Department for
Social
Development
www.dsdni.gov.uk

Dr Kevin Pelan
Clerk to the Committee for Social Development
Northern Ireland Assembly
Room 242
Parliament Buildings
Ballymiscaw
Stormont
BELFAST
BT4 3XX

6 March 2013

Dear Sir

Draft Westminster Pensions Bill

In January we forwarded a draft Pensions Bill, published by the Department for Work and Pensions, which contains measures reforming aspects of State and private pension provision and Bereavement Benefits. To assist the Committee, we have prepared the attached summary and background briefing for the Bill. If the Committee wishes, we would be happy to brief the Committee further and answer any questions.

Yours faithfully

Anne McCleary

Anne McCleary
Director
Social Security Policy & Legislation Division

WESTMINSTER PENSIONS BILL
BRIEFING FOR THE COMMITTEE FOR SOCIAL DEVELOPMENT

	Page
Synopsis	1
State Pension	1
Pensionable Age	2
Bereavement Support Payment	2
Private Pensions	2
Corresponding Northern Ireland Bill	2
Briefing Note	3
Background	3
Bill Overview	3
Part 1: State Pension	3
Part 2: Pensionable Age	4
Part 3: Bereavement Support Payment	4
Part 4: Private Pensions	4
Part 5: Final Provisions	4
Summary of Main Provisions	5
Part 1: State Pension	5
Qualifying years	6
State Second Pension	6
Contracting-out	6
State Pension Credit	7
Category D Pension and Age Addition	7
Inheritance and Derived Rights	8
Women – Reduced rate Contributions	8
Part 2: Pensionable age	9
Future Changes to Pensionable Age	9
Part 3: Bereavement Support Payment	10
Part 4: Private Pensions	10
Part 5: Final Provisions	11
Financial Implications	12
Corresponding Northern Ireland Bill	13

SYNOPSIS

The draft Westminster Pensions Bill contains measures reforming aspects of State and private pension provision and Bereavement Benefits (Command Paper CM 8529). It sets out proposals for:

- the introduction of a single-tier State Pension and consequential matters;
- increasing State Pension age to 67;
- the introduction of the Bereavement Support Payment; and
- changes to private pensions.

The State Pension proposals were the subject of a consultation carried out in Great Britain and Northern Ireland between April and June 2011. Consultation on the reform of Bereavement Benefits was carried out in Great Britain and Northern Ireland between December 2011 and March 2012. The Committee were briefed on 23 June 2011 and 8 March 2012 respectively.

1. State Pension

The Westminster Government plan to introduce the single-tier pension from April 2017. The new scheme will replace the existing State Pension, comprising basic State Pension and additional State Pension, with a single component flat-rate pension. It will:

- simplify the pension system;
- be set above the basic level of means-tested support – the Pension Credit Standard Minimum Guarantee; currently £142.70 per week for a single pensioner;
- be increased at least in line with average growth in earnings;
- bring to an end:
    - the State Second Pension (subject to transitional provisions),
    - contracting-out,
    - the Savings Credit element of State Pension Credit for new claimants, and
    - the Category D (over 80s) pension and the Age Addition for people who attain pensionable age after the introduction of the new State Pension;
- require 35 qualifying years of National Insurance contributions or credits for the full amount. There will also be a minimum qualifying period of between 7 and 10 years. Those with less than 35 qualifying years but above the minimum qualifying period will get a proportionally smaller amount;
- be based on individual qualification, ending inheritance of, and derived rights to, a spouse's or civil partner's pension;
- make provision for women who paid reduced rate National Insurance contributions;
- continue to allow people to defer claiming their State Pension.

People reaching State Pension age before the introduction of the single-tier scheme will receive their State Pension in line with current rules.

2. Pensionable Age

The Pensions Act 2007 provided for State Pension age for men and women to increase to:

- 66 between 2024 and 2026;
- 67 between 2034 and 2036; and
- 68 between 2044 and 2046.

Subsequent projections revised life expectancy upwards and, as a consequence, the increase to age 66 was brought forward to October 2020 by the Pensions Act 2011. The Government now propose to phase-in the increase to 67 between 2026 and 2028. The increase was announced in the November 2011 Budget Statement.

3. Bereavement Support Payment

The Bereavement Support Payment will replace existing Bereavement Benefits. It will simplify the payment system by moving to a more uniform structure, and the contribution conditions with the introduction of a single rule. It will be paid as a lump sum with monthly instalments to avoid risks associated with making a large lump sum payment. The following indicative amounts were provided in the Government's response to the consultation (Command Paper CM8371):

- a lump sum of around £2,500 and monthly instalments of £150 for a year for claimants without dependent children; and
- a lump sum of around £5,000 and monthly instalments of £400 for a year for claimants with dependent children.

