



Department
for Work &
Pensions

Pensions Bill Impact Assessment

Summary of Impacts

October 2013

Contents

- Introduction..... 4
- Background 6
 - Reform of the state pension system..... 7
 - State Pension age..... 7
 - Abolition of Assessed Income Periods in Pension Credit..... 8
 - Bereavement benefit reform..... 8
 - Automatic pension transfers and short service refunds 9
 - Pension Protection Fund compensation cap..... 9
 - Other measures in the Pensions Bill 10
- Summary of impacts 11
 - Reform of the state pension system..... 11
 - Bringing forward the rise in the State Pension age to 67 13
 - Abolition of Assessed Income Periods in Pension Credit..... 14
 - Bereavement benefit reform..... 15
 - Automatic pension transfers..... 15
 - Short service refunds 16
 - Frequency of scheme returns 17
 - Pension Protection Fund compensation cap..... 17
 - Other measures 18
- Summary of impact of measures on key groups..... 19
- Annex A Impact Assessment – The single-tier pension: a simple foundation for saving
- Annex B Impact Assessment – Long term State Pension sustainability: increasing the State Pension age to 67
- Annex C Impact Assessment – Abolition of Assessed Income Periods for Pension Credit
- Annex D Impact Assessment – Replacement of existing Bereavement Benefits for New Claims from April 2016 - Bereavement Benefits for the 21st Century
- Annex E Impact Assessment – Small Pots and Automatic Transfers
- Annex F Impact Assessment – Short Service Refunds

- Annex G Impact Assessment – Reduce the frequency of returns to the Pensions Regulator by defined contribution schemes with 2-4 members
- Annex H Impact Assessment – The Pension Protection Fund compensation cap amendments
- Annex I Other measures in the Pensions Bill

Introduction

1. The Pensions Bill 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;
 - abolish the provision that removes the requirement for Pension Credit customers to notify changes of circumstances;
 - reform the range of benefits associated with bereavement;
 - boost the consolidation of small pension pots through a system of automatic transfers;
 - extend powers to set quality standards for workplace pension schemes;
 - introduce a new statutory objective for the Pensions Regulator;
 - restructure the PPF compensation cap to better protect long serving scheme members
 - strengthen existing legislation relating to occupational pensions.
2. Further details of the legislation are contained within the explanatory notes for the 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 Bill which have significant costs to the Exchequer and/or impact on business or civil society organisations. Individual Impact Assessments for these proposals are at Annexes A to H. 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. Those measures are summarised at Annex I.
5. This is an updated version of the document for use following the introduction of the Bill in the House of Lords. It has been revised to reflect the amendments made to the Bill during its passage through the House of Commons. It also takes into account new economic assumptions as published in the Office for

Budget Responsibility's Economic and fiscal outlook forecast in March 2013¹ and the Fiscal Sustainability Report in July 2013².

6. An earlier version³, published in May 2013 which related to the Bill as introduced in the House of Commons is available on the GOV.UK website.

¹ Office for Budget Responsibility, 2013, [Economic and fiscal outlook – March 2013](#), TSO

² Office for Budget Responsibility, 2013, [Fiscal sustainability report – July 2013](#), TSO

³ Department for Work and Pensions, 2013, [Pensions Bill Impact Assessment, Summary of Impacts](#), GOV.UK website.

Background

7. On 4 April 2011, the Government published *A state pension for the 21st Century* (Cm 8053)⁴, 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.
8. The Government's final proposals for state pension reform were set out in *The single-tier pension: a simple foundation for saving* (Cm 8528)⁵, which was published on 14 January 2013.
9. A separate public consultation document on bereavement benefit reform⁶ was published on 12 December 2011 and the consultation ended on 5 March 2012.
10. The Government set out details of the final proposals to reform bereavement benefits in its response to the consultation⁷, which was published on 11 July 2012.
11. On 15th December 2011, the Government published a consultation⁸ on options for consolidating small pension pots. It outlined high-level policy proposals in its response⁹, published on 17 July 2012.
12. The Government published the Command Paper, *Automatic transfers: consolidating pension savings* (Cm 8605)¹⁰ on 23 April 2013. This set out more detail on the proposals relating to automatic transfers.
13. A draft Pensions Bill (Cm 8529)¹¹ containing measures relating to the single-tier state pension, State Pension age, bereavement benefit reform, and some smaller private pension measures was published on 18 January 2013.
14. The Work and Pensions Select Committee undertook pre-legislative scrutiny on Part 1 of the draft Bill (the provisions relating to the single-tier pension). The scrutiny began with a call for evidence on 23 January 2013 and the final oral evidence session was held on 11 March 2013.
15. The Select Committee published its report¹² on 4 April 2013 and the Government's response¹³ was published alongside the Bill on 10 May 2013.

