Department
for Work &
Pensions

Pensions Act 2014 Impact Assessment

Summary of Impacts

May 2014

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Introduction

1. The Pensions Act 2014:
    - reforms the state pension system through the introduction of a single-tier state pension;
    - introduces a new class of voluntary National Insurance contribution;
    - manages future changes to the State Pension age including bringing forward the increase in State Pension age to 67;
    - abolishes the provision that removes the requirement for Pension Credit customers to notify changes of circumstances;
    - reforms the range of benefits associated with bereavement;
    - boosts the consolidation of small pension pots through a system of automatic transfers;
    - provides powers to restrict charges, set governance and administration standards and require disclosure of costs in workplace pension schemes;
    - introduces a new statutory objective for the Pensions Regulator;
    - restructures the PPF compensation cap to better protect long serving scheme members; and
    - strengthens existing legislation related to occupational pensions.
2. Further details of the legislation are contained within the Act's explanatory notes.
3. The Government recognises a responsibility to consider the impact, in terms of costs and benefits, of new regulatory legislation.
4. Under the Equality Act 2010, it also has a statutory duty to have due regard to the need to:-
    - eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act;
    - advance equality of opportunity between people who share a protected characteristic and those who do not; and
    - foster good relations between people who share a protected characteristic and those who do not.
5. This includes considering whether new regulatory legislation has an impact, in relation to the three requirements above, on individuals who differ by the protected characteristics of age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. The impact on

marriage and civil partnerships needs to be considered in relation to the first requirement.

6. This note summarises the Impact Assessments for the provisions of the Act which have significant costs to the Exchequer and/or impact on business or civil society organisations. Individual Impact Assessments for these measures are at Annexes A to J. A number of measures do not have significant costs to the Exchequer or have any impact on business or civil society organisations. Consequently, an Impact Assessment has not been produced. These measures are summarised at Annex K.

7. Cash figures used in this document are in 2013/14 terms unless stated otherwise.

Background

8. On 4 April 2011, the Government published *A state pension for the 21st Century* (Cm 8053)[1], 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.

9. The Government's final proposals for state pension reform were set out in *The single-tier pension: a simple foundation for saving* (Cm 8528)[2], which was published on 14 January 2013.

10. A public consultation document on bereavement benefit reform[3] was published on 12 December 2011 and the consultation ended on 5 March 2012.

11. The Government set out details of the final proposals to reform bereavement benefits in its response to the consultation[4], which was published on 11 July 2012.

12. On 15th December 2011, the Government published a consultation[5] on options for consolidating small pension pots. It outlined high-level policy proposals in its response[6], published on 17 July 2012.

13. The Government published the Command Paper, *Automatic transfers: consolidating pension savings* (Cm 8605)[7] on 23 April 2013. This set out more detail on the proposals relating to automatic transfers.

14. Following a call for evidence on quality standards and a consultation on charging in pension schemes, the Government published its command paper *Better workplace pensions: Further measures for savers* (Cm 8840)[8] on 27 March 2014. This set out more detail on how the Government intends to use the powers in sections 43 and 44 of the Act.

15. A draft Pensions Bill (Cm 8529)[9] 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.

16. The Work and Pensions Select Committee undertook pre-legislative scrutiny on Part 1 of the draft Pensions Bill (the provisions relating to the single-tier

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[1] Department for Work and Pensions, 2011, *A state pension for the 21st century*, Cm 8053, TSO
[2] Department for Work and Pensions, 2013, *The single-tier pension: a simple foundation for saving*, Cm 8528, TSO
[3] Department for Work and Pensions, 2011, *Bereavement Benefit for the 21st century*, Cm 8221, 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, 2011, *Meeting future workplace pension challenges: improving transfers and dealing with small pension pots*, Cm 8184, TSO
[6] Department for Work and Pensions, 2012, *Government response to the consultation Improving transfers and dealing with small pension pots*, CM 8402, TSO
[7] Department for Work and Pensions, 2013, *Automatic Transfers: consolidating pension savings*, Cm 8605, TSO
[8] Department for Work and Pensions, 2014, *Better workplace pensions: Further measures for savers*, Cm 8840, TSO
[9] Department for Work and Pensions, 2013, *Draft Pensions Bill*, Cm 8529, TSO

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.

