

PENSIONS BILL

EXPLANATORY NOTES

INTRODUCTION

1. These explanatory notes relate to the Pensions Bill as introduced in the House of Commons on 28th November 2006. They have been prepared by the Department for Work and Pensions in order to assist the reader of the Bill and to help inform debate on it. They do not form part of the Bill and have not been endorsed by Parliament.

2. The notes need to be read in conjunction with the Bill. They are not, and are not meant to be, a comprehensive description of the Bill. So where a clause or part of a clause does not seem to require any explanation or comment, none is given.

SUMMARY AND BACKGROUND

3. This section sets out the current position in each policy area, and how the Bill would change it.

4. Many of the changes listed below are based on policy proposals set out in the Government's White Paper *Security in Retirement: Towards a New Pensions System*, published in May 2006 (hereafter referred to as 'the White Paper').

5. For ease of reference when reading these explanatory notes, please note the following abbreviations for existing pieces of legislation amended by the Bill:

- SSAA1992 – Social Security Administration Act 1992
- SSCBA1992 – Social Security Contributions and Benefits Act 1992
- PSA1993 – Pension Schemes Act 1993
- PA1995 – Pensions Act 1995
- WRPA1999 – Welfare Reform and Pensions Act 1999
- CPA2004 – Civil Partnerships Act 2004
- PA2004 – Pensions Act 2004

State Pensions Glossary

Pension categories

6. There are four categories of state pension provided under the SSCBA1992:
 - Category A
 - Category B
 - Category C (now obsolete)
 - Category D

7. A Category A pension is contributory. It consists of two parts, either or both of which may be payable:
 - Basic state pension – dependent upon the number of qualifying years a person has in their working life
 - Additional state pension (also referred to as state second pension) – dependent upon earnings, or deemed earnings in a person’s working life since April 1978.

8. A Category B pension is also contributory. Like a Category A pension, it can consist of either a basic state pension, an additional state pension, or both. It is payable by virtue of a spouse’s or civil partner’s qualifying years and earnings.

9. A Category D pension is non-contributory. It is payable when a person:
 - reaches age 80; and
 - satisfies certain residence conditions; and either
 - is not entitled to another category of state pension; or
 - is entitled to one at a lower rate than the Category D rate.

Earnings Limits

10. See below an explanation of the terms relating to the different earnings limits for the purposes of accruing state pension.

11. LEL - the “lower earnings limit” – currently £84 per week - is the minimum level of weekly earnings on which a person is treated as paying National Insurance contributions for benefit purposes. A person receiving contribution credits or paying flat rate voluntary or self employed contributions is treated as having earnings at the LEL for each weekly credit or contribution. The LEL is currently linked to the standard rate of basic pension. Under the proposed reforms this link will be broken when basic pension starts to be increased in line with average earnings.

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12. PT – the “primary threshold” – currently £97 per week – is the minimum level of weekly earnings on which an employed person pays National Insurance contributions. It is the weekly equivalent of the standard personal allowance for Income Tax.

13. UEL – the “upper earnings limit” – currently £645 per week – is the maximum level of weekly earnings on which an employed person pays National Insurance contributions other than at the 1% NHS contribution and under the current scheme accrues state second pension. It is set at approximately seven times the PT (see above). Under the proposed reforms to state second pension the UEL will be replaced by an upper accruals point which will not be linked to the PT.

14. QEF – the “qualifying earnings factor” is the minimum level of earnings on which a person must have paid, been treated as having paid, or been credited with National Insurance contributions in a tax year in order to make it a qualifying year for basic pension – the QEF is currently £4,368 per annum, 52 times the weekly LEL (see above)

15. LET – the “low earnings threshold” – currently £12,500 per annum – relates to state second pension only – it is:

- the level of earnings up to which, under the current scheme, state second pension accrues at the 40% rate and, under the proposed simplification, state second pension will accrue at the flat rate; and
- the amount of earnings a person is deemed to have if they earn above the QEF but below the LET or they are accruing state second pension because they are a carer or are sick or disabled.

16. The LET is increased annually in line with growth in average earnings.

17. UET – the “upper earnings threshold” – this term relates to state second pension only and is used to refer to the top of the band of earnings over the LET on which state second pension accrues at the 10% rate. The UET is set at 3 times the LET minus two times the QEF – so currently it is $(£12,500 \times 3) - (£4,368 \times 2) = £28,764$ which is rounded to £28,800.

State Pensions Measures

Category A and B retirement pensions: single contribution condition

Current position

18. Two contribution conditions are required to be satisfied for entitlement to the following benefits:

- Category A and B basic state pension;
- Widowed mother's allowance;
- Widowed parent's allowance;
- Bereavement allowance; and
- Widow's pension.

19. In the case of Category A pension, the contribution conditions apply to the claimant. For the other benefits listed the conditions apply with respect to the claimant's spouse or civil partner (or deceased spouse or civil partner).

20. The first contribution condition is that the relevant insured person must, in any tax year since 6 April 1975, have actually paid Class 1 contributions on earnings of at least 52 times the weekly lower earnings limit for the tax year in question. An equivalent number of Class 2 or Class 3 contributions will also suffice. Alternatively a claimant must have paid 50 flat-rate contributions at any time before 6 April 1975.

21. The second contribution condition is that that person must have achieved a minimum number of "qualifying years" during his working life to be entitled to the full rate of benefit. The minimum number of qualifying years required for a full rate Category A or B basic state pension is currently 44 years for a man and 39 years for a woman. A "qualifying year" is one in which a person's earnings factor for the year is not less than the qualifying earnings factor for that year.

Proposed changes

22. For people reaching state pension age (a term interchangeable with 'pensionable age') from 6 April 2010, the policy intention, as set out in *Chapter 3* of the White Paper, is to replace the existing contribution conditions for Category A and B pensions with a single contribution condition. The same new condition will apply to the spouse or civil partner of a claimant of a Category B pension where the spouse or civil partner reaches state pension age on or after 6 April 2010 (or dies on or after that date without having reached that age).

23. For people reaching state pension age before 6 April 2010, and for those claiming bereavement benefits (whether before or after 6 April 2010), existing contribution conditions will continue to apply.

24. The core proposal is that, for those reaching state pension age from 6 April 2010, the number of years needed to qualify for a full Category A or B pension is to be reduced from 44 years for a man and 39 years for a woman to 30 qualifying years for men and women alike. A person who has less than 30 qualifying years would be entitled to a proportion of the full basic state pension for each qualifying year they have built up.

Category B retirement pension – removal of restriction on entitlement

Current position

25. Currently, in order for a married woman to qualify for a Category B pension based on her husband's contributions:

- both she and her husband must have reached state pension age;
- her husband must have satisfied the contribution conditions for a Category A pension; and
- her husband must have made a claim for his Category A pension.

26. A wife cannot receive her Category B pension until such time as her husband makes a claim for his Category A pension.

27. Where a husband chooses to defer his Category A pension, increments may be added to his wife's Category B pension. She may also have the option of taking a lump sum payment if her Category B pension has been deferred for at least 12 months. However both of these are contingent on her not receiving any Category A pension during the period her Category B pension is deferred (if she does receive Category A pension in this period, she can later receive her Category B pension, but without the increments or lump sum). Thus, a situation may arise in which a wife is required to relinquish entitlement to her Category A pension in order to avoid losing increments or a lump sum payment in respect of her deferred Category B pension.

28. From 2010, Category B pensions will become available to married men and people in civil partnerships on the same basis as they are currently available to married women, where their spouse or civil partner was born on or after 6 April 1950.

Proposed changes

29. The Bill removes the restriction on a person's entitlement to a Category B pension that their spouse or civil partner must have made a claim for their Category A pension. The change will have effect from 6 April 2010. As a result, where one member of a married couple or civil partnership has deferred his or her Category A pension and the other member has reached pension age, the other member will have the choice of claiming Category B pension (and where applicable any Category A

pension based on their own contributions) or deferring their Category B pension (and any Category A pension to which they also have title) in order to accrue either increments or a lump sum.

30. As a consequence of other changes made by the Bill, the extent to which people will be reliant on Category B pensions derived from their spouse's or civil partner's contributions would be significantly reduced. However retaining this restriction - even if it were to affect only a small minority of people - would maintain the complexity of the pension system.

Contributions credits for relevant parents and carers

Current position

31. Home responsibilities protection has been available for complete tax years since 1978. It helps to protect the basic state pension and certain bereavement benefits¹ of someone precluded from regular employment because they are caring for a child or a sick or disabled person. Home responsibilities protection is not a 'credit'. Instead it works by reducing the number of qualifying years needed for a full basic state pension by up to half of the working life. Home responsibilities protection cannot reduce the number of qualifying years to below 20 for either men or women. From 2010, home responsibilities protection will not be able to reduce the number of qualifying years to below 22 for men. As state pension age equalises for men and women between 2010 and 2020, the limit on the number of qualifying years which can be reduced by home responsibilities protection will increase for women from 20 to 22.

32. Home responsibilities protection is available for complete tax years throughout which someone has been:

- awarded child benefit for a child aged under 16;
- regularly engaged for at least 35 hours a week in caring for someone who receives, for a minimum of 48 weeks a year, attendance allowance, or the higher or middle rate of the care component of disability living allowance, or constant attendance allowance. A similar provision exists, with slightly different rules, for income support recipients who are substantially engaged in caring for a disabled person who has claimed or is receiving one of the qualifying benefits;
- from 2003, an approved foster parent or carer; or

¹ Widowed parent's allowance and bereavement allowance

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- covered by certain combinations of these conditions (*Regulation 2 of the Social Security Pension (Home Responsibilities) Regulations 1994 (S.I. 1994/702* refers).