⁴ Department for Work and Pensions, 2011, [A state pension for the 21st century](#), Cm 8053, TSO

⁵ Department for Work and Pensions, 2013, [The single-tier pension: a simple foundation for saving](#), Cm 8528, TSO

⁶ Department for Work and Pensions, 2011, [Bereavement Benefit for the 21st century](#), Cm 8221, TSO

⁷ Department for Work and Pensions, 2012, [Government response to the public consultation Bereavement Benefit for the 21st Century](#), Cm 8371, TSO

⁸ Department for Work and Pensions, 2011, [Meeting future workplace pension challenges: improving transfers and dealing with small pension pots](#), Cm 8184, TSO

⁹ Department for Work and Pensions, 2012, [Government response to the consultation Improving transfers and dealing with small pension pots](#), Cm 8402, TSO

¹⁰ Department for Work and Pensions, 2013, [Automatic Transfers: consolidating pension savings](#), Cm 8605, TSO

¹¹ Department for Work and Pensions, 2013, [Draft Pensions Bill](#), Cm 8529, TSO

¹² House of Commons Work and Pensions Select Committee, [The Single-tier State Pension: Part 1 of the draft Pensions Bill](#), HC1000, TSO

¹³ Department for Work and Pensions, 2013, [Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill](#), Cm 8620, TSO

16. Following its Second Reading in the House of Commons, the Pensions Bill was committed to a Public Bill Committee to begin its scrutiny on the 25 June 2013.
17. The Public Bill Committee held a total of twelve sessions – four for oral evidence from stakeholders and a further eight for line-by-line scrutiny of the Bill.
18. The Bill reached Commons Report stage on 29 October 2013 and was read for a third time on that date, before being passed to the House of Lords for introduction.

Reform of the state pension system

19. 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 retirement.
20. In January 2013, the Government published the White Paper, *The single-tier pension: a simple foundation for saving*¹⁴, outlining proposals for a single-tier pension.
21. The single-tier pension will be a simple flat-rate pension, the full rate of which will be set above the basic level of means-tested support. It will provide a foundation to enable planning and saving for retirement and reduce means-testing.
22. The proportion of people reaching State Pension age after the implementation of single tier who qualify for Pension Credit will be halved by 2020 compared to the current system. This will help to clarify incentives for saving under the new system.
23. 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

24. 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 eight years. This decision was taken in the light of increases in projected 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

¹⁴ Department for Work and Pensions, 2013, [The single-tier pension: a simple foundation for saving](#), Cm 8528, TSO

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.

25. *The single-tier pension: a simple foundation for saving*¹⁵, published in January 2013, outlined the Government's proposed framework for considering further changes to the State Pension age following the rise to 67.
26. 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 review on longevity and wider factors.

Abolition of Assessed Income Periods in Pension Credit

27. The Assessed Income Period (AIP) was introduced as part of Pension Credit in 2003. It removes the requirement for an individual to notify the Department for Work and Pensions of changes to their retirement provision (broadly defined as capital, annuities and retirement pension) for the purposes of assessing their entitlement to Pension Credit. An AIP normally applies for 5 years, but they are set indefinitely for customers who have already reached the age of 75.
28. AIPs were introduced on the basis that pensioners over the age of 65 are more likely to have relatively stable incomes and capital, and fewer changes in their circumstances, so less onerous reporting requirements were deemed necessary. However, fixing a claimant's retirement provision for such a period has caused inaccuracies to build up in the system and has resulted in a situation in which claimants can retain their benefit awards despite having obtained significant amounts of capital or new income streams. As part of the Spending Round in July 2013 the Government therefore announced that the AIP would be abolished from April 2016.

Bereavement benefit reform

29. On 12 December 2011, the Government published a consultation document, *Bereavement Benefit for the 21st Century* (Cm 8221)¹⁶, 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.

¹⁵ Department for Work and Pensions, 2013, [The single-tier pension: a simple foundation for saving](#), Cm 8528, TSO

¹⁶ Department for Work and Pensions, 2011, [Bereavement Benefit for the 21st century](#), Cm 8221, TSO

30. The Government published its response to the consultation¹⁷ 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 or whether they have dependent children.