17. The Select Committee published its report[10] on 4 April 2013 and the Government's response[11] to that report was published alongside the Pensions Bill's introduction in the House of Commons on 9 May 2013.

18. The Pensions Bill was granted Royal Assent on 14 May 2014.

Reform of the state pension system

19. The Pensions Act 2014 provides for a simple state pension system for future pensioners, giving people clarity and confidence about the support they can expect from the state in retirement.

20. 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.

21. These reforms 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.

Voluntary National Insurance Contributions (Class 3a)

22. As part of the Autumn Statement 2013 the Chancellor announced the Government's intention to introduce a new scheme to allow pensioners to top-up their additional State Pension by paying a new type of voluntary National Insurance contribution, which will be known as Class 3A. The Pensions Act 2014 provides for this new scheme.

State Pension age

23. On 29 November 2011, the Chancellor announced the Government's intention to bring forward the rise in the State Pension age to 67 by eight years, to occur between 2026 and 2028. The Pensions Act 2014 provides for this change. The reform means that people born after 5 April 1960 but before 6 March 1961 will

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

[11] 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

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.

24. The Pensions Act 2014 also provides a framework for considering further changes to the State Pension age. It introduces a regular review of the State Pension age, to be conducted by the Secretary of State and informed by the Government Actuary's Department and an independently-led review.

Abolition of Assessed Income Periods in Pension Credit

25. 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 non-state pensions) 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.

26. 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 resulted in a situation in which claimants can retain their benefit awards despite having obtained significant amounts of capital or new income streams.

27. The Pensions Act 2014 therefore abolishes AIPs from April 2016.

Bereavement benefit reform

28. 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 by bereavement benefits should be short term, designed to aid the process of readjustment, and to support those without employment in making a return to work.

29. The Pensions Act 2014 reforms bereavement benefits through the introduction of the Bereavement Support Payment - a single benefit to support people after bereavement. The reform significantly simplifies the system by moving to a more uniform payment structure and a single contribution condition, irrespective of age or whether claimants have dependent children.

Automatic pension transfers and short service refunds

30. Automatic enrolment will help between 6 and 9 million people to save for their retirement for the first time or to save 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.

31. 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.

32. The Pensions Act 2014 legislates to allow for a system of automatic transfers of small pension pots. 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.

33. The Act also withdraws 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).

Charges and quality standards in workplace pensions

34. It is vital for the Government to ensure that people are saving into high quality, value-for-money schemes and that all individuals, irrespective of their employer and their choice of scheme, can have confidence in their workplace pension saving.

35. Good governance is fundamental to ensuring good outcomes for those saving in pension schemes. The Pensions Act 2014 includes powers to allow the Government to introduce minimum governance and administration standards. In *Better Workplace Pensions: Further measures for savers* the Government announced that it intends to use these powers to strengthen the governance of defined contribution (DC) workplace schemes.

36. Small variations in charging can make a significant difference in outcomes for savers and there is evidence that employers, who are choosing schemes for those being automatically enrolled, are not aware of the level of charges or the impact they have. The Act provides for powers to restrict pension scheme charges. The Government has announced that it intends to use these powers to introduce a cap of 0.75 % in the default funds of DC schemes used for automatic enrolment. The Government has also announced that it intends to ban 'Active Member Discount' structures; member-borne commission payments; and consultancy charges from schemes used for automatic enrolment.

37. The governance and charges measures will be complemented by full transparency of costs and charges in workplace pension schemes. The Act paves the way for these measures by requiring the Secretary of State and the Financial Conduct Authority to introduce regulations and rules to mandate disclosure of costs and charges.

