

New Bereavement Support Payment: clarification of Guaranteed Minimum Pension requirements

Department for Work and Pensions

RPC rating: validated

Description of proposal

The proposal seeks to amend the *Occupational Pension Schemes (Schemes that were Contracted-out) (No 2) Regulations 2015* (“the 2015 Regulation”) to clarify the circumstances in which the inheritable Guaranteed Minimum Pension (GMP) must be paid by pension schemes after the introduction of the Bereavement Support Payment (BSP) to replace Bereavement Allowance (BA) or Widowed Parents Allowance (WPA).

Currently legislation requires that GMPs are payable where statutory payments of BA and WPA are made. The impact assessment (IA) states that replacing the BA and WPA with the new BSP, without making any amendments to the legislation covering GMP requirements, might create uncertainty for the schemes’ administrators and members. The intention of the proposal is therefore to resolve this uncertainty, without altering the underlying inherited GMP payment commitments.

Amendments to the 2015 Regulation, alongside other changes referring to contracted out schemes, have been included in the draft *Occupational Pension Schemes and Social Security (Schemes that were Contracted-out and Graduated Retirement Benefit) (Miscellaneous Amendments) Regulations 2017*.

Impacts of proposal

The Department has consulted business to assess the impacts of the measure. The consultation covered miscellaneous changes contained in the draft *Occupational Pension Schemes and Social Security Regulations 2017*, with a number of questions addressing changes of legislation associated with GMPs requirements. These questions sought to quantify the costs and the number of affected schemes. The consultation targeted mainly pension administrators and employers who sponsor pension schemes.

Based on this evidence and on statistical data about pension schemes, the IA quantifies familiarisation, administrative and implementation costs for a relatively small number of schemes whose rules include a dependency on benefit payments.

They are expected to occur only in the first year after implementation, as the Department argues that any administrative changes, once implemented, should proceed in an automated way. It also notes that the GMP covers individuals who were members of a contracted out pension scheme between 1978 and 1997; there will therefore be no new schemes affected in the future.

The Department identifies, but does not quantify, a benefit to business and to pension scheme members as a result of clarifying the rules. It expects that schemes will be less likely to need to seek professional advice, or to make errors which would be costly both to the individuals affected and to the schemes' reputations.

Number of affected schemes

The IA states that there are around 6,000 funded Defined Benefit schemes which are in principle in scope of the regulations. According to the Department's assumptions only 5% of the schemes (300) will be affected. This is based on comments from the consultation, which suggest that most pension schemes specify rules for GMP that do not depend on benefits payment, and on survey data from the Occupational Schemes Survey.

Familiarisation and implementation costs

The IA estimates that on average each affected scheme will incur transitional costs of around £1,560. These include:

- around £1,000 incurred in updating schemes' rules booklets and other information. This assumption is based on evidence from industry provided during the consultation; and
- administrative and familiarisation costs of around £560, including one day of a lawyer's time to familiarise themselves with the new requirements and two days of administrative time to implement any necessary process and IT changes. The wage rates used for this calculation are taken from ONS's *Occupational Pension Scheme Survey*.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of £0.1 million. This will be a qualifying regulatory provision that will score under the business impact target.

Quality of submission

The Department's consultation received relatively few responses, with only 13 responses including comments on the GMP in the new BSP environment (out of total 43 commenting on miscellaneous amendments of the *Occupational Pension*

Schemes and Social Security Regulations 2017). Most of these responses were qualitative. For a measure of this scale, the quality of evidence collected is appropriate, but for future consultations on larger measures, the Department may wish to consider whether it could take proportionate action to increase the number of responses, and to encourage the provision of quantitative analysis in responses.

The Department's assumptions around familiarisation time are unusually high for a change of this scale; the IA would have been improved by a clearer explanation of what activities were included within its estimate of one day of a lawyer's time, beyond the reading of a six-page document. The IA indicates, for example, that 'deeds of amendment' to update scheme's rules would need to be produced, but does not explain what these are and what is entailed in producing them.

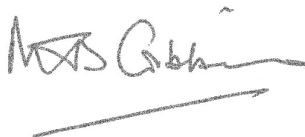
Overall, the IA is clearly set out and the evidence underpinning the Department's estimates is proportionate and well-presented.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANCB)	£0.1 million
Business net present value	£-0.5 million

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANCB – RPC validated ¹	£0.1 million
Business Impact Target (BIT) Score ¹	£0.5 million
Small and micro business assessment	Not required - low-cost regulation



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.