Automatic pension transfers and short service refunds

31. Automatic enrolment is designed to assist between 6 and 9 million people to save for their retirement for the first time or to begin saving more. However, the benefits of automatic enrolment could be undermined if the barriers to transferring, and the market inefficiencies of administering, small pension pots are not dealt with.
32. The Government's intention is to ensure that individuals do not lose track of money they put into pension saving when they move employers. This is of particular relevance to individuals who build up only a very small pension pot with an employer before moving jobs.
33. On 15 December 2011, the Government published a consultation document¹⁸ seeking views on how to deal with the proliferation of small dormant pots. On 17 July 2012, it published its response¹⁹, setting out its intention to legislate to allow for a system of automatic transfers. This will significantly reduce the administrative burdens on schemes of maintaining small pots, and make it easier for individuals to keep track of and engage with their pension savings.
34. The consultation on small pots also included a proposal that the facility to refund employee pension contributions to members who left their money purchase schemes before completing two years of pensionable service (known as short service refunds) be withdrawn.
35. The Command Paper, *Automatic transfers: consolidating pension savings*²⁰, published in April 2013 confirmed the Government's intention to withdraw the facility for making short service refunds in 2014.

Pension Protection Fund compensation cap

36. The Pension Protection Fund (PPF) pays compensation to members of underfunded defined benefit occupational pension schemes where the

¹⁷ Department for Work and Pensions, 2012, [Government response to the public consultation Bereavement Benefit for the 21st Century](#), Cm 8371, TSO

¹⁸ Department for Work and Pensions, 2011, [Meeting future workplace pension challenges: improving transfers and dealing with small pension pots](#), Cm 8184, TSO

¹⁹ Department for Work and Pensions, 2012, [Government response to the consultation Improving transfers and dealing with small pension pots](#), Cm 8402, TSO

²⁰ Department for Work and Pensions, 2013, [Automatic Transfers: consolidating pension savings](#), Cm 8605, TSO

employer has become insolvent. Anyone below the scheme pensionable age at the point of insolvency gets 90 per cent of their accrued pension, subject to a maximum cap. Long serving scheme members see their retirement income disproportionately affected by the compensation cap.

37. The Bill therefore includes measures to re-structure the compensation cap so that individuals with long service in a scheme which enters the PPF receive a higher compensation cap.
38. The new cap will reflect the fact that, people who have worked for a long time for one employer should receive a higher compensation cap because the lost scheme pension is likely to have represented a larger proportion of their retirement savings.

Other measures in the Pensions Bill

39. The Bill contains a number of other measures relating to private and workplace pensions, many of which strengthen existing legislation relating to pensions regulation or automatic enrolment.
40. In summary these are:-
 - a new power to make regulations to prohibit the offering of incentives to transfer pension scheme rights;
 - a range of measures strengthening existing automatic enrolment legislation as contained in the Pensions Act 2008;
 - a new power to make regulations restricting charges and setting administration and governance requirements for certain work-based schemes;
 - a power to require pension levies to be paid in respect of past periods.
 - measures relating to the prohibition of disqualified corporate trustees where a director has already been disqualified as an individual, and the powers of the Pensions Regulator to issue penalty notices;
 - 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);
 - the introduction of a new statutory objective for the Pensions Regulator, requiring the Regulator to consider minimising any adverse impact on the sustainable growth of sponsoring employers when exercising its scheme-funding-related functions;
 - an increase in the minimum period between scheme returns for micro schemes (4 members or fewer);

Summary of impacts

Reform of the state pension system

41. The Government proposes to introduce a new state pension system, replacing the current two-component arrangement (basic State Pension and additional State Pension) with a single-tier pension for individuals reaching their State Pension age after implementation in 2016.
42. The single-tier pension will be a flat-rate payment with the full rate set above the basic level of means-tested support, and uprated by at least the growth in earnings.
43. In steady state, 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, but will be no more than 10 years.
44. The impact of the reform package on individuals' income from the state is 'notional'. Those who reach State Pension age before implementation will continue to receive their state pension in line with existing rules, though some whose spouse receives the single-tier pension may not stand to inherit or derive as much as could have been the case had the current system remained in place. Some groups of people due to receive the new single-tier pension will experience notionally better outcomes 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 at State Pension age.
45. 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 low entitlement to additional State Pension (particularly women and carers) and 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).
46. 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

number of individuals in the scope of means-tested benefits. Under the current system, eligibility for Pension Credit for the single-tier population is expected to be around 15% in the mid-2020s and fall to around 10% by 2060. Under the new state pension, eligibility for Pension Credit is approximately halved in 2020 and ultimately falls to around 5% by 2060.