Pension Protection Fund compensation cap

38. The Pension Protection Fund (PPF) pays compensation to members of underfunded defined benefit occupational pension schemes where the 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 may see their retirement income disproportionately affected by this cap.

39. The Pensions Act 2014 includes measures to re-structure the compensation cap so that individuals with long service in a scheme which enters the PPF have a higher cap applied to their compensation.

40. The new cap will reflect the fact that people who have worked for a long time for one employer are reliant on that employer’s pension scheme for a large proportion of their retirement income. Such individuals can be disproportionately affected if that employer’s scheme enters the PPF.

Other measures in the Pensions Act 2014

41. The Pensions Act 2014 contains a number of other measures – including a number to strengthen existing legislation relating to pensions regulation or automatic enrolment.

42. 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 power to require PPF pension levies to be paid in respect of past periods;
- measures relating to the prohibition and suspension of corporate trustees;
- 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, to minimise any adverse impact on the sustainable growth of sponsoring employers when exercising its functions relating to scheme funding;

- provisions allowing the Pensions Regulator to increase the maximum period between scheme returns to five years for micro schemes (i.e. those that have between 2 and 4 members); and
- an amendment to the Public Service Pensions Act 2013 to allow smaller public body pension schemes to transfer accrued rights into one of the larger public service schemes.

Summary of impacts

Reform of the state pension system

43. The Pensions Act 2014 introduces a new state pension system to replace 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.
44. 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.
45. 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.
46. Crediting arrangements will also be set out in regulations and are expected, in the main, to mirror current arrangements. The one exception, which is legislated for in the Pensions Act 2014, will be for regulations to be made to allow people who reach State Pension age on or after the implementation of the single tier pension to apply for National Insurance credits for the period from April 1975 to March 2010 when they were married to, or in a civil partnership with, and accompanying, members of Her Majesty’s forces on an assignment outside the United Kingdom.
47. 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 when they reach State Pension age.

48. 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).

49. 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 within the scope of means-tested benefits. Under the current system, eligibility for Pension Credit for the single-tier population was 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.

50. Had the current system continued, the proportion of women in Great Britain who would qualify for a full basic State Pension would not catch up with the proportion of men who qualify until 2020 and it would 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).

51. 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 close 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.

52. 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.

53. A time-limited statutory override power is included in the Pensions Act 2014 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.

54. 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. If employers choose

to use the statutory override there will be professional fees (legal and actuarial costs) and administration costs and communication costs. Estimates of these costs are available in the Impact Assessment accompanying the draft secondary legislation on the power to amend schemes to reflect the abolition of contracting-out[12].

55. Following a consultation on whether the statutory override should extend to schemes protected by statue - those of former nationalised industries whose benefits were protected under the terms of privatisation - the Government has decided that employers of these individuals will not be allowed to use the statutory override to alter the pension schemes in relation to members with protected persons' status.

56. The impacts of this decision are set out in detail in the document *"Government response to the consultation: Abolition of contracting out: statutory override for Protected Persons Regulations"*[13].

57. 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 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.

58. 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

59. The Pensions Act 2014 will bring forward the phased increase in the State Pension age to 67 to occur between 2026 and 2028. This brings forward the increase by eight years but means that those who have had their State Pension age increased as a result of the Pensions Act 2011 do not face a further rise.

60. 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 resulting from longer working lives.

61. The reform 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

[12] Department for Work and Pensions, 2014, Draft regulations relating to the abolition of contracting-out for Defined Benefit occupational pension schemes, Gov.uk website

[13] Department for Work & Pensions, 2014, *Government response to the consultation: Abolition of contracting out: statutory override for Protected Persons Regulations,* Gov.uk website

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 will experience an increase in their State Pension age of more than 12 months, relative to the timetable set in 2007.

62. 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.

63. 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.

64. However, the period of life (in years) for those cohorts of men reaching State Pension age between 2027 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 21.3 years and 23.8 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.