33. For example, someone who is awarded home responsibilities protection for 13 years of caring would, as a result, only have to satisfy the second contribution condition (described at paragraph 21 above) for 31 years instead of 44 normally required for a full basic state pension.

Proposed changes

34. The proposed new crediting arrangements would allow a parent, a registered foster parent or a carer reaching state pension age from 6 April 2010 to build up, in certain circumstances, entitlement to a Category A basic state pension, and for their spouse or civil partner to build up entitlement to an associated Category B pension. In addition, bereavement allowance and widowed parents' allowance², payable to a surviving spouse or civil partner, would be calculated by reference to the new credits in circumstances where the contributor dies on or after 6 April 2010.

35. For those people reaching state pension age on or after 6 April 2010, each complete year of home responsibilities protection awarded under the existing rules of the scheme will be converted into a qualifying year for basic state pension and relevant bereavement benefits.

Category A and C retirement pensions: abolition of adult dependency increases

Current position

36. Adult dependency increases are payable in respect of a 'dependant' who:
- a) does not have earnings or an occupational or personal pension of more than a prescribed amount (generally £57.45 per week, but different rules apply where the dependant does not live with the pensioner); and
 - b) is not receiving pension or benefit in his or her own right at a rate equal to or greater than that of the adult dependency increase (generally £50.50 per week, but a lower rate is payable where the pensioner does not fully satisfy the contribution conditions for basic state pension).

² Bereavement benefits were introduced on 9 April 2001, replacing the previous system of widow's benefits which were only payable to women.

37. Adult dependency increases of state pension are currently payable in respect of the following, providing they meet the criteria set out above:

- A wife;
- A husband – providing his wife was receiving an adult dependency increase of incapacity benefit in respect of him immediately before she reached state pension age; and
- A person having care of the pensioner's child/ren.

38. As an adult dependency increase in respect of a wife is payable at the same rate as a Category B pension there is no financial advantage in a man continuing to claim an adult dependency increase in respect of his wife once she has attained state pension age.

39. The PA1995 and the CPA2004 provide for women and people in civil partnerships to be eligible for adult dependency increases from 6 April 2010 under the rules which currently apply to men. The PA1995 also provides for the state pension age for women to increase from 60 to 65 between 2010 and 2020.

Proposed changes

40. The proposed changes will abolish adult dependency increases with effect from 6 April 2010 and make provision for entitlements up to this date to be protected to 5 April 2020.

Up-rating of basic state pension and other benefits

Current position

41. Currently, the basic state pension is required to be uprated annually in line with prices. The Secretary of State is required to consider how this movement should be measured. For contributory benefits, including the basic state pension, up-rating has, in practice, taken place according to the Retail Prices Index. However, in recent years, the Government has given a commitment to uprate by the greater of 2.5 per cent or the Retail Prices Index. Since giving this commitment the Retail Prices Index has always been higher.

42. From the time state pension credit was introduced in October 2003, the Secretary of State has uprated the standard minimum guarantee annually in line with earnings, in reliance on a discretionary power in the existing legislation. There is currently no mandatory requirement to uprate the standard minimum guarantee in state pension credit.

43. The lower earnings limit, currently £84 per week (equating to an annual qualifying earnings factor of £4,368), is the earnings point at which employees start to build up entitlement to contributory working age and pension benefits, by treating an

individual as if they have paid National Insurance contributions. National Insurance contributions do not actually become payable until an individual has earnings at or above the primary threshold, currently £97 a week, or £5,044 per annum. At present, the amount of the lower earnings limit increases in line with prices, because it is linked to the weekly rate of Category A basic state pension.

44. Similarly, the rate of the basic allowance in widowed mother's allowance, widow's pension, widowed parent's allowance and bereavement allowance also increases in line with prices because they are linked to the rate of Category A basic state pension. The higher permanent rate of the widow's pension and widower's pension in Industrial Death Benefit has also historically been the same as the rate of Category A basic state pension.

Proposed changes

45. The proposals will require the basic state pension to be uprated annually in line with earnings rather than prices, and would cover the up-rating of Category A, Category B, Category C and Category D pensions.

46. The Government stated in the White Paper:

“our objective, subject to affordability and the fiscal position, is to do this in 2012 but in any event at the latest by the end of the next Parliament. We will make a statement on the precise date at the beginning of the next Parliament”.

47. The proposals will also require the standard minimum guarantee in state pension credit to be uprated annually in line with earnings.

48. In addition, the proposals will break the link between the amount of the lower earnings limit and the weekly rate of the basic state pension in a Category A pension. This will mean that the amount of the lower earnings limit will not automatically increase in line with earnings in the future. Instead, any future increase in the lower earnings limit will be at the discretion of the Treasury.

49. The proposals in the Bill will ensure that the rate of the basic allowance in widowed mother's allowance, widow's pension, widowed parent's allowance and bereavement allowance will continue to be uprated in line with prices, like other pre-retirement benefits. However, the proposals will ensure that the rate of widow's pension and widower's pension in industrial death benefit will be uprated in line with earnings to maintain the link with the rate of Category A pensions.

Deemed earnings factors for purposes of additional pension

Current position

50. The state second pension was introduced in 2002. It replaced the state earnings related pension scheme to provide a more generous additional state pension for:

- employed earners with earnings equal to the lower earnings limit for a full tax year;
- carers who have no earnings or earnings below the annual lower earnings limit, in any year throughout which:
 - they are awarded child benefit for a child under 6;
 - they are entitled to carer's allowance; or
 - they receive home responsibilities protection (paragraph 31 refers);
- disabled people with broken work records in any year throughout which they:
 - receive severe disablement allowance; or
 - are entitled to long-term incapacity benefit.

51. In addition, those entitled to severe disablement allowance or long-term incapacity benefit must satisfy a labour market attachment condition when they reach state pension age. This condition requires that they have worked and paid Class 1 National Insurance contributions for at least one tenth of their working life since 1978.

52. Carers and disabled people in these groups are treated as if they have earnings at the qualifying earnings factor (52 times the lower earnings limit) and, along with employed earners who have earnings at the lower earnings limit but below the low earnings threshold, are also boosted to (i.e. deemed to be earning at) the low earnings threshold³. In other words, these groups are treated as having Band 1 earnings for the purposes of calculating entitlement to state second pension for a given tax year.

53. Employed earners with earnings above the low earnings threshold would accrue state second pension according to their band of earnings.

Proposed changes

54. The proposed changes would increase the number of people who are deemed to be earning at the low earnings threshold, and so accruing state second pension as if they had Band 1 earnings until the proposed new simplified state second pension is introduced.

³ £12,500 per annum in 2006/2007

55. The changes allow persons to be deemed to be earning at the low earnings threshold for a tax year starting with that commencing 6 April 2010, if they satisfy any of 3 conditions:

- the first is that the person has earnings equal to or greater than the qualifying earnings factor for the year but less than the low earning threshold;
- the second is that the person has earnings less than the qualifying earnings factor but is entitled to enough new earnings factor credits to bring his earnings factor up to the qualifying earnings factor;
- the third is that a person has no earnings but is entitled to 52 of the new credits for the year.

56. The new earnings credits, of 1/52 of the qualifying earnings factor for the year are available in respect of each week in which a person was:

- awarded child benefit for a child under 12;
- a foster parent;
- caring for someone with a qualifying disability benefit for at least 20 hours a week; or
- entitled to carer's allowance;
- entitled to severe disablement allowance or incapacity benefit. The labour market attachment test would no longer apply to disabled people from 6 April 2010.

57. People earning at or above the low earnings threshold will continue to accrue state second pension according to the band of earnings they are in until the new simplified state second pension is introduced (see paragraphs 58 – 63 below).

Additional pension: simplification of accrual rates

Current position

58. Paragraphs 60 – 63 detail how state second pension is to be accrued. In broad terms, for any given tax year, state second pension accrues on the portion of an employee's annual earnings between the annual value of the lower earnings limit and the upper earnings limit for Class 1 National Insurance contributions – called the "surplus earnings factor". This amount is revalued in line with growth in average earnings up to the last full tax year of a contributor's working life. The accumulated surplus earnings factors are then divided by the number of years in the person's working life to produce a "lifetime average" which is multiplied by the relevant accrual rate and divided by 52 to produce a weekly rate of additional pension.

59. People earning, or treated as earning, between the lower earnings limit and the upper earnings limit accrue state second pension on a cumulative basis depending on the level of their earnings. Earnings above the upper earnings limit do not accrue state

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second pension. The table below sets out the current earnings accrual bands for state second pension that will apply from 2009/2010.

Earnings		Percentage
Band 1	Not exceeding low earnings threshold	40
Band 2	Exceeding low earnings threshold but not exceeding upper earnings threshold	10
Band 3	Exceeding upper earnings threshold but not exceeding upper earnings limit	20

Proposed changes

60. Under the proposed changes, state second pension will be restructured.

61. The first step will be to merge Bands 2 and 3, so that all earnings exceeding the low earnings threshold (but not exceeding the upper earnings limit) will fall into Band 2 and accrue additional pension at a rate of 10%. This change will have effect for the tax year 2010-11 onwards.