47. 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 additional State Pension outcomes to equalise. Under the new state pension, the gap between median men's and women's pensions is projected to close around 10 years earlier than under the current system (early 2040s rather than 2050s).
48. Under the current system, employers and employees 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 and employees will no longer receive the rebate.
49. The loss of the rebate could increase the costs of running a defined benefit pension scheme for sponsoring employers if the terms of those schemes remain unchanged.
50. A time-limited statutory override power is included in the Bill to enable employers to alter the terms of their defined benefit schemes without trustee consent. This will allow them to compensate for the increased costs brought about by the end of contracting out. The override cannot be used to alter benefits already accrued, nor will it apply to public sector employers.
51. For the purposes of the Impact Assessment, it is assumed that private sector employers will make these changes to offset the loss of the rebate in full and before implementation, so this cost will fall on individuals. It should be noted that any changes made to pension schemes will most likely come with associated actuarial, legal and consultation costs which are currently unknown but are likely to be small. This will be considered in more detail in the Impact Assessment accompanying the draft secondary legislation on the end of contracting out.
52. The Government consulted²¹ on whether the statutory override should extend to schemes protected by statute – those of former nationalised industries whose benefits were protected under the terms of privatisation. This consultation closed on 14 March 2013. The Government is considering the responses and will set out its position in due course.
53. 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 as the cost of the single-tier

²¹ Department for Work & Pensions, 2013, [Consultation on a statutory override for Protected Persons Regulations](#), Gov.uk website

pension will increase at a slower rate compared with the projected 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 employees and employers previously contracted out of the additional State Pension.

54. A full Impact Assessment for the single-tier pension can be found at Annex A.

Bringing forward the rise in the State Pension age to 67

55. 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 eight years but means that those who have had their State Pension age increased due to the Pensions Act 2011 do not face a further rise.
56. The main fiscal benefit of this proposal is delivery of net benefits-related savings of £73.5 billion in real terms, with a further £11.0 billion gain from increased income tax receipts and National Insurance contributions as a result of longer working lives.
57. 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. The group born between 6 April 1969 and the 6 April 1977 will also have a State Pension age of 67, however this legislation does not affect them as their State Pension age was increased to 67 under the Pensions Act 2007. No individual would experience an increase in their State Pension age of more than 12 months, relative to the timetable set in 2007.
58. Based on DWP modelling of hypothetical individuals, a rise in the State Pension age of one year is projected to decrease the lifetime pension income of affected men and women by an approximate maximum of between 2 and 4 per cent, in comparison to the baseline of the timetable set in the Pensions Act 2007. Working longer and saving into a private pension would redress part of this loss in lifetime pension income. Working longer could also increase an individual's overall lifetime income.
59. The projected proportion of life after pensionable age for those cohorts of men who reach State Pension age between 2027 and 2035 is expected to be lower than for those men who reach pensionable age in 2013. However, this must be considered in the context of the substantial upwards revisions in projected longevity which have taken place in the last few decades. Between 1981 and 2000, the proportion of adult life after pensionable age grew by 6 percentage points for men (23.7% to 29.6%) and 4 percentage points for women (35.9% to 40.2%).
60. However, the period of life (in years) for those cohorts of men reaching State Pension age between 2026 and 2035 will remain similar to that of a man

reaching pensionable age in 2013 - 21.4 years for men and 24.1 years for women on average, 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.

