts whose State Pension age will be 67. When the original timetable for the increase from 65 to 68 was set, the expectation was that life expectancy at 66 in 2026 would be around 20.6 years for men and 23 years for women.

37. A full Impact Assessment of bringing forward the increase in the State Pension age to 67 can be found at Annex B.

Bereavement Benefit reform

38. Currently, Bereavement Benefits consist of three aspects:

- Bereavement Benefit – a one-off tax-free payment of £2,000;
- Bereavement Allowance – a taxable weekly benefit which can be paid to someone for up to 52 weeks form the date of death of their spouse or civil partner;
- Widowed Parents Allowance – a taxable weekly benefit paid to a bereaved spouse or civil partner who has a child that they are in receipt of Child Benefit for.

39. The Government proposes to reform this suite of benefits, simplifying the payment systems and contribution conditions, while retaining the current level of funding. The intention is to create a simpler system of bereavement benefits which takes into account the realities of working-age widowhood in the 21st century.

40. The new Bereavement Support Payment will consist of a significantly larger tax-free lump sum, supplemented with monthly instalment payments for one year.

41. The main group of beneficiaries will be:

- younger childless people who would previously have received Bereavement Allowance and/or the lump sum Bereavement Payment;
- those with children who would have received the Widowed Parent Allowance for a short period; and
- those in receipt of Universal Credit, where the Bereavement Support Payment will be disregarded as either income or capital.

42. The indicative exchequer costs under the reform, calculated between 2016/17 and 2019/20, amount to £1.48 billion. This includes tax foregone, the costs of new and legacy systems, and the impact on Universal Credit.

43. A full assessment of the impact of the reform to Bereavement Benefits can be found at Annex C.

Frequency of Scheme Returns

44. The Pensions Act 2004 requires all occupational pension schemes to complete a Scheme Return at least once every three years. Amending the legislation to reduce the frequency of Scheme Return completion will generate efficiency savings for the Pensions Regulator and reduce the burden on schemes and employers.

45. There are no anticipated costs as a result of amending the legislation. There is the possible risk of an increase in incorrect data being held by the Pensions Regulator due to the reduced frequency of the Scheme Returns.

46. Amending the legislation will generate administrative savings to affected schemes and to the Pensions Regulator.

47. A full Impact Assessment on the above provisions can be found at Annex D.

Other measures

48. The measures relating to the State Pension age include a framework for the periodic review of the State Pension age. The details of any proposal to change the State Pension age as a result of the proposed regular review will be a matter for the Government of the day. Any changes to the State Pension age will still need to be set out in primary legislation and approved by Parliament before becoming law. Therefore, it is not appropriate to publish an impact assessment for potential future changes to State Pension age at this time.

49. The draft Pensions Bill also contains a number of measures relating to private pensions. Aside from the power to regulate to prohibit the offer of non-pension incentives to transfer pension scheme rights, these measures clarify the original policy, align with further reform proposals; or, in a few cases, are technical amendments to correct inaccuracies in legislation. Consequently, these measures do not introduce significant

costs or benefits to the private sector or civil society organisations; or to the public sector over the cost threshold. Therefore individual Impact Assessments of these measures have not been carried out.

50. The above measures are summarised in Annex E.

51. As noted above, full discussion of the measures in the draft Bill is given in the accompanying explanatory notes available at **www.dwp.gov.uk/draft-pensions-bill**

Summary of impact of measures on key groups

Measures: Introduction of a single-tier State Pension (see Annex A for further details)	
Summary of measures	A single-component contributory pension scheme, currently planned for individuals reaching pensionable age on or after the 6 April 2017 at the earliest, and the ending of contracting out of the additional State Pension. The current legislative requirement to increase the basic State Pension at least in line with average growth in earnings will also apply to the new state pension. The reforms will bring an end to outdated additions to the state pension, such as the Category D pension and the Age Addition. The Savings Credit element of Pension Credit will also close to people who reach their State Pension age on or after the date the new system is introduced. 35 qualifying years of National Insurance contributions or credits will be required for the full weekly amount and a minimum number of qualifying years will be required to receive any entitlement. Those with fewer than 35 qualifying years but above the minimum number of qualifying years will receive a pro-rated amount. The new state pension will be based on individual qualification, ending inheritance of, and derived rights to, a spouse's or civil partner's pension. There will, however, be transitional arrangements to recognise derived, inherited or shared additional State Pension that would have been available in the current system, and further arrangements for certain women who have paid reduced rate National Insurance contributions. Under the new system, it will still be possible to defer claiming a state pension in return for a higher weekly rate. However, it will no longer be possible to opt for a lump sum deferral reward. The deferral rate will be defined in regulations.
Clauses	1-24