62. In addition, from a date to be determined by the Secretary of State by order, the current 40% accrual band (Band 1) for earnings between the lower earnings limit and the low earnings threshold will be replaced with a weekly flat rate accrual amount of £1.40 (giving an equivalent annual amount of £72.80). This will be accrued by all contributors and people credited into state second pension in respect of each year of contribution. For a time, the additional earnings-related component of state second pension (accruing at 10%) will remain in place. This component will ultimately be withdrawn by around 2030, leaving a flat-rate benefit.

63. These changes will have an effect on the contracted-out rebate for defined benefit schemes. If a pension scheme member is opted out of state second pension they receive a "rebate" from the Government, delivered through reduced-rate National Insurance contributions, which is based on the amount of state second pension foregone. Therefore changes to state second pension need to be taken into account when calculating the rebate.

Increase in state pension age

Current position

64. For men, state pension age is currently 65. For women this has been 60 but, by virtue of the PA1995, this is only maintained for those women born before 6 April 1950. The changes in that Act were designed to remove inequalities within the State Pension scheme between men and women, including the five-year differential in state pension age which has existed since 1940. Over the period from April 2010 to April 2020, state pension age for women will therefore be gradually increased to 65, affecting all women born in the period between 6 April 1950 and 5 April 1955. For women born on or after 6 April 1955, state pension age will be 65, the same as for men.

Proposed changes

65. In the White Paper, the Government proposed raising the state pension age in the context of a growing pensioner population resulting from increasing longevity and falling birth rates.

66. The Bill provides for state pension age to increase by one year per decade between 2020 and 2050, with each change phased in over two consecutive years in each decade.

67. The first increase, from 65 to 66, would be phased in between April 2024 and April 2026; the second, from 66 to 67, would be phased in between April 2034 and April 2036; and the third, from 67 to 68, between April 2044 and April 2046. These changes would therefore affect anyone born after 5 April 1959 – that is anyone below the age of 47 on 5 April 2006 (who would therefore reach the age of 65 on or after 6 April 2024).

68. A number of social security benefits either become payable or cease to be payable when state pension age is reached. The Bill provides for these age thresholds to rise in line with rising state pension age. The benefits to which this applies include jobseeker's allowance, incapacity benefit (and the new employment and support allowance which is intended to replace incapacity benefit⁴), bereavement benefits and state pension credit.

69. In the case of attendance allowance and disability living allowance, the age threshold is currently set at 65. By 2020, it will therefore have become aligned with pensionable age for both women and men. The Bill replaces the reference to age 65

⁴ See clause 1(3) of the Welfare Reform Bill as introduced in the House of Commons on 4 July 2006.

with pensionable age with effect from 6 April 2024, so that the minimum age for entitlement to attendance allowance and the upper age at which a person may qualify for disability living allowance will increase in line with rising state pension age.

Non-State Pensions Measures

Conversion of guaranteed minimum pensions

Current position

70. Sections 13 to 23 of the PSA1993 set out the requirements on contracted-out salary related occupational pension schemes to provide a guaranteed minimum pension to members contracted out of the state earnings related pension scheme through membership of the occupational scheme between 6 April 1978 and 5 April 1997. From 6 April 1997 the requirements applying to contracted-out schemes were simplified and no further rights to guaranteed minimum pensions accrued from that date onwards.

Proposed changes

71. In the White Paper, the Government proposed to introduce a facility for schemes to convert members' rights to a guaranteed minimum pension into rights to an ordinary scheme pension, calculated under the scheme's own rules, subject to certain safeguards to protect the members' interests. Each member's post conversion benefit would be required to be at least as actuarially valuable as their rights immediately prior to conversion.

72. By conducting a guaranteed minimum pensions conversion exercise, a scheme may be able to adopt a unified and streamlined benefit structure which will enable administrative savings to be made as well as offering advantages to members (in terms of understanding their rights in the scheme and being able to transfer them to other schemes more easily). It would be for scheme trustees to decide whether they wished to make use of this facility.

Abolition of contracting-out for defined contribution pension schemes

Current Position

73. Contracting-out provides a private sector alternative to the state second pension. Under the contracting-out arrangements, employees forego all or part of their additional state pension for the years in which they are contracted out and in return pay lower-rate National Insurance contributions and/or receive payments into their pension scheme. These reductions and payments are known collectively as the contracted-out rebate. Contracting-out is allowed for occupational pension schemes that contract out on a defined contribution (also known as money purchase) basis (known as a COMP) or on a defined benefit (salary-related) basis. Personal pension

schemes are also allowed to contract out. A contracted-out personal pension scheme is referred to as an appropriate scheme (APP).

74. When a private pension scheme contracts out, Her Majesty's Revenue and Customs (HMRC) (which provides for the operational side of contracting-out) issues a certificate identifying the scheme's contracted-out status. Certificates for occupational pension schemes are referred to as "contracting-out" certificates, whilst certificates for personal pension schemes are referred to as "appropriate scheme certificates". When the scheme ceases to contract out, it surrenders the certificate. The certificate can be withdrawn by HMRC if the scheme is not complying with the relevant statutory requirements.

75. Money purchase schemes must, as a condition of contracting-out, provide protected rights. Protected rights are derived from the contracted-out rebate and the investment return on the rebate. They are subject to certain rules regarding where they can be invested; where they can be transferred; the purchase of a unisex annuity when the protected rights are secured and the purchase of a dual life annuity if the scheme member is married or in a civil partnership at the point of annuitisation.

76. In addition to the protected rights, a scheme member may build up additional rights under the scheme's own rules. The rules applying to protected rights will not apply to the rights built up under the scheme rules unless the scheme has designated that they do so. If the scheme does not do so, the protected rights will have to be tracked separately from the scheme rights and they could be treated differently at the point of annuitisation.

77. Those who were contracted-out pre-1997 are still treated as having an entitlement to the additional state pension for the years in which they were contracted out up to 1997 and a contracted-out deduction is made from the additional state pension entitlement, to avoid double provision. When the scheme member dies, his or her surviving spouse or civil partner is entitled to some or all of the deceased member's additional state pension rights and, where the member was contracted-out pre-1997, a contracted-out deduction is also applied to the survivor benefit.

Proposed changes

78. The Bill abolishes contracting-out for money purchase occupational schemes and personal pension schemes. Contracting-out certificates for COMPs and appropriate scheme certificates will be automatically cancelled. The result will be that from the date of cancellation, members of money purchase schemes will be contracted back into the state second pension and will start to build up entitlement to a state second pension. Provisions of the PSA1993 and other legislation will be amended or repealed to abolish contracting-out for money purchase schemes. As a result the contracting-out rebate will no longer be available for money purchase schemes. Schemes which cease to be COMPs or APPs as a result of this Bill will have to comply with the same obligations in respect of protected rights which are currently

imposed on former COMPs and APPs. Schemes which cease to be COMPs or APPs as a result of this Bill will also face the same restrictions on changes to their rules which apply to other former COMPs and APPs.

Dispute resolution arrangements

Current position

79. Currently, trustees or managers of occupational pension schemes are required to have in place formal arrangements for the resolution of disagreements relating to the scheme. The existing dispute resolution procedure requires a two stage process, with someone nominated by trustees giving a decision at the first stage, and then the matter being referred to the trustees if the applicant is still not satisfied.

Proposed changes

80. The measure in the Bill will make it possible to replace the two-stage internal dispute resolution procedure with a single stage arrangement where all decisions would be taken by trustees or managers. This would not be compulsory, however, and schemes will be able to retain the present two-stage arrangements if they wish.

81. This amendment would give effect to the proposal announced in the 2002 Green Paper *Simplicity, security and choice: Working and saving for retirement*.

Removal of Secretary of State's role in approving actuarial guidance

Current position

82. In order for actuaries to calculate pension schemes' liabilities consistently, all are required to use an agreed set of guidelines. These guidelines are contained in documents referred to either as 'Guidance Notes' or as a 'Technical Memorandum'. There are seven Guidance Notes and one Technical Memorandum referred to in pensions legislation. The Secretary of State is required by primary legislation to approve three of these Guidance Notes and the Technical Memorandum.

83. Historically the Actuarial Profession has produced these documents. The professional bodies for actuaries – the Institute of Actuaries in England and Wales and the Faculty of Actuaries in Scotland – have combined the role of regulator with that of professional body.

Proposed changes

84. The Morris Review of the Actuarial Profession recommended that the Financial Reporting Council should establish a new regime to set actuarial standards and to oversee the regulation of the Profession. The Financial Reporting Council is the UK's independent regulator for corporate reporting and governance. The Government accepted this recommendation and the Financial Reporting Council has now set up the Board for Actuarial Standards to promote confidence in corporate reporting and governance by setting high quality actuarial standards. The Institute of Actuaries in England and Wales and the Faculty of Actuaries in Scotland continue to exist as the professional bodies for the profession in their respective jurisdictions.

85. On 6 April 2007, the Board for Actuarial Standards will adopt and take responsibility for the existing versions of the pensions Guidance Notes and the Technical Memorandum.

86. In order to maintain the independence of the Financial Reporting Council, and through it the Board for Actuarial Standards, as the UK's independent regulator for corporate reporting and governance, the Bill contains a measure to remove from the primary legislation the requirement for the Secretary of State to approve the three Guidance Notes and the Technical Memorandum.

Personal Accounts Delivery Authority

Current position

87. As outlined in the White Paper, the Government intends to give effect to some form of personal account scheme from 2012. The Government intends to legislate for the personal accounts scheme in a planned future Bill.