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

Abolition of Assessed Income Periods in Pension Credit

62. The Government proposes to abolish the Assessed Income Period (AIP) in Pension Credit from April 2016. Customers will be obliged to report all changes of circumstances as they happen, with a review and change of their Pension Credit award where appropriate. The abolition of AIPs will simplify the rules relating to changes of circumstances.
63. Customers with existing AIPs will initially be protected from the change. Those with a specified end-date will be closed with a review either when the AIP matures, a change is reported, or a scheduled operational review is conducted - whichever occurs soonest after implementation. Customers with an indefinite-length AIP will be protected until such time as the AIP ends under existing rules (e.g. when they enter a care home permanently).
64. We have estimated that the change in policy will generate savings in Pension Credit expenditure of up to £82 million a year by 2020. Additional savings are possible from customers losing some entitlement to receive support for their rent as a result of changes in their Pension Credit award.
65. In order to achieve these savings there will be an increased administrative cost from processing reported changes of circumstance and carrying out case reviews on a more regular basis. This has been estimated at £17 million a year.
66. The amount of Pension Credit to which a customer is entitled will only be affected if there are changes to the value of capital that they hold, or the amount of retirement income that they receive - many customers are unlikely to be affected at all. The change in policy will simply ensure that entitlement more closely reflects the current circumstances of the customer.
67. Customers who are most likely to be affected by the policy are those who already have more than £10,000 of capital and those who have additional retirement provision. Other customers may also be affected if their capital rises above the £10,000 threshold, or if they start receiving a new source of income.
68. A more detailed assessment of the impact from abolishing Assessed Income Periods can be found in Annex C.

Bereavement benefit reform

69. Currently, bereavement benefits consist of three elements:
- Bereavement Payment – 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 from the date of death of their spouse or civil partner;
 - Widowed Parent's Allowance – a taxable weekly benefit paid to a bereaved spouse or civil partner who has a child for whom they are in receipt of Child Benefit.
70. The Government proposes to reform this range of benefits, introducing the Bereavement Support Payment which will simplify the payment systems and contribution conditions resulting in a simpler system which takes into account the realities of working-age widowhood in the 21st century.
71. Additional resources will be targeted at bereavement benefits over the short term. This is to ensure that existing recipients are protected and that those who claim the new Bereavement Support Payment get the help that they need when they need it most. As current recipients' claims, which are protected by these reforms, reduce in number over time, savings start to be realised, with a future government having the flexibility to reinvest this money into the system.
72. The new Bereavement Support Payment will consist of a significantly larger tax-free lump sum, supplemented with monthly payments for one year.
73. The main groups 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's 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.
74. The main fiscal impact of the proposal is the incurring of net benefit related costs of £110 million in cash terms over the 4 years of the Impact Assessment.
75. A full assessment of the impact of the reform to bereavement benefits can be found at Annex D.

Automatic pension transfers

76. The Government proposes to introduce a system of automatic transfers, so that an individual's pension pot will follow them to their new scheme when they change jobs. Pots will be eligible for automatic transfer when the individual

moves between money purchase schemes, and the value of their pot is less than £10,000.

77. Although initially increasing costs, by 2050 the automatic transfers system will have generated £6.4 billion in savings for the pensions industry by halving the number of dormant pots that schemes will have to administer.
78. There will be some additional cost from implementing a system to match individuals to their dormant pots. The Government is working with all interested parties to determine which of the available options is most cost effective.
79. The proposals will result in individuals having their savings spread across fewer schemes, and will particularly benefit those who would otherwise accumulate a large number of dormant pots. It is projected that only 3.6% of those retiring between 2050 and 2060 will have 5 or more dormant workplace money purchase pots, compared to 25.8% without change.
80. A fuller assessment of the impact of automatic transfers can be found at Annex E.

Short service refunds

81. The Government intends that pension saving should be the norm and that contributions should remain in schemes and be invested to produce retirement income for members. The practice of making refunds of contributions to members who leave their schemes before completing two years of pensionable service runs counter to this intention. In 2009 money purchase schemes made 20,000 such refunds, and the figure is expected to rise to 100,000 per annum as automatic enrolment becomes the norm.
82. The Government therefore proposes to withdraw the facility to offer short service refunds from money-purchase occupational pension schemes with effect from 2014.
83. The impact of this reform will primarily be on individuals whose period of membership extends beyond thirty days' qualifying service. Instead of being refunded, their pension contributions will remain in their former employers' schemes and will continue to be invested on their behalf. Individuals may request to have their 'pots' transferred to their new employers' schemes, and the Government is proposing to introduce an automatic transfer requirement which will, over time, tend to consolidate individuals' pension saving.
84. Employers will no longer receive refunds of contributions when a member leaves their scheme; however, the Government understands that, in practice, employer contributions are often left in the schemes and used towards their general maintenance.
85. A fuller assessment of the impact of short service refunds can be found at Annex F.

Frequency of scheme returns

86. 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 for schemes with 4 or fewer members will generate efficiency savings for the Pensions Regulator and reduce the burden on schemes and employers.
87. 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.
88. Amending the legislation will generate administrative savings to affected schemes and to the Pensions Regulator.
89. A full Impact Assessment on the above provisions can be found at Annex G.