Measures: Introduction of a single-tier State Pension (see Annex A for further details)	
Impact on individuals	Individuals may experience notional gains or losses in comparison to the outcomes they might have had at pensionable age under the current system. In the 2020s around 75% of people reaching State Pension age experience notional gains to their state pension income – this proportion falls over time. Individuals who are contracted out of the additional State Pension will see an increase in their National Insurance Contributions. The majority of those who will pay a higher rate of National Insurance as a result of the ending of contracting out will be able to get extra state pension for years worked or credited after implementation.
Impact on employers	The statutory override means that private sector Defined Benefit scheme sponsors can adjust pension scheme rules to compensate for the loss of the contracting-out rebate – therefore it is assumed that these costs will be passed on to employees. There may be small actuarial and legal costs to sponsors if they voluntarily choose to make changes to their schemes. It has not been possible to quantify the value of these costs, but they are expected to be small.
Impact on Pensions Industry	N/A
Impact on Government	Overall Exchequer spending on state pensions is due to rise as a proportion of GDP from 6.4% of GDP in 2017 to 8.5% by 2060. Single-tier reform reduces 2060 costs to around 8.1% of GDP. The end of contracting out for Defined Benefit schemes will result in an increase in National Insurance revenue for the Exchequer. The administration cost to the Exchequer from introducing the new system is estimated to be around £265 million. This is a best estimate at the current time and will be refined as further design and development work is taken forward. Estimates of ongoing administration savings are not available at this stage but it is anticipated that in the longer term simplification of the system may deliver some administrative savings.

Measures: Introduction of a single-tier State Pension (see Annex A for further details)	
Regulatory burden on business and civil society organisations	N/A

Measure: Bringing forward increase in the State Pension age to 67 to 2026-28: (see Annex B for further details)	
Summary of measures	Implement increase in the State Pension age for men and women to 67 between 2026 and 2028.
Clause	25
Impact on individuals	This legislation is estimated to affect around 8 million people in Great Britain born after 5 April 1960 and before 6 April 1969, who will have their State Pension age delayed. No individual would experience an increase in their State Pension age of more than 12 months, relative to the timetable set in 2007.
Impact on employers	Negligible and indirect. Some pension schemes provide an integrated private pension linked to statutory State Pension age, which will be changed by this proposal. However, the measure introduces no new regulatory burden
Impact on Pensions Industry	Negligible and indirect. Some pension schemes provide an integrated private pension linked to statutory State Pension age, which will be changed by this proposal. However, the measure introduces no new regulatory burden.
Impact on Government	Exchequer benefits from reduced spending on pension-age benefits and increased Income Tax and National Insurance payments The Exchequer will see a modest increase in spending on working-age welfare benefits.
Regulatory burden on business and civil society organisations	Negligible and indirect. Note that the State Pension age is distinct to the Default Retirement Age.

Measure: Bereavement Benefit reform (see Annex C for further details)	
Summary of measures	Simplifies the payment system by moving to a more uniform structure, with support focused on the period immediately following bereavement; and simplifies the contribution conditions, with a single rule irrespective of age and child dependent status.
Clauses	27, 28
Impact on individuals	Individuals already in receipt of the current benefit will not be affected by the reform. The largest group of notional losers are those who would have received benefits for many years under the current system. The main group of beneficiaries are younger childless people who would previously have got the Bereavement Allowance (BA) and/or the Lump Sum Payment, those with children who would have received Widow's Parent Allowance (WPA) for a short time only, and those now eligible for other benefits.
Impact on employers	N/A
Impact on Government	Costs from 2016/17 to 2019/20 are to the Exchequer; this includes costs of new and legacy systems, impact on Universal Credit (UC) and tax foregone
Regulatory burden on business and civil society organisations	N/A

Measure: Frequency of scheme returns (see Annex D for further details)	
Summary of measures	Relaxes the requirement for schemes with 2-4 members to complete a periodic scheme return
Clause	33
Impact on individuals	N/A
Impact on employers	N/A
Impact on Pensions Industry	Generates administrative savings to the Regulator of £61,000 on average between 2012 and 2020 per annum.
Impact on Government	None
Regulatory burden on business and civil society organisations	Generates administrative savings to 2-4 member schemes of an average £336,554 per annum on average between 2012 and 2020 (in 2012 price terms) across all schemes (£10 per scheme per annum)

Measure: Other measures in the draft Pensions Bill (see Annex E for further details)	
The measures below set out a framework for future policy consideration, strengthen the original policy, grant powers to the Secretary of State, or, in a few cases, are technical amendments to legislation. Consequently, these measures have no impact on business or civil society organisations, nor impose costs to the public sector of £5 million or greater; some measures have no impact at all.	
Details of measure	Clause
Framework for the periodic review of the State Pension age	26
Prohibition of incentives to transfer pension scheme benefits	29, 30
Technical amendment to Pensions Act 2004 to close a loophole related to corporate trustees.	31
Amendment to the Companies (Audit, Investigations and Community Enterprise) Act 2004 to provide that a body preparing guidance in relation to pension illustrations may benefit from the exemption from liability for damages (such as financial loss).	32
Amendment to the duty on an employer to auto-enrol and re-enrol an employee in a scheme.	34
Amendment of how civil sanctions apply to Section 72 of the Pensions Act 2004	35