88. However, to ensure delivery of a personal accounts scheme by 2012, much preliminary work must be done in advance of Royal Assent of the planned second Bill. The Government's intention is that the delivery and eventual governance of the personal accounts scheme should be independent of Government, utilising the knowledge and skills of individuals with experience of private pensions administration. No existing organisations were identified that currently have the necessary remit, skills and capacity for the work necessary to deliver a system of personal accounts or the capacity to expand and adapt their operations to commence the work within the necessary timeframe.

Proposed Changes

89. The Bill establishes a body corporate called the Personal Accounts Delivery Authority (referred to as the 'Authority') to undertake the preliminary work necessary for the establishment of a personal accounts scheme.

90. The Authority is being established with a remit limited to:
- Provide advice and recommendations to Government, helping it to think through the operational and commercial implications of its policy options.
 - Formulate a commercial strategy for the personal accounts scheme by preparing specific products which comprise a financial, technical and commercial strategy prior to issuing an Invitation to Negotiate.
91. The Authority will be at a distance from Government and will be able to manage its own affairs. Schedule 6 gives further detail on the membership and structure of the Authority.
92. This Bill also gives the Secretary the State the power to wind up the Authority if he deems that due to the abandonment or modification of relevant proposals on the personal accounts scheme it is no longer necessary or appropriate to have an Authority.
93. This Bill gives the Authority limited powers, as detailed in paragraph 90. The Government will consider options to extend this remit in legislation planned for a later date, subject to the agreement of Parliament.

BILL OVERVIEW

94. The Bill is formed of 4 Parts:
- Part 1 – State Pension
 - Entitlement to Category A and B retirement pensions
 - Credits for basic state pension
 - Abolition of adult dependency increases
 - Up-rating of basic state pension and other benefits
 - Additional pension: deemed earnings factors
 - Additional pension: simplification of accrual rates
 - Increase in state pension age
 - Part 2 – Occupational and personal pension schemes
 - Conversion of guaranteed minimum pensions
 - Abolition of contracting-out for defined contribution pension schemes
 - Dispute resolution arrangements
 - Removal of Secretary of State’s role in approving actuarial guidance
 - Part 3 – Personal Accounts Delivery Authority
 - Part 4 – General

TERRITORIAL APPLICATION

95. The following measures extend to the whole of the UK:
- Those within Part 3 of the Bill. This relates to the establishment of the Personal Accounts Delivery Authority.
96. The following measures extend only to Northern Ireland:
- *Clause 8* on the basis that it deals with National Insurance contributions, which are a reserved matter. This clause amends the Social Security Contributions and Benefits (Northern Ireland) Act 1992 to remove the link between the lower earnings limit and basic pension in Northern Ireland (the same function as *clause 7* performs for Great Britain);
 - *Clause 26*, which provides for the application of the policy of parity in mirroring this Bill (see paragraph 98 below); and
 - *Part 3 of Schedule 7*, insofar as that applies to the Act of 1992 mentioned above.
97. The amendments made by *Schedule 5*, which relate to the removal of the Secretary of State's role in approving actuarial guidance, have the same extent as the Acts that they amend.
98. All other measures extend to England and Wales and Scotland but not to Northern Ireland. Pensions legislation is a transferred matter under the Northern Ireland Act 1998 and Northern Ireland has its own body of pensions law but there is a long-standing policy of parity in this area. While the Northern Ireland Assembly is suspended, pensions provision is made by way of Order in Council. It is intended that a Northern Ireland Pensions Order, containing provisions corresponding to those of the Bill, will be made (as set out in *clause 26*).
99. The Bill does not contain any measures which affect the powers of the National Assembly for Wales.
100. Where matters extend to Scotland, it will not be necessary to invoke the Sewel Convention.

COMMENTARY ON CLAUSES

Part 1: State Pension

Clause 1: Category A and B retirement pensions: single contribution condition

101. At present, the contribution conditions for basic state pension and bereavement benefits are set out in paragraph 5 of Schedule 3 to the SSCBA1992. *Clause 1* inserts

a new paragraph 5A setting out the new single contribution condition that will apply in certain cases from 6 April 2010.

102. In order to achieve this:

- *Subsection (3)* introduces the new paragraph 5A (the single contribution condition for those reaching state pension age on or after 6 April 2010).
- *Subsection (2)* makes a consequential amendment to paragraph 5.
- *Subsection (4)* introduces *Part 1* of *Schedule 1* which will effect the required consequential amendments in respect of the changes made by this clause.

Provisions of new Paragraph 5A of Schedule 3 to the SSCBA1992 as inserted by Clause 1

103. *Sub-paragraph (1)* sets out the cases in which the new single contribution condition will apply, as determined by when the contributor concerned reaches state pension age:

- A person reaching state pension age on or after 6 April 2010 will be entitled to a Category A pension on satisfying that condition; and
- A spouse or civil partner of a person reaching state pension age on or after 6 April 2010 (or of a person who dies on or after that date without having reached that age) may substitute or inherit a Category B pension based on that person's Category A pension where the contributor concerned satisfied that condition.

104. *Sub-paragraph (2)* sets out the new condition. It requires that, in order to qualify for a full basic state pension, the contributor concerned must have paid or been credited with class 1, 2 or 3 National Insurance contributions for at least 30 "qualifying years" in their working life. In the case of 1987-88 or a later year, it is also sufficient if the person has been credited with earnings. In addition, for each of those 30 years, the person's earnings factor must be not less than the qualifying earnings factor for that year.

105. *Sub-paragraph (3)* defines how earnings factors are to be calculated for these purposes. The earnings factor will be calculated with regard to Class 1 contributions paid or treated as paid, or earnings credited, up to the upper earnings limit, together with any Class 2 or 3 contributions for the year.

106. *Sub-paragraph (4)* enables regulations to be made which modify *paragraph 5A(2)* and *(3)* so they will not prevent people insured under the 1946 and 1965 National Insurance Acts who reach state pension age from 6 April 2010 qualifying for basic state pension (Category A and/or Category B) under the new single contribution condition.

Schedule 1: Part 1: Category A and B retirement pension: single contribution condition

107. *Paragraphs 1 to 3* amend sections 44 (Category A pension), 48A (Category B pension for a married person or civil partner) and 48B (Category B pension for a surviving spouse or civil partner) of the SSCBA1992 to ensure that:

- people reaching state pension age before 6 April 2010 would continue to be entitled to the benefits identified in paragraph 5 of Schedule 3 to the SSCBA1992 on satisfaction by the contributor concerned of the two contribution conditions set out in that paragraph; and
- people who reach state pension age on or after 6 April 2010 would be entitled to a Category A pension on satisfaction of the single contribution condition in paragraph 5A of Schedule 3 to the SSCBA1992; and
- in the case of Category B pensions, entitlement would be calculated by reference to paragraph 5A of Schedule 3 to the SSCBA1992 for people who are:
 - a) married to or in a civil partnership with someone who reaches pensionable age on or after 6 April 2010; or
 - b) the surviving spouse or civil partner of someone who died on or after 6 April 2010 and did not reach state pension age before that date.

108. *Paragraph 4* amends section 60 of the SSCBA1992. This section allows provision to be made for those who do not satisfy the contribution conditions for certain benefits. As similar provision is made by new section 60A (see below) where only the new single contribution condition needs to be satisfied, it is necessary to exclude the cases where the single condition applies from the scope of section 60.

109. *Paragraph 5* introduces new section 60A. This applies to those cases where only the single contribution condition needs to be satisfied as set out in the new paragraph 5A of Schedule 3.

110. Subsection (1) of this section provides that this section applies where a person does not satisfy the single contribution condition in order to be entitled to a Category A or Category B pension.

111. Subsection (2) of this section provides a regulation-making power to allow a person who would have been entitled to benefit by virtue of paragraph 5A, Schedule 3 to the SSCBA1992 but for the fact that the contributor (defined in subsection (4)) has not acquired the full 30 qualifying years nevertheless to be entitled to a prescribed proportion of a full basic state pension for each qualifying year the contributor has built up (defined in subsection (3)). The calculation for determining the pro-rated amount of basic state pension entitlement in these cases will be set out in regulations. This means that the 25% *de minimis* rule (see *regulation 6(1)* of the Social Security (Widow's Benefit and Retirement Pensions) Regulations 1979 (S.I.1979/642)), which

applies to benefits calculated under paragraph 5, Schedule 3 to the SSCBA1992 will not apply to the benefits to which this section applies.

112. Subsection (5) of this section would allow the widow, widower or surviving civil partner of an employed earner who dies on or after 6 April 2010 as a result of an industrial injury benefit (section 94(1) of the SSCBA1992) or a prescribed disease or injury (section 108(1)) to inherit a Category B pension (section 48B), even if the contribution condition set out at paragraph 5A of Schedule 3 to the SSCBA1992 is not satisfied by the deceased employed earner. This makes equivalent provision to that made by section 60.

113. Subsection (6) of this section provides that the reference to the single contribution condition in subsections (1) and (3) includes a reference to that condition as modified by regulations under paragraph 5A(4) of Schedule 3 (i.e. regulations modifying the condition for the purposes of persons who were insured under the National Insurance Act of 1946 or 1965 - see paragraph 107 above).

Clause 2: Category B retirement pension: removal of restriction on entitlement

114. *Subsection (2)* of this clause amends subsections (2)(a) and (2B)(a) of section 48A of the SSCBA1992 to remove the restriction which currently prevents a person from becoming entitled to a Category B pension derived from their spouse's or civil partner's contributions where their spouse or civil partner has not made a claim for their Category A pension.