4. Private Pensions.

A number of provisions clarify existing legislation. The maximum period within which occupational pension schemes must submit scheme returns to the Pensions Regulator will be increased from three to five years and the practice of providing inducements to transfer scheme rights into another scheme or arrangement banned.

5. Corresponding Northern Ireland Bill

Subject to Ministerial agreement and Executive approval, a corresponding Assembly Bill could be introduced early in 2014.

BRIEFING NOTE

Background

1. The draft Westminster Pensions Bill contains measures reforming aspects of State and private pension provision and Bereavement Benefits (Command Paper CM 8529). Copies were lodged with the Assembly Business Office on 21 January 2013. The Bill sets out proposals for:

   - the introduction of a single-tier State Pension and consequential matters;
   - increasing State Pension age to 67;
   - the introduction of the Bereavement Support Payment; and
   - changes to private pensions.

2. On 14 January 2013, the Department for Work and Pensions published the Command Paper '*Single-tier pension: a simple foundation for saving*' explaining the single-tier pension scheme and consequential matters. The proposals were the subject of a consultation carried out in Great Britain and Northern Ireland between April and June 2011. The Committee were briefed on 23 June 2011. In his March 2012 Budget Statement, the Chancellor announced the Government's intention to introduce the single-tier pension and legislative proposals were outlined in the Queen's Speech in May 2012.

3. The increase in State Pension age to 67 was announced in the November 2011 Budget Statement.

4. Consultation on reform of Bereavement Benefits was carried out in Great Britain and Northern Ireland between December 2011 and March 2012. The Committee were briefed on 8 March 2012. The Government published its response to the consultation, outlining its intention to introduce the Bereavement Support Payment, in July 2012.

Bill Overview

5. The Bill has five parts:

Part 1 – State Pension

6. A single-tier pension will replace the current two-component system, comprising basic State Pension and additional State Pension, with a single-component flat-rate pension. Transitional measures provide for:

   - people who have paid, been treated as having paid or been credited with National Insurance contributions in respect of tax years before the introduction of the new State Pension;
   - inheriting entitlement from a late spouse or civil partner who had made National Insurance contributions in respect of tax years before the introduction of the new State Pension;

- women who, before 1977, elected to pay a reduced rate of National Insurance contributions;
- sharing pension with a former spouse or civil partner upon divorce.

7. Provision is made to allow people to postpone or suspend their entitlement to a State Pension. The Bill also contains provisions for a number of changes arising from the introduction of the new State Pension, including the abolition of contracting-out for salary-related occupational pension schemes and the abolition of the savings credit element of State Pension Credit for those people who reach pensionable age on or after the introduction of the new State Pension.

Part 2 – Pensionable Age

8. This Part contains two measures relating to pensionable age. The first brings forward the increase of pensionable age from 66 to 67 - eight years earlier than under existing legislation. The increase will begin in 2026 and end in 2028.

9. The second measure provides for a periodic review of pensionable age and for the review to be informed by reports from the Government Actuary's Department, in relation to life expectancy, and from an independently-led body on other factors specified by the Secretary of State at the time.

Part 3 – Bereavement Support Payment

10. This Part of the Bill contains provisions to reform bereavement benefits and introduce a new Bereavement Support Payment.

Part 4 – Private Pensions

11. This Part contains a number of measures related to private pension legislation, including:

    - various technical amendments to the Pensions Act 2004 and the Pensions Act 2008 designed to improve operational processes for the Pensions Regulator and correct anomalies in relation to the automatic re-enrolment duties for employers and the Regulator's penalty powers;
    - a provision for regulations to be made banning the practice of providing incentives which encourage individuals to transfer a cash equivalent value of their accrued rights from a salary-related occupational scheme to an alternative arrangement; and
    - an amendment to companies legislation to make it clear that the body preparing guidance in relation to pension illustrations may benefit from the exemption from liability for damages.

Part 5 – Final provisions

12. These five clauses relate to the power to make consequential amendments, general provision in respect of regulations and orders under the Bill, the Territorial Extent of the Bill, commencement of provisions in the Bill and the short title.

Summary of Main Provisions

Part 1 – State Pension

13. The draft Westminster Pensions Bill contains proposals for:

- the introduction of a single-tier State Pension and consequential matters; and
- increasing State Pension age to 67.