Pension Protection Fund compensation cap

90. The Government proposes to re-structure the PPF compensation cap to address the fact that under the current arrangements, long serving scheme members whose schemes enter the PPF see their retirement income disproportionately affected by the compensation cap.
91. The compensation cap means members with pension entitlements above a specified amount get the same level of compensation, regardless of other differences between the members.
92. The current cap on PPF compensation can result in someone who has worked for a single company for a long period receiving the same amount as someone with a shorter history with that particular company, but who has had the opportunity to build other pension income (e.g. from a previous job).
93. The Bill therefore contains measures to restructure the compensation cap such that anyone who has been a member of a scheme for 21 years or more will have the compensation cap applied to them increased by 3% for each full year of membership over 20 years. There will be a maximum compensation cap of double the base cap.
94. This will benefit those members who would have seen their compensation capped at the level of the old cap – but who will now see a higher level of compensation as a result. The extent to which individuals benefit will depend upon their precise circumstances.
95. The increased payments under the higher cap give rise to an increase in PPF liabilities – both for current members and in respect of schemes that may enter the PPF in the future. This increased level of liabilities will need to be met by PPF levy payers through an increase in the PPF's risk-based levy.

96. The PPF will also need to make administrative changes, the cost of which will also be borne by levy payers.
97. Taking into account these factors, our estimate is that the present value of increased levy payments over the period to 2030 will be £139.3 million, although there are significant uncertainties around this.
98. A full Impact Assessment on the above provisions can be found at Annex H

Other measures

99. The Bill also contains a number of other measures, mainly relating to private pensions, but with a further measure relating to State Pension age. None of these measures 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.
100. These measures are summarised in Annex I.
101. As noted above, further details of the measures in the Pensions Bill is given in the accompanying explanatory notes.

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	<p>A single-component contributory pension scheme, currently planned for individuals reaching pensionable age on or after 6 April 2016 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.</p> <p>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.</p> <p>Under the new system, 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. Transitional arrangements will apply to people with pre-implementation National Insurance records.</p> <p>The new state pension will be based on individual qualification, ending inheritance of, and derived entitlement 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. Further arrangements will be available for certain women who have paid reduced rate National Insurance contributions.</p> <p>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.</p>

Measures: Introduction of a single-tier State Pension (see Annex A for further details)	
Clauses & Schedules	Clauses 1-24; Schedules 1-14.
Impact on individuals	<p>Individuals may experience notionally higher or lower outcomes in comparison to those 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.</p> <p>Individuals who are contracted out of the additional State Pension will pay more National Insurance Contributions than before. 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.</p>
Impact on employers	<p>The statutory override means that sponsoring employers of private sector defined benefit schemes can adjust their 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. It should be noted that any changes made to pension schemes will most likely come with associated actuarial, legal and consultation costs, which are currently unknown but are likely to be small. This will be considered in more detail in the Impact Assessment accompanying the draft secondary legislation on the end of contracting out.</p>
Impact on Pensions Industry	N/A

Measures: Introduction of a single-tier State Pension (see Annex A for further details)	
Impact on Government	<p>Overall Exchequer spending on pensioner benefits in Great Britain is due to rise as a proportion of GDP from 7.0% of GDP in 2016 to 9.0% by 2060. Single-tier reform reduces 2060 costs to around 8.4% of GDP.</p> <p>The end of contracting out for defined benefit schemes will result in an increase in National Insurance revenue for the Exchequer.</p> <p>The estimated costs of implementing single tier are around £380 million in current prices. These are best estimates of implementation costs (including IT expenditure and all running costs) for both the Department for Work and Pensions (DWP) and HM Revenue and Customs (HMRC) until 2022/23. 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.</p>
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 & Schedules	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 the Pensions Act 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 (abolished in September 2011).