65. 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

66. The Pensions Act 2014 will abolish the Assessed Income Period (AIP) in Pension Credit from April 2016. Customers will be obliged to report all relevant 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.

67. The impact on customers with existing AIPs will depend on the type of AIP. Those AIPs 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 not be affected until such time as the AIP ends under existing rules (e.g. if they enter a care home permanently).

68. 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.

69. 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.

70. 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.

71. 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.

72. A more detailed assessment of the impact from abolishing Assessed Income Periods can be found in Annex C.

Bereavement benefit reform

73. 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; and
- 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.

74. The Pensions Act 2014 reforms this range of benefits, introducing the Bereavement Support Payment, to be implemented no earlier than 2017, 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.

75. 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 these savings into the system.

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

77. 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.

78. The main fiscal impact of the proposal is the incurring of net benefit related costs of £100 million in cash terms over the 4 years of the Impact Assessment.

79. A full assessment of the impact of the reform to bereavement benefits can be found at Annex D.

Automatic pension transfers

80. The Pensions Act 2014 provides a power 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.

81. Although initially increasing costs, it is estimated that, by 2050, the automatic transfers system will have generated £6.4 billion in savings (in 2012/13 price terms) for the pensions industry by halving the number of dormant pots that schemes will have to administer.

82. 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. This includes working closely with HMRC to explore whether the existing PAYE infrastructure could be used to help deliver a secure straightforward and efficient process.

83. 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 five or more dormant workplace money purchase pots, compared to 25.8% without change.

84. A fuller assessment of the impact of automatic transfers can be found at Annex E.

Short service refunds

85. The Government intends for pension saving to be the norm and that pension contributions should remain in schemes to 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 would be expected to rise to 100,000 per annum as automatic enrolment becomes the norm.

86. The Pensions Act 2014 therefore withdraws the facility to offer short service refunds from money-purchase occupational pension schemes.

87. 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 (see above) which will, over time, tend to consolidate individuals' pension saving.

88. 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 in any case and are used towards the general maintenance of the scheme.

89. A full assessment of the impact of short service refunds can be found at Annex F.

Charges and quality standards in workplace pensions

90. *Better Workplace Pensions: Further Measures for Savers*[14] set outs the Governments vision to ensure that pension savings are invested in value for money schemes that are well-governed. As part of the proposals the Government is introducing a charge cap of 0.75% for the default funds of all qualifying schemes and taking action against charging practices not appropriate for automatic enrolment.

91. The new governance standards, applying across all workplace schemes, will further protect members by ensuring schemes are run in their interests. A new wave of transparency measures will allow those running schemes, employers and scheme members to see exactly what they are paying for and make comparisons across the market.

[14] Department for Work and Pensions, 2014, *Better workplace pensions: Further measures for savers*, Cm 8840, TSO

92. The additional savings to individuals from the introduction of a charge cap on default funds in qualifying schemes is estimated to be £195 million over the next ten years; this amount is assumed to be a direct transfer from the revenues of pension providers to individuals. The one-off transitional cost to employers of setting up new schemes where schemes are already being used, or which were planned to be used, as a qualifying scheme and had charges above the 0.75% cap is estimated to be £55.5 million. The ongoing administrative cost of disclosing pension scheme charges for providers to employers, scheme members, trustees and the proposed Independent Governance Committees is estimated to be £0.04 million per annum.

93. A full assessment of the impact of a charge cap can be found at Annex G. An assessment of the impact of minimum governance standards is at Annex H.

Frequency of scheme returns

94. Section 49 of the Pensions Act 2014 allows the Pensions Regulator to reduce the frequency of scheme returns for micro schemes (those with 2-4 members) to once every 5 years. Previously these schemes were required to complete a scheme return at least once every three years. This measure could generate administrative savings of £336,554 per annum on average (in 2012 price terms) across all schemes (£10 per scheme per annum). It could also generate administrative savings to the Regulator of £61,000 per annum on average (in 2012 price terms).