Single-tier Pension

14. The Westminster Government plans to introduce the single-tier pension in April 2017. People reaching State Pension age before then will receive their pension in line with current rules. The new scheme will replace the present scheme, comprising basic State Pension and additional State Pension, with a single component flat-rate pension. It will:

- simplify the pension system;
- be set above the basic level of means-tested support – the Pension Credit Standard Minimum Guarantee; currently £142.70 per week for a single pensioner;
- be increased at least in line with average growth in earnings;
- require 35 qualifying years of National Insurance contributions or credits for the full amount. There will also be a minimum qualifying period of between 7 and 10 years. Those with less than 35 qualifying years but above the minimum qualifying period will get a proportionally smaller amount;
- bring to an end:
  - the State Second Pension (subject to transitional provisions),
  - contracting-out,
  - the Savings Credit element of State Pension Credit for new claimants, and
  - the Category D (over 80s) pension and the Age Addition for people who attain pensionable age after the introduction of the new State Pension;
- be based on individual qualification, ending inheritance of, and derived rights to, a spouse’s or civil partner’s pension;
- make provision for women who paid reduced rate National Insurance contributions;
- continue to allow people to defer claiming their State Pension.

15. The Government’s stated aim is to provide a simple State Pension system for future pensioners; providing clarity and confidence about the support they can expect from the State. The reforms will provide a foundation to enable planning and saving for retirement and reduce the number of people reliant on Pension Credit by half by 2020.

16. The reforms will modernise the State Pension system to reflect the lives and contributions of today's working-age people: the large majority of people will build up a sufficient National Insurance record to become entitled to the full single-tier pension in their own right, instead of relying on their spouse's or civil partner's contributions.

Qualifying Years

17. Currently, thirty qualifying years are required for a full basic State Pension. Under the proposed Single-tier pension, the number of qualifying years required will increase to 35. This measure reflects the fact that working lives are lengthening and is considered to strike a balance between:

- ensuring wide coverage;
- maintaining the contributory principle; and
- ensuring overall affordability.

18. A minimum number of qualifying years, between 7 and 10, will be introduced to ensure that State Pension expenditure is targeted at those who make a significant economic or social contribution to the country. This is expected to affect people who have spent significant periods of their working lives outside the UK, the EEA and countries with which the UK has reciprocal agreements for social security.

19. Those with fewer than 35 qualifying years, but who satisfy the minimum qualifying period, will receive a proportionately reduced amount of single-tier pension.

State Second Pension

20. In addition to the basic State Pension, many people accrue entitlement to an additional State Pension which might comprise of Graduated Retirement Benefit, State Earnings-Related Pension and State Second Pension.

21. The single-tier pension will replace the current two-tier system, ending the additional State Pension. People reaching State Pension age after the introduction of the new scheme whose contributions are made entirely after its introduction will not be entitled to an amount of State Pension higher than the full level of the single-tier pension. Where contributions or credits exist for periods before the introduction of the new scheme, a higher amount may be payable under transitional provisions.

Contracting-out

22. Since 1961 it has been possible for employers sponsoring defined-benefit occupational pension schemes to contract their employees out of the State additional pension scheme on the condition that they provide an occupational pension meeting certain statutory requirements. In return, both the employer and employee pay reduced rates of National Insurance.

23. In conjunction with the ending of the State Second Pension, the option to contract-out for defined-benefit occupational pension schemes will also end. On commencement of the new scheme, employees who were members of a contracted-out scheme will cease to be entitled to pay reduced rates of National Insurance. This will mean an increase in the rate of contributions they pay equivalent to 1.4 per cent of their earnings (between the Lower Earnings Limit and the Upper Accrual Point), bringing them into line with the rate of National Insurance paid by other employees.

24. All employees will pay the same rate and become entitled to State Pension in the same way. Rights accrued through defined-benefit contracted-out schemes will be fully protected.

State Pension Credit

25. State Pension Credit has two elements:

- a guarantee credit; and
- a savings credit intended to reward people who have made modest savings for their retirement.

26. The single-tier pension will be set at a rate above the basic level of the means test. As a result, there will no longer be a need for a complex savings reward. Removing the Savings Credit element of Pension Credit will simplify means-tested support and help to ensure Pension Credit is re-focused on providing a safety net for the poorest.

Category D pension and the Age Addition

27. The Category D pension is a non-contributory pension paid at around 60 per cent of full basic State Pension to eligible pensioners over age 80. It was introduced in 1971 to provide age-related support to particular groups who did not have sufficient qualifying years to be entitled to a basic State Pension; in particular those who had worked in the former colonies and returned in the 1950s too late to build up entitlement.