Measure: Abolition of Assessed Income Periods: (see Annex C for further details)	
Summary of measures	<p>The Assessed Income Period (AIP) effectively fixes the value of capital and other retirement provision for at least 5 years, ignoring certain changes during that period that would otherwise result in a reduction in the award. The AIP does not fix the Pension Credit award for this period, taking account of annual increases in non-State Pensions without the need for a customer to report this, as well as other changes such as up-rating of State Pensions and Pension Credit.</p> <p>This measure removes the AIP and introduces a requirement to report all changes of circumstance as they happen from April 2016. AIPs with a specified end-date will be ended with a review either when the AIP matures, a change is reported or a scheduled Operational review is conducted - whichever occurs soonest after 2016. Customers with an indefinite-length AIP will be protected until such time as the AIP ends under specified circumstances.</p>
Clause & Schedules	Clauses 27 & 28
Impact on individuals	<p>The abolition of AIPs will simplify the rules relating to changes of circumstances, sending out a clear message that all changes need to be reported. The change in policy will ultimately mean that all Pension Credit recipients will be required to report all changes of circumstance which have a material effect on their claim.</p> <p>The amount of Pension Credit to which a customer is entitled will only be affected if there are changes to the capital that they hold, or the amount of retirement income that they receive - many customers are unlikely to be affected at all. The change in policy will simply ensure that entitlement more closely reflects the current circumstances of the customer.</p> <p>Analysis suggests that many customers are not currently reporting changes which would lead to an increase in their entitlement, so they may actually benefit from the simplification of the policy.</p>
Impact on employers	N/A

Measure: Abolition of Assessed Income Periods: (see Annex C for further details)	
Impact on Pensions Industry	N/A
Impact on Government	<p>Annually Managed Expenditure (AME) on Pension Credit is expected to fall by around £82m a year by 2020 as a result of changes being processed as they occur, rather than at the end of an AIP. Savings in the first few years of the policy are likely to be lower than this as the change will affect different customers at different times, as their circumstances change. Changes to Pension Credit entitlement may also have an affect on the amount of support that customers are entitled to receive for their rent – currently provided through Housing Benefit.</p> <p>There will also be an increased administrative cost in processing changes of circumstance, and carrying out periodic reviews on each case to ensure that Pension Credit entitlement is based on the correct information for each customer. The increased cost is estimated to be around £17m a year, with additional costs incurred in updating systems and processes to reflect the change in policy.</p>
Regulatory burden on business and civil society organisations	N/A

Measure: Bereavement benefit reform (see Annex D for further details)	
Summary of measures	Introduces the new Bereavement Support Payment which 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 whether an individual has dependent children.
Clauses & Schedules	Clauses 29-31; Schedule 15
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 and/or the lump sum payment, those with children who would have received Widowed Parent's Allowance for a short time only and those now eligible for other benefits.
Impact on employers	N/A
Impact on Industry	N/A
Impact on Government	The main fiscal impact of the proposal is the incurring of net benefit related costs of £110 million in cash terms over the 4 years of the Impact Assessment.
Regulatory burden on business and civil society organisations	N/A

Measure: Automatic pension transfers (see Annex E for further details)	
Summary of measures	Introduces a system of automatic pension transfers so that an individual's pension pot will follow them to their new scheme when they change jobs. Pots will be eligible for automatic transfer when the individual moves between money purchase schemes, and the value of their pot is less than £10,000.
Clause & Schedules	Clause 32; Schedule 16.
Impact on individuals	<p>Individuals will see their pension savings spread across fewer schemes. One in thirty of those retiring between 2050 and 2060 will have 5 or more dormant workplace money purchase pots, compared to one in four without change.</p> <p>Individuals may see their pot diminished by charges incurred in the process of transferring pensions, but may benefit from lower ongoing charges on these savings, as individuals can pay higher fees (deferred member penalties) on pots they are no longer contributing to. More generally, individuals may be better or worse off than they would have otherwise been, depending on whether their new scheme has higher or lower charges (or a better or worse performing fund) than their old scheme.</p>
Impact on employers	N/A
Impact on Pensions Industry	<p>In the short-term there will be additional costs from processing more transfers. In the long-run there will be savings from not having to administer as many dormant pots. The net administrative savings are estimated to total £6.4 billion by 2050.</p> <p>There will be additional costs from setting up and running a system which enables members to be matched to their dormant pension pots.</p>
Impact on Government	N/A

Measure: Automatic pension transfers (see Annex E for further details)	
Regulatory burden on business and civil society organisations	The Government is working with interested parties to develop the most viable and cost effective way of implementing the automatic transfers system for schemes and members. A full assessment of the net cost and benefit to business will be provided when the process has been decided.