95. There are no anticipated costs as a result of this measure. There is a very small risk of an increase in incorrect data being held by the Pensions Regulator due to the reduced frequency of the scheme returns.

96. A full Impact Assessment on the above provisions can be found at Annex I.

Pension Protection Fund (PPF) compensation cap

97. The Pensions Act 2014 re-structures the PPF compensation cap to address the fact that under the current arrangements, long serving members of pension schemes that enter the PPF can see their retirement income disproportionately affected by the compensation cap.

98. The compensation cap means members with pension entitlements above a specified amount can get the same level of compensation, regardless of other differences between the members.

99. 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).

100. The Act therefore contains measures to restructure the compensation cap so that any individual with 21 years or more in the same scheme will see the compensation cap that is applied to them increased by 3% for each full year of membership above 20 years. There will be a maximum compensation cap of double the standard cap.

101. This will benefit those long serving members who would have seen their compensation capped at the old level, as they will be paid a higher level of compensation as a result. The extent to which individuals benefit will depend upon their precise circumstances.

102. The increased payments under the higher cap will result in a rise in PPF liabilities – both for current members and in respect of schemes that may enter the PPF in the future. it is not possible to say whether this increase in liabilities will result in an increase in the PPF levy, as this is set by the PPF on an annual basis after taking account of a number of different factors.

103. The PPF will also need to make administrative changes. .

104. Taking into account these factors, and on the assumption that the costs of the higher cap will be passed on in full to levy payers, it is estimated 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.

105. A full Impact Assessment on the above provisions can be found at Annex J.

Other measures

106. The Pensions Act 2014 also contains a number of other measures. 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.

107. These measures are summarised in Annex K.

108. As noted above, further details of the measures in the Pensions Act 2014 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	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. 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. 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 needed 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. 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. 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.

Measures: Introduction of a single-tier State Pension (see Annex A for further details)	
Sections & Schedules	Sections 1-24; Schedules 1-14.
Impact on individuals	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. Individuals who are contracted out of the additional State Pension will pay higher 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.
Impact on employers	The statutory override (see para 53) 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. If employers choose to use the statutory override there will be professional fees (legal and actuarial costs) and administration costs and communication costs. If all private sector contracted-out schemes used the statutory override the estimated cost of doing so would be around £161 million in 2016/17 but these are likely to be offset by the benefits of making changes to scheme rules. Further information is available in the Impact Assessment accompanying the draft secondary legislation on the power to amend schemes to reflect the abolition of contracting-out[15]. Employers of individuals who are members of schemes protected by statute will not be allowed to use the statutory override to alter the pension schemes in relation to members with protected persons' status.

[15] Department for Work and Pensions, 2014, Draft regulations relating to the abolition of contracting-out for Defined Benefit occupational pension schemes, Gov.uk website

Measures: Introduction of a single-tier State Pension (see Annex A for further details)	
Impact on pensions industry	N/A
Impact on Government	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. The end of contracting out for defined benefit schemes will result in an increase in National Insurance revenue for the Exchequer (approximately £5 billion in 2016). The estimated costs of implementing the single-tier pension are around £380m in 2013/14 prices[16]. These are early estimates (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. These estimates are being reviewed as detailed design and planning work continues and we expect them to be revised in due course. 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.
Regulatory burden on business and civil society organisations	N/A

[16] Implementation costs do not include the increased payroll costs for Government Departments as a result of ending the National Insurance rebate.

