

alert

ANOTHER PENSIONS BILL HAS LANDED!

1 INTRODUCTION

Hot on the heels (relatively speaking) of the publication of the White Paper on State Pension reform in May this year, the Pensions Bill was published last week. While there are a couple of pleasant surprises for occupational pension schemes, for the most part the proposals set out in the White Paper have been followed and the changes are therefore focussed on State benefits.

2 KEY POINTS

- State Pension reform proposals unchanged.
- Introduction of a facility to convert members' rights to guaranteed minimum pensions (GMPs) under occupational pension schemes into rights to ordinary pension benefits.
- Abolition of contracting-out for defined contribution schemes and personal pension schemes.
- Revised internal dispute resolution arrangements for occupational pension schemes.
- Establishment of a "Personal Accounts Delivery Authority".

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3 STATE PENSION REFORMS

As we explained in previous Sackers Extra Alerts¹, the main proposals are:

- The restoration of the link between the basic state pension and earnings;
- The increase of State Pension Age from 65 to 68 by 2046; and
- The reduction of the number of years it takes to build a full basic state pension, from 44 years for men and 39 for women to 30 years for everyone.

The Government has heralded these changes as “a landmark settlement for future generations” and commented that the Bill “would make the state pension more generous...; make the system fairer for women and carers; and provide a solid foundation for saving”.

4 CONVERSION OF GMPS

Following on from the White Paper, the Bill proposes the introduction of a GMP conversion facility to convert members' rights to GMPs under occupational pension schemes into rights to ordinary pension benefits.

To be eligible to implement a conversion the pension scheme has to meet certain conditions in respect of future benefit provision and certain procedural requirements. The decision as to whether to make use of the conversion facility will rest with a scheme's trustees, although prior employer consent will be required.

Of particular note is that the facility will be open to schemes in wind up, provided that the wind up has not yet been completed.

¹ “The Pensions White Paper” dated 25 May 2006 and “Pensions White Paper: Government's Response to Consultation” dated 3 November 2006

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The pensions industry has been imploring the Government to resolve the problems caused by GMPs (in particular for schemes winding up) for many years and should welcome the above proposals. We will watch this section of the Bill with interest and keep you up to date with any developments.

5 ABOLITION OF CONTRACTING OUT

The Bill proposes the abolition of contracting out for defined contribution occupational pension schemes (COMPs) and appropriate personal pension schemes (APPs).

Contracting-out certificates and appropriate scheme certificates will be automatically cancelled. From the date of cancellation, members will be contracted back in to the state second pension and will start to build up their entitlement.

Schemes whose contracting-out certificates are cancelled as a result of the Bill will be required to comply with the same obligations in respect of their scheme's contracted out benefits (known as "protected rights") and will face the same restrictions on scheme amendments as other former COMPs and APPs.

6 DISPUTE RESOLUTION ARRANGEMENTS

As a result of concerns raised by us (and we suspect others) as to the practicalities of their proposals, the Government postponed the implementation of the provisions of the Pensions Act 2004 (the Act) which dealt with occupational pension schemes' internal dispute resolution procedures (IDRP)².

Under the original provisions of the Act either a one or two-stage IDRP was permitted but trustees were required to make all IDRP decisions. This would have prevented

² For further details please see our Sackers Extra Alert, "Pensions Act 2004 – Internal Dispute Resolution Procedures" dated 6 April 2005

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the delegation of any first stage decisions to someone such as the pensions manager.

The Pensions Bill resolves this issue by revising the provisions in the Act to give schemes the option of moving to a new procedure, as outlined above, or retaining a two stage arrangement with someone other than the trustees making the first stage decision.

7 PERSONAL ACCOUNTS DELIVERY AUTHORITY

In the White Paper the Government outlined its intention to introduce a new personal accounts system from 2012. Its intention is to give those without access to an occupational pension scheme the opportunity (and encouragement) to save.

In its recent response to consultation the Government explained that, in order to meet the proposed deadline, it will need to work to a very tight parliamentary timescale. With this in mind, the Pensions Bill will establish a body called the "Personal Accounts Delivery Authority" to undertake the preliminary work necessary for the creation of a personal accounts scheme.

8 MORE REFORM THIS YEAR?

We think (or rather hope) that the Government may finally be reaching the end of its 2006 pensions legislation frenzy! Certainly we are not expecting any further developments in relation to occupational pension schemes this year. However, we understand that a White Paper devoted to personal accounts may well be published this week.