28. Under the single-tier system, the majority of pensioners will be eligible for a State Pension above the basic level of the means test based on their own National Insurance records. The Category D pension will, therefore, be withdrawn for people reaching State Pension age under the single-tier system.

29. The Age Addition is an additional payment on top of the basic State Pension for people aged 80 and above. When introduced in 1971, when the full basic State Pension was £6 per week, it was set at 25p per week. It has remained at that level ever since. It no longer represents a meaningful addition and will be removed under the single-tier system.

Inheritance of and derived rights to a spouse's or civil partner's pension

30. Under current rules, a person who is, or has been, married or in a civil partnership may qualify for a basic State Pension, or an increase to their own basic State Pension, based on their spouse's or civil partner's National Insurance record. These provisions go back to the establishment of the State Pension system in the post-war period. They were designed to ensure a pension would be paid to a dependent wife when her husband retired or she was widowed or divorced, on the assumption that she would have no State Pension in her own right.

31. These provisions no longer reflect today's society where most individuals will qualify for a full State Pension on their own National Insurance record. For a person reaching State Pension age under single tier, there will be no provision for using a spouse's or civil partner's National Insurance record other than in limited circumstances.

32. People who retire under the current system will continue to be able to use these provisions, even if their spouse or civil partner is in the single-tier system. However, contributions which a person pays or is credited with into the new system will only count towards their own State Pension. This means that only the spouse's or civil partner's National Insurance records up to and including the tax year before the implementation of single tier will be used to calculate any derived entitlement.

Provision for women who paid reduced rate National Insurance contributions

33. From 1948 to 1977 married women (and certain widows) who were employed could opt to pay lower National Insurance contributions in exchange for relying on their husband's contributions for State Pension entitlement. Self-employed women could opt not to pay the flat-rate self-employed stamp. This option was known as a Reduced Rate Election.

34. Fully removing the potential to derive basic State Pension from a spouse under the single-tier pension would disadvantage those women who elected to pay reduced rate National Insurance contributions. They may have few or no qualifying years as a result of their election, which would leave them with potentially no State Pension under single-tier rules, despite a long history of paying National Insurance contributions and engaging with the system.

35. The Government, therefore, intends to make provision for married women and widows who paid reduced rate contributions. Where a valid election existed at the start of the 35 year period before State Pension age, they will be able to access a single-tier pension based on their own contributions to 5 April 2017 that includes an amount equivalent to the full rate of the 'married woman's' lower-rate basic pension or, if widowed or divorced, the full rate of the basic State Pension. If they would also qualify for a single-tier pension based just on their own contributions, they will receive the higher of the two.

Part 2: Pensionable Age

36. The Pensions Act 2007 provided for State Pension age for men and women to increase to:

- 66 between 2024 and 2026;
- 67 between 2034 and 2036; and
- 68 between 2044 and 2046.

37. Subsequent projections revised life expectancy upwards and, as a consequence, the increase to age 66 was brought forward to October 2020 by the Pensions Act 2011. The Government now propose to phase-in the increase to 67 between 2026 and 2028. The increase was announced in the November 2011 Budget Statement.

Proposed Timetable

Period within which birthday falls	Age State Pension age reached
6 April 1960 – 5 May 1960	66 years and 1 month
6 May 1960 – 5 June 1960	66 years and 2 months
6 June 1960 – 5 July 1960	66 years and 3 months
6 July 1960 – 5 August 1960	66 years and 4 months
6 Aug 1960 – 5 Sept 1960	66 years and 5 months
6 Sept 1960 – 5 Oct 1960	66 years and 6 months
6 Oct 1960 – 5 Nov 1960	66 years and 7 months
6 Nov 1960 – 5 Dec 1960	66 years and 8 months
6 Dec 1960 – 5 Jan 1961	66 years and 9 months
6 Jan 1961 – 5 Feb 1961	66 years and 10 months
6 Feb 1961 – 5 Mar 1961	66 years and 11 months
6 Mar 1961 – 5 April 1969	67

38. The proposals mean that people born after 5 April 1960 but before 6 March 1961 will have a State Pension age between 66 and 67. People born after 5 March 1961 but before 6 April 1969 will have a State Pension age of 67. People born between 6 April 1969 and 5 April 1977 already have a State Pension age of 67. The changes will not apply to anyone affected by the bringing forward of the increase to age 66.

39. As with previous increases in the State Pension age, this proposal will affect the qualifying age for all pension-age benefits and the upper age limit for receipt of working-age benefits.