115. The effect of the amendment is to enable, subject to the relevant contribution condition being met, a married person or a person in a civil partnership to become entitled to a Category B pension from the point at which both they and their spouse or civil partner have reached state pension age, regardless of whether the spouse or civil partner has made a claim for their Category A pension.

116. *Subsection (3)* omits section 48(5) which restricts payability of a Category B pension to periods after the spouse or civil partner's first payday for his or her Category A pension.

117. *Subsection (4)* introduces the consequential amendments in *Part 2 of Schedule 1*.

118. *Subsection (5)* makes provision for *clause 2* and *Part 2 of Schedule 1* to have effect from 6 April 2010. By *subsection (6)*, the amendments to section 48A apply to a person who attains state pension age before that date as well as to a person who attains state pension age on or after that date.

Schedule 1: Part 2: Category B retirement pension: removal of restriction on entitlement

119. *Part 2* of this Schedule makes amendments to Part 2 of the SSCBA1992 consequential on *clause 2*.

120. *Paragraph 6* amends section 54 of that Act by omitting subsection (3), which currently prevents a spouse or civil partner from electing to cancel his or her Category A pension where this is already in payment without the consent of the other party to the marriage or civil partnership. The provision becomes redundant by virtue of the amendments made to section 48A by *clause 2*.

121. *Paragraph 7* amends subsection (3) of section 55 of that Act so that a person's entitlement to their Category B pension is no longer deemed to be deferred where the person's spouse or civil partner has not made a claim for his or her Category A pension.

122. *Paragraph 8* amends paragraph 8 of Schedule 5 to the Act by omitting subparagraph (3), which also becomes redundant as a result of the amendments made to section 48A by *clause 2*.

Clause 3: Contributions credits for relevant parents and carers

123. *Clause 3* amends the SSCBA1992 to replace the existing home responsibilities protection with new crediting arrangements for parents, approved foster parents and carers reaching state pension age on or after 6 April 2010.

124. In order to achieve this *subsection (1)* inserts new section 23A into the SSCBA1992.

Provisions of new section 23A

125. *Subsection (1)* provides that the new crediting arrangements for parents and carers apply to the following benefits:

- a Category A pension for a pensioner who reaches state pension age on or after 6 April 2010;
- a Category B pension for the spouse or civil partner of a person reaching state pension age on or after 6 April 2010 (or who dies on or after that date without reaching that age); and
- widowed parent's allowance or bereavement allowance payable to the surviving spouse of a person who dies on or after 6 April 2010 who has not yet reached state pension age. Entitlement to both benefits would be based on the deceased's contribution record.

126. *Subsection (2)* would allow the contributor concerned in relation to the benefits referred to in paragraph 125 above to be credited with a Class 3 National Insurance credit for each week after 6 April 2010 in which they are a relevant carer as defined in *subsection (3)*.

127. *Subsection (3)* defines a person as a relevant carer in respect of a week if, in any part of that week, they are:

- a parent or guardian awarded child benefit for a child aged under 12;
- a foster parent; or
- “engaged in caring”. This is intended to be defined in regulations to cover someone who provides care for one or more severely disabled persons for at least 20 hours a week. The regulations are also intended to allow a person caring for a child under 12 to be treated as engaged in caring in circumstances where there is another carer for that child who is entitled to credits by virtue of *subsection (3)(a)* but who does not need them, because the tax year in question is already a qualifying year for that person.

128. *Subsection (4)* provides a regulation-making power to make entitlement to the credits for foster parents and those engaged in caring to be conditional on the application process being complied with, and on the prescribed information being provided. The information that will be required is information that would confirm that a person is undertaking qualifying care.

129. *Subsections (5) and (6)* allow individuals reaching state pension age on or after 6 April 2010 to have any complete years of home responsibilities protection, acquired before 6 April 2010, converted to an equivalent number of fully credited years for the purposes of entitlement to basic state pension and bereavement benefits. The number of home responsibilities protection years which may be converted to qualifying years will be subject to existing rules.

130. *Subsection (7)* provides that in circumstances where a week straddles two tax years, a credit for that week would be attributed to the tax year in which the week begins.

131. *Subsection (8)* enacts both definitions and regulation-making powers for the purpose of new section 23A. In particular, it enables “foster parent” to be defined in regulations. The intention is to mirror the definition in regulation 1(2)(a) of the Social Security Pensions (Home Responsibilities) Regulations 1994 (SI 1994/ 704).

Schedule 1: Part 3: Contributions credits for relevant parents and carers

132. *Paragraph 9* inserts new section 22(5A) in the SSCBA1992 to make reference to the new arrangements at section 23A which provide for the crediting of Class 3 contributions.

133. *Paragraph 10* amends section 176 of the SSCBA1992 to provide that the regulations made using the power at section 23A(3)(c) will be subject to the affirmative procedure on first use.

134. *Paragraph 11* makes a consequential amendment to Part 1 of Schedule 1 to the Welfare Reform Bill so that the definition of "benefit" extends to contributions credits for relevant carers under section 23A of the SSCBA1992.

Clause 4: Category A and C retirement pensions: abolition of adult dependency increases

135. *Subsections (1) and (2)* provide that sections 83, 84 and 85 of the SSCBA1992 are to cease to apply from 6 April 2010. The SSCBA1992 allows for the weekly rate of Category A or Category C pension to be increased in respect of a pensioner's wife (section 83), civil partner (section 83A), husband (section 84) or person having care of his or her child/ren (section 85). Section 83(A) was intended, by virtue of paragraph 2 of Schedule 4 to the PA1995, to provide for increases in respect of spouses and civil partners on an equal footing from 6 April 2010.

136. *Subsections (3) and (4)* provide for the consequential amendments in *Part 4 of Schedule 1* (see below) to have effect from 6 April 2010.

137. *Subsections (5), (6) and (7)* provide that the repeal of sections 83, 84 and 85 under *subsection (1)* and consequential amendments under *subsection (3)* are not to apply in certain cases before 5 April 2020. This saving will apply in relation to a person who has claimed an increase of pension under those provisions before 6 April 2010 and who immediately before that date is either:

- entitled to the increase; or
- has underlying entitlement to it by virtue of section 92 where the dependant's earnings fluctuate;

unless the person otherwise ceases to be entitled to the increase (other than as a result of a fluctuation in the dependant's earnings) or, in the case of an increase paid in respect of a wife, the wife reaches state pension age and becomes eligible for a Category B pension.

Schedule 1: Part 4: Category A and C retirement pensions: abolition of adult dependency increases

138. *Paragraphs 12 and 13* of this Schedule remove references to adult dependency increases in the following sections of the SSCBA1992, which are redundant following the abolition of those increases:

- Section 30B(3)(b) which deals with the rate of short-term incapacity benefit payable to a person who has attained state pension age; and

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

- Section 78(4)(d) which deals with non-contributory Category C and D pensions.

139. *Paragraphs 14, 15 and 16* remove redundant references to adult dependency increases in the following sections of the SSCBA1992:

- Section 88, which provides that a person cannot be entitled to an adult dependency increase in respect of more than one person for the same period;
- Section 89, which provides for occupational and personal pensions to be treated as earnings for the purposes of the conditions of entitlement to adult dependency increases; and
- Section 114, which provides for regulations to prescribe the circumstances in which one person can be taken to be maintaining another for the purposes of establishing entitlement to an adult dependency increase.

140. *Paragraph 17* removes the redundant references to section 83(2) and (3) in section 149(3) of the SSCBA1992 which deals with circumstances in which a person is treated as being entitled to an adult dependency increase for the purposes of establishing entitlement to a Christmas bonus.

141. *Paragraph 18* amends paragraphs 5 and 6 of Part 4 of Schedule 4 to the SSCBA1992 to remove redundant references to the rates at which adult dependency increases of Category A and C pensions are payable.

Clause 5: Up-rating of basic pension etc. and standard minimum guarantee by reference to earnings

142. *Clause 5* inserts a new section 150A into the SSAA1992. *Subsection (1)* of new section 150A requires the Secretary of State to review the amount of the basic state pension in a Category A, Category B, Category C or Category D pension, the amount of the standard minimum guarantee in State Pension Credit, and widow's pension and widower's pension in Industrial Death Benefit, to determine whether they have kept their value in relation to the general level of earnings.

143. Under *subsection (2)*, where the Secretary of State considers the level of earnings has increased during the review period, he will be required to lay a draft of an up-rating order before Parliament increasing the amounts referred to in paragraph 142 above by a percentage which is not less than the relevant increase in earnings over the review period.

144. *Subsection (3)* will allow the Secretary of State not to increase the amounts of these benefits where it appears to him that the amount of the increase would be inconsiderable.

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

145. *Subsection (4)* will allow for the rounding up or down of any increase. In practice, this would normally mean rounding to the nearest five pence.

146. *Subsection (5)* will require a draft order to be accompanied by a copy of a report by the Government Actuary or the Deputy Government Actuary giving their opinion on the likely effect of the order on the National Insurance Fund, so far as the order relates to sums payable out of that Fund.

147. *Subsection (6)* will require the up-rating order to be made in the form of the draft once it is approved by Parliament.

148. *Subsection (7)* provides for the date when the increases made by the up-rating order are to come into force.