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.
Sections & Schedules	Section 26
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. The net benefit-related saving is estimated to be £73.5 billion in real terms.
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	The Assessed Income Period (AIP) effectively fixes the value of capital and other retirement provision, usually for at least 5 years, and ignores certain changes during that period that would otherwise result in a reduction in the Pension Credit award. The award itself is not fixed during an AIP – it will take account of annual increases in non-State Pensions (without the customer needing to report them), as well as other changes such as up-rating of State Pension and Pension Credit. This measure removes the AIP and introduces a requirement to report all relevant 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, when a change is reported or when a scheduled operational review is conducted - whichever occurs soonest after 2016. Customers with an indefinite-length AIP will not be affected until such time as the AIP ends under specified circumstances.
Sections & Schedules	Sections 28 and 29
Impact on individuals	The abolition of AIPs will simplify the rules relating to changes of circumstances, sending out a clear message that all relevant 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. 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. 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.
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	Annually Managed Expenditure (AME) on Pension Credit is expected to fall by around £82 million a year by 2020 as a result of changes to a claim 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 as the change will affect different customers at different times, as and when their circumstances change. Changes to Pension Credit entitlement may also have an effect on the amount of support that customers are entitled to receive for their rent – which is currently provided through Housing Benefit. 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 £17 million a year, with additional costs incurred in updating systems and processes to reflect the change in policy.
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; also simplifies the contribution conditions, with a single rule irrespective of age and whether an individual has dependent children.
Sections & Schedules	Sections 30 – 32 Schedule 16
Impact on individuals	Individuals already in receipt of current bereavement benefits 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 reform is the incurring of net benefit related costs of £100 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	A power to introduce a system of automatic pension transfers so that an individual's pension pot will follow them to their new scheme when they change jobs. The Government proposes that 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.
Sections & Schedules	Section 33; Schedule 17.
Impact on individuals	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. 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.
Impact on employers	N/A
Impact on pensions industry	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 (in 2012 price terms). There will be additional costs from setting up and running a system which enables members to be matched to their dormant pension pots.
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. This includes working closely with HMRC to explore whether the existing PAYE infrastructure could be used to help deliver a secure straightforward and efficient process. 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 the facility to make short service refunds of contributions from money purchase occupational pension schemes.
Sections & Schedules	Section 36
Impact on individuals	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. 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.
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.

Measure: Withdrawal of short service refunds (see Annex F for further details)	
Impact on Government	N/A
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: Charges and quality standards in workplace pensions (see Annexes G and H for further details)	
Summary of measures	Powers to restrict charges and to require disclosure of scheme charges. The Government proposes to introduce charge controls on default funds in qualifying schemes, including: a charge cap (0.75%), a ban on Active Member Discounts (AMDs), an extension of the consultancy charge ban, and a ban on commissions
Sections & Schedules	Sections 43 and 44 Schedule 18
Impact on individuals	Statutory requirement to disclose pension scheme charges - individuals who understand the information will be better informed. Individuals will be more likely to benefit if the trustees/proposed Independent Governance Committees (IGC's) pertaining to their scheme exerted a downward pressure on charges as a result of more and clearer information on charges. Charge controls - it is estimated that around 2 million active members will benefit from the introduction of the charge controls. These are individuals who will be enrolled in default funds in qualifying schemes which do not comply with the charge controls and would therefore gain from lower charges – as long as member-borne charges elsewhere are not increased. We estimate the gain to impacted individuals to be £195 million over a ten year period as a result of the introduction of the charge controls. Deferred members will no longer have to incur higher charges if AMDs are banned, and those currently paying commission or consultancy charges, but not receiving a service in return for this money, will also benefit.
Impact on employers	Statutory requirement to disclose pension scheme charges; no additional cost to employers. Employers who request information on scheme charges may be more informed of charges and could find the standardised information easier to compare charges across schemes. However the information provided is unlikely to have an impact on the employers' choice of scheme. Charge controls; if an employer's existing scheme which they are using or intending to use for automatic enrolment, contains a default fund with a charge higher than the cap level, or contains features such as commission/AMDs, and the pension provider is not willing to adjust the terms of the scheme to become compliant, there would be transitional costs from having to set up alternative pension provision. Total