Future changes to State Pension age

40. As life expectancy continues to increase, the Government believe there is a need for a more structured framework within which to consider changes to State

Pension age to help ensure that the costs of increasing longevity are shared fairly between generations.

41. The consultation on the single-tier State Pension, carried out in Great Britain and Northern Ireland between April and June 2011, sought views on a framework for considering future increases. The Westminster Government proposes that:

- State Pension age will be reviewed every five years, with the first review taking place in the next Parliament;
- the review will be based on the principle that people should expect to spend a certain proportion of their adult life in retirement; and
- the review will be informed by reports from -
  - the Government Actuary's Department analysing the proportion of adult life people reaching State Pension age within a specified time period can expect to spend in retirement, and
  - from an independently-led body on other factors to be taken into account when setting State Pension age.

Part 3: Bereavement Support Payment

42. The Government believe that the payment structure and eligibility conditions of the current system of Bereavement Benefits make it difficult for people to understand what they are entitled to receive in the event of bereavement.

43. While acknowledging that it has a role in providing relief from the pressures associated with spousal/civil partner bereavement, 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.

44. The Bereavement Support Payment will simplify the payment system by moving to a more uniform structure, and the contribution conditions with the introduction of a single rule. It will be paid as a lump sum with monthly instalments to avoid risks associated with making a large lump sum payment. The following indicative amounts were provided in the Government's response to the consultation (Command Paper CM8371):

- a lump sum of around £2,500 and monthly instalments of £150 for a year for claimants without dependent children; and
- a lump sum of around £5,000 and monthly instalments of £400 for a year for claimants with dependent children.

Part 4: Private Pensions

45. A number of measures relate to private and workplace pension schemes, the majority of which strengthen existing legislation relating to regulation and automatic enrolment. In summary, these are:

- a new power to make regulations to prohibit the offer of non-pension incentives to transfer pension scheme rights;
- measures relating to the prohibition of corporate trustees, the operation of automatic re-enrolment where a member has deferred and the powers of the Pensions Regulator to issue penalty notices;
- an amendment to the Companies Act 2004 so that a body preparing guidance in relation to pension illustrations may benefit from the exemption from liability for damages (such as financial loss); and
- a reduction in the minimum period between scheme returns for micro schemes (4 members or fewer).

Part 5: Final Provisions

46. These clauses relate to the power to make consequential amendments, general provision in respect of regulations and orders under the Bill, the Territorial Extent of the Bill, commencement of provisions in the Bill and the short title.

Financial Implications

47. The following estimates have been made by the Department for Work and Pensions:

State Pension

48. The cost of the State Pension system is one of the main pressures driving up the costs of supporting an ageing society. State Pension expenditure is expected to rise from 6.9 per cent of GDP in 2012/13 to 8.5 per cent in 2060/61 according to Department for Work and Pensions forecasts, despite direct action to help keep the pension system sustainable through changes to the State Pension age.

49. The single-tier reform package has elements that increase costs to the Exchequer, such as the value of each qualifying year being worth more under single-tier than basic State Pension, but also elements that decrease costs, for example the removal of Savings Credit and changes to inheritance rules.

50. The overall cost of the State Pension reforms will, therefore, remain broadly in line with current pension system expenditure as a proportion of GDP. In the short to medium term, some modest expenditure above the baseline will occur. In the long-term, savings to the Exchequer will be delivered as spending on pensioner benefits will increase at a slightly slower rate than under the current system. The end of contracting-out for salary-related occupational pension schemes means that the Exchequer accrues additional National Insurance contributions.

Pensionable Age

51. Bringing forward the increase in pensionable age to 67 to between 2026 and 2028 delivers approximately £63 billion savings in Annually Managed Expenditure when compared to the existing legislated baseline (the timetable set by the Pensions Act 2007).

Periodic review of pensionable age

52. There will be a comparatively small administrative cost to undertake the review. However, any decision to change pensionable age as a result of a review will have a significant financial effect; the Government will need to bring forward primary legislation to change pensionable age and an estimate of the financial impacts will be produced at that time.

Bereavement Support Payment

53. Reforming the bereavement benefit system will incur a cost to the Exchequer of approximately £1.48 billion over the first four years.

Private Pensions

54. Increasing from three to five years the requirement for occupational pension schemes to submit scheme returns to the Pensions Regulator will deliver savings to business equivalent to £292,000 per annum.

Corresponding Northern Ireland Bill

55. Subject to Ministerial agreement and Executive approval, a corresponding Assembly Bill could be introduced early in 2014.