149. *Subsection (8)* gives the Secretary of State discretion as to how to estimate the general level of earnings. In practice this means the Secretary of State will be able to decide which measure or index of earnings growth shall be used for the purposes of earnings uprating.

150. Where a draft up-rating order under new section 150A of the SSAA1992 is combined with a draft up-rating order under section 150 of that Act, *subsection (9)* allows for a combined report by the Government Actuary or the Deputy Government Actuary.

151. *Subsection (2) of clause 5* introduces the consequential and related amendments in *Part 5 of Schedule 1*.

152. *Subsection (3) of Clause 5* makes provision for the tax years in relation to which the up-rating of the basic state pension and widow's and widower's pension in Industrial Death Benefit is to have effect. It provides that the first review carried out under section 150A(1) is to be carried out in 'the designated tax year'. *Subsection (4)* of that clause requires the Secretary of State to designate 'the designated tax year' by way of an order and that order is to be made before 1st April 2011. *Subsection (5)* provides that in setting 'the designated tax year' the Secretary of State must ensure that the tax year following the designated tax year is a tax year that begins before the 'relevant dissolution date'. *Subsection (6)* defines 'the relevant dissolution date' by reference to the maximum period for which a Parliament may exist. This is five years.

153. For the standard minimum guarantee in State Pension Credit, *subsection (7)* ensures that the new section 150A has effect in relation to the tax year in which this Bill is enacted and subsequent tax years. Accordingly, assuming that the Bill receives Royal Assent in the tax year 2007-08, the first review in respect of the standard minimum guarantee will take place in that year, with the first order up-rating the guarantee by earnings having effect for the tax year 2008-09.

Clause 6: Preservation of link with prices in case of other benefits

154. This clause amends section 150 of the SSAA1992 and sections 39 and 39C of the SSCBA1992.

155. *Subsections (2), (3) and (4)* amend sections 150(1), (3) and (7) respectively of the SSAA1992 to remove the basic state pension, standard minimum guarantee and widow's and widower's pensions in industrial death benefit from that section, which provides for up-rating by reference to prices. *Subsections (2) and (3)* also amend section 150(1) and (3) so that the rate of widowed mother's allowance, widow's pension, widowed parent's allowance and bereavement allowance can continue to be up-rated in line with prices under that section.

156. *Subsections (5) and (6)* amend sections 39 and 39C respectively of the SSCBA1992. The effect of the amendments is to empower the Secretary of State to prescribe by regulations the rate of widowed mother's allowance, widow's pension and widowed parent's allowance. The weekly amount of bereavement allowance will equal the prescribed rate of widowed parent's allowance.

157. *Subsection (9)* will ensure that those regulation-making powers are used to provide that the rate of widowed mother's allowance, widow's pension, widowed parent's allowance and bereavement allowance will equal the amount of the basic state pension up to the point at which the basic state pension is uprated in line with earnings.

158. Under *subsection (7)* the amendments relating to the basic state pension, widowed mother's allowance, widow's pension, widowed parent's allowance, bereavement allowance and widow's/widower's pensions in industrial death benefit would have effect in relation to the designated tax year specified under *subsection (4)* of *clause 5* and subsequent tax years. Under *subsection (8)* the amendments relating to the standard minimum guarantee would have effect in relation to the tax year in which this Bill is enacted and subsequent tax years.

Clause 7: Removal of link between lower earnings limit and basic pension

159. This clause amends section 5 of the SSCBA1992. The effect of the amendments made by *subsections (2) and (3)* of the clause is to remove the link between the amount of the lower earnings limit and the weekly rate of the basic state pension in a Category A pension, thereby ensuring that the amount of the lower earnings limit will not be required to automatically increase in line with earnings. Instead, any future increase in the lower earnings limit will be at the discretion of the Treasury.

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

160. *Subsection (4)* provides that these amendments have effect in the tax year following the designated tax year (i.e. as from the first year in which the basic pension is uprated by earnings) and subsequent tax years.

***Clause 8: Removal of link between lower earnings limit and basic pension:
Northern Ireland***

161. This clause makes the same changes to *section 5* of the Social Security Contributions and Benefits (Northern Ireland) Act 1992 as clause 7 makes to section 5 of the SSCBA1992.

***Schedule 1: Part 5: Up-rating of basic pension etc. and standard minimum
guarantee by reference to earnings***

162. *Part 5* of this Schedule amends the SSCBA1992, the SSAA1992 and the Welfare Reform Bill (currently before Parliament). The amendments are consequential on the introduction of new section 150A of the latter Act and their general effect is to ensure that certain provisions that currently apply in relation to the existing up-rating machinery in section 150 will also apply in relation to the new up-rating machinery in section 150A.

Clause 9: Deemed earnings factors for purposes of additional pension

163. *Subsection (1)* amends the SSCBA1992 by introducing new sections 44B and 44C. *Subsection (2)* introduces *Part 6* of *Schedule 1* which contains consequential amendments relating to the deemed earnings factors.

Provisions of new Section 44B – Deemed earnings factors from 2010-2011 onwards

164. *Subsection (1)* ensures that deemed earnings factors can only be accrued under the new provisions for tax years from 2010-11 onwards. This means that the new provisions only apply to those who have not yet reached state pension age at that time (a person cannot continue to build up entitlement to state second pension once they have reached state pension age).

165. *Subsection (2)* provides that an individual who satisfies any of the new conditions A, B or C set out at *subsections (3), (4) and (5)* would be deemed to be earning at the low earnings threshold.

166. *Subsection (3)* introduces Condition A which is satisfied if an individual has earnings at or above the qualifying earnings factor (52 times the lower earnings limit) but less than the low earnings threshold.

167. *Subsection (4)* introduces Condition B which is satisfied if an individual has earnings at less than the qualifying earnings factor but has some of the new earnings factor credits (see section 44C – paragraphs 173-179 refer) which may be added to their earnings to bring them up to the qualifying earnings factor.

168. *Subsection (5)* introduces Condition C which is satisfied if an individual has 52 earnings factor credits by virtue of section 44C. This would equate to the qualifying earnings factor – see paragraph 174 below.

169. *Subsection (6)* ensures that from the first year in which the flat rate of accrual is introduced for the additional pension (“flat rate introduction year”), the effect of the new section 44B will simply be to provide deemed earnings factors above the qualifying earnings factor but below the low earnings threshold, as that will be sufficient to enable them to accrue state second pension at the new weekly flat rate (£1.40, subject to up-rating). Condition A will not operate at that stage, since the persons to whom it applies will already have actual earnings over the qualifying earnings factor.

170. *Subsection (7)(a)* defines the “applicable limit”, which is the upper earnings limit from 2010-11 until the flat rate introduction year. At that point, the “applicable limit” becomes the upper accrual point (see *clause 12(1)(b)* and *(2)(b)*).

171. *Subsection (7)(b)* defines the low earnings threshold by reference to the definition in section 44A of the SSCBA1992.

172. *Subsection (7)(c)* makes it clear that the earnings factors described in Conditions A and B are derived from primary Class 1 employed earnings below the applicable limit.

Provisions of new section 44C – Earnings Factor Credits

173. New section 44C applies for the purposes of Conditions B and C specified in section 44B(4) and (5) for tax years from 2010-11 onwards (*subsection (1)*).

174. *Subsection (2)* provides that an individual may enhance their earning factors in any tax year if, for any week in that year, the person is eligible (as specified by *subsection (3)*). For each week in which the person is eligible, he or she is entitled to an earnings factor credit equal to 1/52 of the qualifying earnings factor for that year (i.e. the lower earnings limit).

175. *Subsection (3)* specifies the persons who are eligible for earnings enhancement. They are:

- *Paragraph (a)* – relevant carers (i.e. those entitled to credits for basic state pension purposes under new section 23A described in paragraphs 125-131 above);

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

- *Paragraph (b)* – broadly, persons in receipt of carer’s allowance;
- *Paragraph (c)* – persons to whom severe disablement allowance is payable;
- *Paragraph (d)* – broadly, persons to whom long term incapacity benefit is payable (incapacity benefit will be replaced by the employment and support allowance subject to the Welfare Reform Bill introduced July 2006); and
- *Paragraph (e)* - persons satisfying such conditions as may be set out in regulations. This power will allow persons receiving other benefits to be eligible for earnings enhancement. For example, this could be used to award earnings factor credits to employment support allowance recipients.

176. *Subsection (4)* cross-refers to the meaning of occupational pension scheme and personal pension scheme as set out at section 30DD. A person is in effect deemed to be receiving long term incapacity benefit for the purpose of *subsection (3)(d)* if that benefit is reduced to nil by virtue of receiving payments from such schemes.

177. *Subsection (5)* ensures that an individual who has some earnings from paid contributions is only entitled to the number of earnings factor credits required to bring that person up to the qualifying earnings factor.

178. *Subsection (6)* provides that earnings factor credits that fall within a week that straddles the change in tax years are attributed to the tax year in which the week begins.

179. *Subsection (7)* defines terms used in this section and in section 44B. In particular, it has the effect that one earnings factor credit is equal to 1/52nd of the qualifying earnings factor (see *subsection (2)*).

Schedule 1: Part 6: Deemed earnings factors for purposes of additional pension

180. *Part 6* of *Schedule 1* contains consequential amendments relating to deemed earnings factors. *Paragraph 33* ensures that the operation of the current provisions set out at section 22 of the SSCBA1992 is not affected by the new provisions inserted by *clause 9*.