	transitional costs of up to £55.5 million could be expected for employers impacted by the charge controls. However the estimated transitional costs could be lower depending on the number of employers who renegotiate the terms of their pension scheme when in breach of the charge controls.
Impact on pensions industry	Statutory requirement to disclose pension scheme charges - cost and charges information is already disclosed but these proposals will require all schemes to do it in a standardised way. The costs of disclosing pension scheme charges are expected to be minimal to pension providers as communication is expected to be done primarily electronically to employers. Disclosure of information to scheme members is expected to be done electronically or included in the annual benefit statement both at negligible costs. Disclosure to trust-based schemes and IGCs is expected to be paper-based. Ongoing costs of disclosure are estimated at £0.04 million a year. Achieving full and standardised transparency with regard to transaction costs represents more of a change with existing practice and therefore may incur more of a cost to pension schemes and providers. The Department does not have sufficient information to reliably quantify this cost. The pensions industry could benefit from improved disclosure of information through building trust and confidence in the market. Charge controls - the amount of money flowing into the industry as a result of automatic enrolment will remain the same but the proportion taken in charges will be smaller and the distribution of the funds across schemes will be impacted by the introduction of the charge controls. There will possibly be some consolidation in number of schemes – resulting in a smaller number of more efficient schemes, taking advantage of economies of scale. We estimate that there could be a net loss of revenue to the pensions industry of £195 million over a ten year period as a result of the introduction of charge controls. Introducing a charge cap will increase the level of capital insurers are required to hold in order to protect customers against the risk of insolvency. A ban on AMDs, commission and consultancy charges means that some schemes may have to be rewritten by the provider if it wants to keep business generated by automatic enrolment. We would not expect this to lead to a withdrawal of business by providers as the net impact on their revenues is not likely to be significant.
Impact on Government	N/A

Regulatory burden on business and civil society organisations	The cost to pension providers from the introduction of a charge cap on default funds in qualifying schemes is estimated to be £195 million over the next ten years; this amount is assumed to be a direct transfer from the revenues of pension providers to individuals. The one-off transitional cost to employers of setting up new schemes where schemes are already being used, or which were planned to be used as qualifying schemes *and* had charges above the 0.75% cap, are estimated to be £55.5 million. The ongoing administrative cost of disclosing pension scheme charges for providers to employers, scheme members, trustees and the proposed IGCs is estimated to be £0.04 million per annum.

Measure: Frequency of scheme returns (see Annex I for further details)	
Summary of measures	Allows the Pensions Regulator to reduce the frequency of scheme returns for pension schemes with 2-4 members (micro-schemes).
Sections & Schedules	Section 49
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	N/A
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 J for further details)	
Summary of measures	Restructures the PPF compensation cap so that any individual who has been a member of the same scheme for 21 years or more will see the compensation cap that is applied to them increased by 3% for each full year of membership above 20 years. There will be a maximum compensation cap of double the base cap.
Sections & Schedules	Sections 50 and 51; Schedule 20.
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

Measure: Changes to Pension Protection Fund compensation cap for long service (see Annex J for further details)	
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 Act 2014 (see Annex K 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	Sections & Schedules
Option to boost old retirement pensions	Section 25 Schedule 15
Periodic review of rules about pensionable age	Section 27
Power to prohibit offer of incentives to transfer pension rights	Sections 34 & 35
Automatic re-enrolment: exceptions where automatic enrolment deferred	Section 37
Automatic enrolment: powers to create general exceptions	Section 38
Alternative quality requirements for UK defined benefit schemes	Section 39
Automatic enrolment: transitional period for hybrid schemes	Section 40
Penalty notices under sections 40 and 41 of the Pensions Act 2008, etc.	Section 41
Unpaid scheme contributions	Section 42
Power to require pension levies to be paid in respect of past periods	Section 45

Measure: Other measures in the Pensions Act 2014 (see Annex K 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	Sections & Schedules
Prohibition and suspension orders: directors of corporate trustees	Section 46 Schedule 19
Preparation of guidance for pensions illustrations	Section 47
Pensions Regulator’s objectives	Section 48
Public service pension schemes: transitional arrangements	Section 52