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PENSIONS WHITE PAPER: GOVERNMENT'S RESPONSE TO CONSULTATION

1 INTRODUCTION

The Pensions White Paper¹ was published in May 2006 and provided an insight into the Government's thinking on the future of UK state pensions. On 30 October 2006, the DWP published its responses to the White Paper consultation and to the report of the Work and Pensions Select Committee (the "Committee") on pensions reform.

For the most part the Committee welcomed the proposals in the White Paper and, in relation to the key issues, the Government's position has not changed. However, details of proposals affecting occupational pension schemes (such as the intended deregulatory review) are yet to emerge (see section 4).

2 KEY POINTS

- White Paper on "personal accounts" to be published in December 2006 with the new personal accounts scheme ready for operation in 2012.
- The Advisory Group in charge of the "rolling deregulatory review" to report to ministers in the first half of 2007, having consulted on emerging proposals in advance of this.
- No change on proposed State Pension reforms.

¹ For further information please see our Sackers Extra Alert, "The Pensions White Paper" dated 25 May 2006

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3 PERSONAL ACCOUNTS

The White Paper proposed a new system of personal pension savings accounts² to give those without access to occupational pension schemes the opportunity to save. Enrolment into either an employer's scheme or a new personal account would be automatic but employees would have the freedom to opt out. Employers would be required to make minimum matching contributions.

In its response, the Government confirms its intention that people will be able to start contributing to personal accounts in 2012. However, it acknowledges that, in order to achieve this, it will need to work to a very tight parliamentary timescale so as to obtain Royal Assent for a "Personal Accounts Pensions Bill" by Summer 2008. (This means that there will be no time for the pre-legislative scrutiny of the draft Bill specifically requested by the Committee).

The publication of a personal accounts White Paper and an accompanying Regulatory Impact Assessment is scheduled for the first week of December. This will set out the approach the Government intends to take and will include proposals on:

- The organisational design for personal accounts;
- Arrangements for how employers will interact with the personal accounts system;
- How individuals will join, contribute and participate in the personal accounts system;
- The governance and regulatory regime for personal accounts; and
- An analysis of how personal accounts will co-exist alongside existing private and occupational pension schemes.

The Government welcomes scrutiny of its personal accounts White Paper and emphasises that it is happy for officials to work with the Committee on alternative

² similar to the National Pension Savings Scheme put forward by Lord Turner's Pensions Commission

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ways in which they can consider the details of the plans for personal accounts without jeopardising the legislative and implementation timetable.

4. ROLLING DEREGULATORY REVIEW

The White Paper proposed a "rolling deregulatory review of pensions regulation, which will feed into the DWP's simplification plan, to be published later this year". This will possibly include a re-examination of matters such as: mandatory indexation of pensions in payment, member-nominated trustees, administrative and internal control requirements, restrictions on changes to accrued rights, payments to employers where surplus funds exist, deemed buy-back and internal dispute resolution³.

Unfortunately, the DWP's response does not provide us with any more information on the changes we can expect. It notes only that the Government's external Advisory Group on private pensions has "identified a number of priority areas of policy to be examined" and "has begun work to build up an evidence base from which to develop proposals for regulatory change". However, one of the Review's key objectives continues to be the striking of "an acceptable balance between the interests of members of pension schemes and those of the employers providing them".

The Review is due to report to ministers in the first half of 2007, the hope being that it will be in a position to consult on emerging proposals in advance of that.

5. STATE PENSION REFORM

The Government remains wedded to the reforms outlined in the White Paper. We set out a quick recap below.

³ See our Sackers Extra Alert, "The White Paper – A Question of More Pensions Reform?" dated 21 August 2006

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Restoration of the link between Basic State Pension (BSP) and earnings

The Government reiterates that its objective is to restore the earnings link in 2012, subject to affordability and the fiscal position, but, in any event, at the latest by the end of the next Parliament. (Although it is coming under increasing pressure to do so sooner). It intends to make a statement on the precise date at the beginning of the next Parliament.

Improvements to Women's pensions

The Committee endorsed the Government's intention to modernise the contributory system for the BSP in order to increase its coverage. The number of years' national insurance contributions required for a full BSP will drop from 44 for men and 39 for women to 30 for both sexes.

The Government estimates that this change will mean that, by 2025, the same proportion of men and women – over 90 per cent – will reach State Pension Age with a full BSP.

Increase of State Pension Age

State Pension Age will rise to 68 by 2046.

The change will be effected in three stages and phased in on each occasion over a two year period:

- Starting in 2024, from 65 to 66;
- In 2034, from 66 to 67; and
- In 2044, from 67 to 68.

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6. WHAT NEXT?

While occupational pension schemes may breathe a sigh of relief that, for the moment at least, the Government's intentions for them are vague, further changes are clearly in the pipeline. So continue to watch this space!

But, with the Government outlining its commitment "to legislate for changes that will take place over the next 40 years" and to achieve "long term reform to enable individuals to plan for their retirement and make informed choices about saving and how long they work" the pensions reform highway is looking somewhat jammed.