

United Kingdom: Pensions Bill published

The new Pensions Bill was introduced in the House of Commons, and received its first reading, on 28 November 2006.

The Bill is much shorter than recent pensions-related Acts, running to 29 clauses and seven schedules. Provisions in relation to State pensions form the largest part of the Bill, but there are also four clauses relating to occupational and personal pension schemes and four relating to the setting up of the 'Personal Accounts Delivery Authority'. The main proposals are summarised below:

State pensions

- State pension age (SPA) will increase, in three phased stages, from 65 to 68. Those born after 5 April 1959 will be affected by an increase from 65 to 66 phased in between April 2024 and April 2026; those born after 5 April 1968 by another increase from 66 to 67 phased in between April 2034 and April 2036; and those born after 5 April 1977 by a further increase from 67 to 68 phased in between April 2044 and April 2046. (Age thresholds for certain other social security benefits will be raised consistent with this.)
- The basic State pension will be required to increase annually in line with earnings. No explicit date is given for this, but wording is included in the Bill to formalise the Government's White Paper commitment that the change will be introduced before the end of the next Parliament.
- The standard minimum guarantee will also be required to increase in line with earnings (at present, earnings increases have been given under a discretionary power).
- Bereavement allowance, widowed parent's allowance, widow's pension and widowed mother's allowance will however continue to be increased in line with prices. The LEL will also be de-linked from the basic State pension, with future increases being at the Treasury's discretion.
- The number of years during which a person's earnings must have exceeded the relevant threshold under the NI rules for a person to be entitled to a full basic State pension is being reduced to 30 (from 39 for females and 44 for males), where the person reaches SPA after 5 April 2010. There are also new arrangements for crediting years to parents and carers; these replace the existing 'home responsibilities protection' arrangements with a system under which each complete year in which the person meets the 'parent' or 'carer' criterion counts as a year towards the 30 needed.
- Spouses or civil partners who have passed SPA and are entitled to a pension by reference to their partner's contributions will (from 6 April 2010) be able to claim the pension even if their partner has deferred receipt of his or her pension.
- Adult dependency increases to State pensions will be abolished with effect from 6 April 2010 (but with some transitional protection up to 5 April 2020).
- S2P accrual is currently based on 40% of the excess of the 'Low Earnings Threshold' (LET) over the LEL, plus 10% of earnings between the LET and an 'Upper Earnings Threshold' (UET), plus 20% of earnings between the UET and UEL. Three stages of change are proposed:

- From 6 April 2010, the accrual rate for the third band will be reduced from 20% to 10% (so that the second and third bands are merged)
- From a date yet to be determined, the ‘40% band’ will be replaced by a flat pension of £1.40 per week (£72.80 pa) for each year of contribution – examining the detail of the legislation, this flat amount appears to be subject to annual uprating at least in line with earnings, and rather than starting at the amount of £72.80 pa indicated, will actually start at an amount which reflects two years of earnings increases up to 30 September 2006 plus further earnings increases up to the year the change is first made
- The top point of the ‘10% band’ seems intended to be frozen at the level applicable when the flat-rate part of the benefit is introduced, so that this band gradually gets squeezed out as the LET rises – the Explanatory Notes simply mention that this remaining earnings-related part “will ultimately be withdrawn by around 2030, leaving a flat-rate benefit”.

The Explanatory Notes highlight that these changes will affect rebates for contracted-out defined benefit schemes.

- A wider range of parents and carers will be brought into S2P (with deemed earnings at the LET), from 6 April 2010. For example, recipients of child benefit will get a credit where the child is under age 12 (compared with age 6 currently).

Occupational and personal pension schemes

- A facility will be introduced for trustees to convert GMPs into other benefits, on an actuarial equivalence basis:
 - The Bill does not define ‘actuarial equivalence’ but allows for Regulations to do so
 - Where a pension is in payment, the conversion cannot result in an immediate reduction in that pension
 - Benefits cannot be converted to money purchase
 - A half-rate survivor’s pension must be provided on benefits in respect of service for which there would have been a widow’s, widower’s or surviving civil partner’s GMP
 - The trustees can choose to convert GMPs on a member-by-member basis (ie they don’t have to do it for the whole scheme or even for specified categories of member)
 - The employer must consent and affected members must be consulted in advance of the conversion (but the procedural requirements in this regard do not appear to be as extensive as under the ‘section 67’ requirements, from which GMP conversions would be exempt)
 - Trustees of a scheme being wound-up may take advantage of the conversion facility
 - There is no mention of ‘sex equality’ issues – it therefore appears that schemes wishing to effect this GMP conversion would have to level up (at present, many schemes have been taking the view that inequalities attributable to GMPs are not illegal).
- Contracting out on the protected rights basis will be abolished from a date to be specified by Order (which earlier communications have indicated will be no earlier than 2012), with certificates automatically cancelled from that date. From the Explanatory Notes, it appears that protected rights already built up will be subject to current

obligations (for former COMPs and APPs); no mention is made as to whether or not this supersedes and/or represents the outcome of the recent consultation on this aspect, which proposed that they be treated like other money purchase benefits.

- The revisions to the dispute resolution requirements, intended to allow schemes to move from a two-stage to a one-stage process (and incorporated in the Pensions Act 2004 but not yet brought into force), have been refined. In particular, the new proposals allow for existing two-stage procedures to be retained, with a decision being given by a specified person (ie not necessarily the trustees) and then if necessary reconsidered by the trustees.
- The requirement for certain actuarial guidance notes to be approved by the Secretary of State is to be removed. This affects GN 19 (debt on employer and winding-up priority order), GN 28 (reference scheme test certificates), GN 49 (advice under the scheme-specific funding regime) and TM1 (statutory money purchase illustrations). It is unclear whether or not it affects GN 27 (MFR), if/when that guidance needs to be revised.

Personal accounts

The Bill establishes a body called the 'Personal Accounts Delivery Authority', a body with a limited remit to assist the Government with the preliminary work necessary for the establishment of a 'national low-cost portable pensions savings scheme'. The Explanatory Notes confirm the Government's intention to legislate for these personal accounts in a second Bill, with the new scheme coming into effect from 2012.