181. *Paragraph 34* ensures that the current deemed earnings factors provisions at section 44A(1) to (4), which are replaced by the new provision made by *clause 9*, apply only to tax years prior to 2010-11; and that the labour market attachment test will not apply to those on long term incapacity benefit reaching state pension age on or after 6 April 2010.

Clause 10: Additional pension: removal of accrual bands from 2010 – 11

182. This clause amends Schedule 4A to the SSCBA1992, which contains the rules for the calculation of additional state pension. As the first step towards introducing a flat rate additional pension, the clause removes the ‘Band 3’ accrual rate (which is

20%) on earnings factors between the upper earnings threshold and the upper earnings limit currently used in calculating state second pension, starting from the 2010–11 tax year.

183. *Subsection (2)(a)* restricts the existing 3-band structure to accruals for tax years up to and including 2009-10. *Subsection (2)(b)* introduces the new two accrual band formulation for the calculation of an individual's annual surplus earnings factor from 2010-11. A surplus earnings factor for earnings between the lower earnings limit and the low earnings threshold will continue to be based on 40% of relevant earnings. However, surplus earnings factors for any subsequent earnings between the low earnings threshold and the "annual upper earnings limit" will be based on 10% of relevant earnings. *Subsection (2)(c)* defines the annual upper earnings limit for additional pension purposes.

184. *Subsection (3)* replicates the provisions of *subsection (2)* in respect of the calculation of 'contracted-out' state second pension entitlement.

185. *Subsection (4)* replicates the provisions of *subsection (2)* in respect of the calculation of the amount available by way of top-up for members of an appropriate personal pension scheme (i.e. a contracted-out personal scheme).

186. *Subsection (5)* defines "AUEL" for the purpose of the amendments in *subsections (3)* and *(4)*.

187. *Subsection (6)* amends the heading of Schedule 4A.

Clause 11: Additional pension: simplified accrual rates as from flat rate introduction year

188. *Subsections (2)* and *(3)* amend section 45 of the SSCBA1992 to provide for the second stage in the calculation of the reformed state second pension, using the flat rate, which is set out in the new Schedule 4B to the SSCBA1992 and described above at paragraph 169.

189. *Subsection (4)* amends section 122 of the SSCBA1992 to define "the flat rate introduction year" – the year from which the reformed state second pension calculation will commence. It will be the tax year which is designated as such by the Secretary of State by order.

190. *Subsection (5)* introduces *Schedule 2* which both inserts new Schedule 4B into the SSCBA1992 and makes provision to uprate (in line with earnings) the flat rate accrual amount introduced by the new Schedule 4B by inserting section 148AA into the SSAA1992 (see paragraph 201 below).

Schedule 2: Additional pension: simplified accrual rates

Part 1 - New Schedule 4B to the SSCBA

191. Paragraph 1 of this Schedule inserts new Schedule 4B into SSCBA1992 to provide for the new method of calculation of additional state pension.

192. Paragraph 1 of new Schedule 4B provides that the amount of additional state pension accrued for the years from the flat rate introduction year onwards is to be the aggregate of the appropriate amounts in respect of each year in which the pensioner was in contracted-in employment, calculated in accordance with Part 2 of Schedule 4B (see paragraphs 193-197 below) and the appropriate amounts in respect of each year in which the pensioner was in contracted-out employment, calculated in accordance with Part 3 of the Schedule (see paragraphs 198-204).

193. Paragraphs 2 to 5 (Part 2) set out the calculation for the amount of additional state pension in respect of years of contracted-in employment.

194. Paragraph 2 provides that Part 2 applies to a tax year if the contracted-out condition is not satisfied for any tax week in the year.

195. Paragraph 3 provides that the appropriate amount for the year is to be either the flat rate amount where a person's total earnings factor does not exceed the low earnings threshold or, where there is a surplus earnings factor exceeding the low earnings threshold, the aggregate of the flat rate and earnings related amounts.

196. Paragraph 4 provides that the 'flat rate amount' of additional state pension will be the 'FRAA' – £72.80 initially and then as uprated annually under new section 148AA of the SSAA1992 (see paragraph 201 below).

197. Paragraph 5 provides that the 'earnings related amount' is calculated by:

- identifying the surplus earnings between the low earnings threshold and the upper accrual point; then
- multiplying that figure by the relevant amount under the last order under section 148 of the SSAA1992; then
- multiplying that amount by 10%; then
- dividing that amount by 44.

198. Paragraphs 6 to 10 (Part 3) set out the calculation for the amount of additional state pension in respect of years of contracted-out employment.

199. Paragraph 6 provides that Part 3 applies to a tax year if the contracted-out condition is satisfied for each tax week in the year.

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

200. Paragraph 7 prescribes that the appropriate amount for the year is to be calculated by subtracting Amount B from Amount A.

201. Paragraph 8 provides that Amount A is the ‘flat rate amount’ of additional state pension, i.e. the ‘FRAA’ – as uprated annually under new section 148AA of the SSAA1992, where there is no surplus above the low earnings threshold.

202. Paragraph 9 provides that where there is a surplus exceeding the low earnings threshold, Amount A is to be calculated by:

- identifying the assumed surplus for the relevant year between the low earnings threshold and the upper accrual point; then
- multiplying that figure by the relevant amount under the last order under section 148 of the SSAA1992; then
- multiplying that amount by 10%; then
- dividing that amount by 44; then
- adding this amount to the flat rate amount for the year (paragraph 8 refers).

203. Paragraph 10 provides that Amount B is to be calculated by:

- identifying the assumed surplus for the relevant year between the qualifying earnings factor and the upper accrual point; then
- multiplying that figure by the relevant amount under the last order under section 148 of the SSAA1992; then
- multiplying that amount by 20%; then
- dividing that amount by the number of years in the pensioner’s working life.

204. Paragraph 10(2) provides that section 44B of the SSCBA1992 (deemed earnings factors) is to be ignored in applying section 44(6) for the purposes of calculating Amount B. This ensures that a person’s actual earnings factors are used in the calculation thereby producing an amount by way of top-up to the benefits provided by their private pension scheme.

205. Paragraph 11 allows the Secretary of State to make regulations so as to vary any of the calculations described above in circumstances where a person has a combination of contracted-in and contracted-out employment within a tax year or where a contracted-out pension scheme makes arrangements to buy back state scheme rights of their members..

206. Paragraph 12 defines the terms “assumed surplus”, “contracted-out condition”, “the FRAA” “the LET”, “the QEF”, “relevant year”, and “the UAP”.

207. Paragraph 13 further defines “the FRAA”.

Part 2 - Revaluation of Flat Rate Accrual Amount

208. *Paragraph 2* of this Schedule inserts new section 148AA into the SSAA1992.
209. Subsection (1) of the new section requires the Secretary of State to review the general level of earnings in the tax year prior to the flat rate introduction year and in subsequent tax years.
210. Subsection (2) defines “review period”.
211. Subsection (3) requires the Secretary of State to make an order under this section where the general level of earnings has increased over the review period.
212. Where a revaluation order is made, subsection (4) requires the FRAA to be increased by not less than the percentage by which the general level of earnings increased during the review period.
213. Subsection (5) sets the initial rate of the FRAA at £72.80 per year, which equates to a weekly amount of £1.40.
214. Subsection (6) allows the amount of the FRAA as determined by *subsections (4) and (5)* to be rounded up or down as the Secretary of State considers appropriate.
215. Subsection (7) allows the Secretary of State not to increase the FRAA where an increase would be inconsiderable.
216. If the Secretary of State determines that he is not required to make an order under this section, subsection (8) requires the Secretary of State to lay a report before Parliament explaining his decision not to do so.
217. Subsection (9) allows the Secretary of State to estimate the general level of earnings as he sees fit. In practice this means the Secretary of State will be able to decide which measure or index of earnings growth shall be used for the purposes of earnings uprating.
218. Subsection (10) defines the terms “the flat rate introduction year” and “the FRAA”.

Clause 12: Additional pension: upper accrual point

219. *Subsection (1)* amends section 22 of the SSCBA1992 to replace the upper earnings limit which represents the current end point for additional pension accruals with the new “applicable limit”. Prior to the flat rate introduction year, the applicable

limit will remain as the upper earnings limit. From the flat rate introduction year, however, the applicable limit will be the new “upper accrual point”.

220. *Subsection (2)* amends section 44 of the SSCBA1992 in line with the provisions of *subsection (1)* to replace the upper earnings limit with the upper accrual point as the cap for earnings factors as from the beginning of the flat rate introduction year.

221. *Subsection (3)* amends section 122 of the SSCBA1992 to define the “upper accrual point”. This will be of an amount equivalent to the upper earnings limit multiplied by 52 for the flat rate introduction year, except that there is power for the Secretary of State by order to specify a different amount should the forecast earnings growth not result in the low earnings threshold and the upper accrual point converging before 2030.

222. *Subsection (4)* introduces *Part 7 of Schedule 1* which contains consequential amendments relating to the simplified accrual rates.

223. *Subsections (5) to (9)* allow the Secretary of State to abolish both the low earnings threshold and the upper accrual point when the two converge, which is expected to happen in around 2030. (This will happen because the low earnings threshold increases at each up-rating in line with average earnings while, in contrast, the upper accrual point upon introduction will remain a fixed amount.) *Subsection (5)* activates these provisions when the low earnings threshold would otherwise be of an amount not less than the upper accrual point. At this time *subsection (6)* allows the Secretary of State by order to abolish both limits. *Subsections (7) and (8)* allow such an order to make any transitional or consequential amendments to primary legislation. *Subsection (9)* requires that any such abolition order must be approved by affirmative resolution of both Houses of Parliament. The effect of the convergence of the limits would be that, from that point, accruals for the state second pension would consist only of the flat rate accrual for any earnings factors over the qualifying earnings factor for the relevant year.