Measure: Withdrawal of short service refunds (see Annex F for further details)	
Summary of measures	Withdraws facility to make short service refunds of contributions from money purchase occupational pension schemes.
Clause & Schedules	Clause 35
Impact on individuals	<p>Individuals who leave money purchase occupational pension schemes before completing two years' pensionable service will no longer be able to request a refund of contributions ("short service refund"). Instead their pension 'pots' will remain in the scheme and be administered. In 2009, 20,000 such refunds were made, averaging £2,000 each; this figure is expected to rise to 100,000 as automatic enrolment becomes the norm.</p> <p>In the short term, there will be a rise in the number of small, dormant pension pots, although individuals will still be able to receive refunds of contributions when they exercise their right to opt out of automatic enrolment within a month or, in the case of workers contract-joined into occupational pension schemes, give up their membership within thirty days. Individuals will however be able to request to transfer their contributions to another scheme. In addition, the Government is proposing to require small dormant pots to be automatically transferred to former members' new schemes. In the longer term individuals may well benefit from keeping their pension contributions in pension schemes and from having their pension savings spread across fewer schemes.</p>
Impact on employers	Negligible
Impact on Pensions Industry	Workplace personal pension schemes, such as Group Personal Pensions, have never had the facility to make short service refunds. Personal pension providers may notice a slight increase in the number of requests for voluntary transfers of pots from money purchase occupational pension schemes, pending the introduction of the automatic transfer requirements.
Impact on Government	N/A

Measure: Withdrawal of short service refunds (see Annex F for further details)	
Regulatory burden on business and civil society organisations	The withdrawal of the facility to make short service refunds should have negligible impact on the overall regulatory burden.

Measure: Frequency of scheme returns (see Annex G for further details)	
Summary of measures	Relaxes the requirement for schemes with 2-4 members to complete a periodic scheme return
Clause & Schedules	Clause 46
Impact on individuals	N/A
Impact on employers	N/A
Impact on Pensions Industry	Generates administrative savings to the Pensions Regulator of £61,000 per annum on average between 2012 and 2020.
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 between 2012 and 2020 (in 2012 price terms) across all schemes (£10 per scheme per annum).

Measure: Changes to Pension Protection Fund compensation cap for long service (see Annex H for further details)	
Summary of measures	Re-structures the PPF compensation cap such that anyone who has been a member of a scheme for 21 years or more will have the compensation cap applied to them increased by 3% for each full year of membership over 20 years. There will be a maximum compensation cap of double the base cap.
Clause & Schedules	Clause 47; Schedule 19.
Impact on individuals	This will benefit those members who would have seen their compensation capped at the level of the old cap – but who will now see a higher level of compensation as a result. The extent to which individuals benefit will depend upon their precise circumstances.
Impact on employers	The costs of increased compensation will be met by levy payers through an increase in the levy – technically schemes, but in reality the employer sponsoring the scheme. Estimates of the future levy impact are highly uncertain due to (i) uncertainty over the degree of future corporate insolvencies, which partially determines the likelihood of schemes entering the PPF; (ii) future scheme funding levels, which will be determined by the economic environment; and (iii) decisions taken by the board of the PPF on the future level of the levy. Our estimate is that the present value of increased levy payments over the period to 2030 will be £139.3 million, although there are significant uncertainties around this for the reasons described above.
Impact on Pensions Industry	N/A
Impact on Government	N/A
Regulatory burden on business and civil society organisations	Under the 'One-in, two-out' regulatory system, this results in a regulatory 'in' of £8.7 million (the Equivalent Annual Net Cost to Business).

Measure: Other measures in the Pensions Bill (see Annex I for further details)	
The measures below have no impact on business or civil society organisations, nor impose costs to the public sector of £5 million or greater.	
Details of measure	Clauses & Schedules
Periodic review of rules about pensionable age	Clause 26
Power to prohibit offer of incentives to transfer pension rights	Clauses 33 & 34
Automatic re-enrolment: exceptions where automatic enrolment deferred	Clause 36
Automatic enrolment: powers to create general exceptions	Clause 37
Automatic enrolment: transitional period for hybrid schemes	Clause 38
Penalty notices under sections 40 and 41 of the Pensions Act 2008, etc.	Clause 39
Unpaid scheme contributions	Clause 40
Work-based schemes: power to restrict charges or impose requirements	Clause 41 Schedule 17
Power to require pension levies to be paid in respect of past periods	Clause 42

Measure: Other measures in the Pensions Bill (see Annex I for further details)	
The measures below have no impact on business or civil society organisations, nor impose costs to the public sector of £5 million or greater.	
Details of measure	Clauses & Schedules
Prohibition and suspension orders: directors of corporate trustees	Clause 43 Schedule 18
Preparation of guidance for pensions illustrations	Clause 44
Pensions Regulator's objectives	Clause 45