Schedule 1: Part 7: Additional pension: simplified accrual rates

224. *Paragraph 35* makes consequential amendments to section 176 of the SSCBA1992, so that any order setting the upper accrual point must be approved by affirmative resolution of both Houses of Parliament, and an order designating the flat rate introduction year will not be subject to any parliamentary procedure (like normal commencement orders).

225. *Paragraphs 36 to 39* make consequential amendments to the PSA1993 to cater for the introduction of the upper accrual point. The amendments are all in connection with contracting-out arrangements for defined benefit pension schemes.

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

226. *Paragraph 36* amends section 12B of that Act to prescribe the upper accrual point from the flat rate introduction year as the limit for calculation of qualifying earnings with regard to the reference scheme.

227. *Paragraph 37* amends section 41 of that Act to prescribe the upper accrual point from the flat rate introduction year as the limit for calculation of qualifying earnings with regard to reduced rates of Class 1 contributions and provide power for the Secretary of State by regulations to specify how the amount of National Insurance contributions is to be calculated on the range of earnings between the lower earnings limit and the new upper accrual point where a person has an unusual earnings pattern.

228. *Paragraph 38* amends section 181(1) of that Act to define “the flat rate introduction year” and the “upper accrual point”.

229. *Paragraph 39* amends Schedule 4 to that Act to prescribe the upper accrual point from the flat rate introduction year as the limit for calculation of qualifying earnings with regard to the calculation of reckonable earnings in priority in bankruptcy etc.

Clause 13: Increase in pensionable age for men and women

230. The rules for determining state pension age are set out in Part 1 of Schedule 4 to PA1995. *Subsection (1)* of this clause introduces *Schedule 3* (see below) which amends both section 126 of, and Schedule 4 to, the PA1995 so as to enact increases in state pension age. Under *subsection (3)* of *clause 28 (Commencement: see page 65 below)*, the amendments made by *Schedule 3* come into force two months after the date of Royal Assent but the first increase in state pension age, from 65 to 66, will be phased in between April 2024 and April 2026.

231. *Subsection (2)* introduces *Part 8 of Schedule 1*, which contains consequential amendments relating to the increases in state pension age (see below): these take effect on 6 April 2024 (*subsection (3)*) i.e. when the phasing-in of the initial change from 65 to 66 commences.

Schedule 1: Part 8: Increase in pensionable age for men and women

232. *Paragraphs 40 to 43* of this Schedule make consequential amendments to the SSCBA1992. These take effect from April 2024 (see the note to *subsection (3)* of *clause 13*).

233. *Paragraph 40* would allow the upper age limit for widow’s pension, which is currently 65, to align with rising state pension age. Widow’s pension is only payable to women who were widowed before 9 April 2001, and was replaced by bereavement benefit for men and women bereaved after that date.

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

234. *Paragraphs 41 and 42* relate to, respectively, the minimum age for entitlement to attendance allowance and the upper age limit for claiming disability living allowance (both 65). The amendment would align the present age thresholds with rising state pension age.

235. *Paragraph 43* relates to the qualifying conditions for the Christmas bonus. Where entitlement to the payment is by virtue of entitlement to a war disablement pension, the person is additionally required to have reached the age of 65. The amendment would align the qualifying age with rising state pension age in these cases.

236. *Paragraph 44* of this Schedule, which amends the State Pension Credit Act 2002, aligns the qualifying age for entitlement to the savings credit element (currently 65) with rising state pension age.

Schedule 3: Increase in pensionable age for men and women

237. This Schedule amends those provisions of the PA1995 which specify the dates on which men and women reach state pension age (referred to in the Act as pensionable age).

238. *Paragraphs 1 and 2* amend section 126 of that Act, which introduces Schedule 4 to that Act, to reflect the extended scope of that Schedule as amended by this Bill.

239. *Paragraphs 3 and 4* amend Schedule 4 to the PA 1995. *Paragraph 3* replaces the current heading to the Schedule to reflect the fact that, as amended, the provisions are no longer solely concerned with equalisation of state pension age. *Paragraph 4* amends paragraph 1 of that Schedule, which specifies the state pension ages for men and women respectively in a set of ‘rules’.

240. *Paragraph 4(2)* amends paragraph 1(1), which currently provides that a man attains state pension age when he reaches 65 years. The amendment limits this provision so that it applies only to men who are due to reach that age before 6 April 2024.

241. *Paragraph 4(3)* amends paragraph 1(3), which introduces the table setting out the state pension ages for women born after 5 April 1950 but before 6 April 1955, ie. those affected by the phasing-in of the increase in female state pension age from 60 to 65. The amendment is required as additional tables are introduced by these amendments (see also the amendment made by *paragraph 4(5)*).

242. *Paragraph 4(4)* substitutes paragraph 1(4), which currently provides that a woman born after 5 April 1955 has a state pension age of 65, to make provision for women corresponding to that for men made by the amendment at *paragraph 4(2)* above.

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

243. *Paragraph 4(6)* adds paragraphs 1(5) to (10), which provide how and when state pension age is to be increased from 65 to 68.

244. Paragraph 1(5) introduces the table detailing how the first of the changes (from age 65 to 66) is to be phased in. These arrangements will apply to those who are due to reach age 65 in the period 6 April 2024 to 5 April 2025. The phasing arrangements mirror the approach used to phase in the increase in state pension age for women where each increase of one year is phased in over two years. Dates of birth are grouped in one-month periods, with a common state pension age date (the 6th of the month) applying to everyone within that group. State pension age then advances by approximately one month in two months – that is, those born between 6 April 1959 and 5 May 1959 will reach state pension age on 6 May 2024; those born in the following month (6 May 1959 to 5 June 1959) will reach state pension age on 6 July 2024 and so on.

245. Paragraph 1(6) provides that state pension age will be 66 for those born in the period 6 April 1960 to 5 April 1968.

246. Paragraph 1(7) sets out how the change in state pension age from 66 to 67 is to be phased in for those born in the period 6 April 1968 to 5 April 1969.

247. Paragraph 1(8) provides that state pension age will be 67 for those born in the period 6 April 1969 to 5 April 1977.

248. Paragraph 1(9) sets out how the change in state pension age from 67 to 68 is to be phased in for those born in the period 6 April 1977 to 5 April 1978.

249. Paragraph 1(10) provides that state pension age will be 68 for those born on or after 6 April 1978.

Part 2: Occupational and personal pension schemes

Clause 14: Conversion of guaranteed minimum pensions

250. Section 13(1) of the PSA1993 requires a contracted-out scheme to make provision to pay a pension to a member from pensionable age of an amount no less than his guaranteed minimum, as specified under sections 14 to 16. Section 17(1) contains a requirement for the payment of a guaranteed minimum pension to a widow, widower, or surviving civil partner.

251. *Subsection (1)* of *clause 14* allows a scheme to omit provision for a guaranteed minimum pension, as required under section 13(1), where certain conditions are satisfied.

252. *Subsection (2)* similarly allows a scheme to omit provision for a survivor's guaranteed minimum pension under section 17(1), where the specified conditions are met.

253. *Subsection (3)* sets out the conditions which a scheme must meet in order to be relieved of the liability to pay guaranteed minimum pensions (as well as the rules applying to transfers, scheme amendments and enforcement). This is achieved by the insertion of a number of new sections into the PSA1993. The inserted sections provide as follows:

- Section 24A sets out definitions of terms used in sections 24B to 24G.
- Section 24B specifies the conditions which a converting scheme must satisfy: actuarial equivalence of the value of members' conversion benefits with those they possessed pre-conversion; no reduction of pensions in payment; conversion benefits not to include money purchase benefits; survivors' benefits to be provided (see section 24D), and specified procedural requirements to be met (see section 24E).
- Section 24C provides a power for regulations to be made concerning how actuarial equivalence is to be determined.
- Section 24D sets out the detailed requirement for the scheme to provide conversion benefits which include provision for pension to be paid to a widow, widower or surviving civil partner following the death of the member.
- Section 24E sets out requirements in relation to obtaining the agreement of the scheme's sponsoring employer, and providing information to members and survivors and to the Commissioners for HMRC about the proposed guaranteed minimum pension conversion.
- Section 24F provides a power for regulations to be made concerning conditions for transfers of pension rights out of a guaranteed minimum pension-converted scheme, including the particular requirement that survivor benefits be continued in the scheme to which the rights are transferred. *Subsection (4)* allows the trustees of a scheme which is not guaranteed minimum pension-converted to undertake guaranteed minimum pension conversion on an individual basis for the purpose of transferring a member's rights out of the scheme, providing the member consents.
- Section 24G provides powers for trustees to amend schemes to facilitate guaranteed minimum pension conversion. *Subsection (4)* makes it clear that trustees may adjust rights and liabilities under a scheme which is being wound up in order to undertake guaranteed minimum pension conversion.
- Section 24H provides powers for the Pensions Regulator in respect of enforcing the conditions for guaranteed minimum pension conversion, and extends the power under section 10 of the PA1995 (civil penalties) to trustees undertaking a guaranteed minimum pension conversion.

254. *Subsection (5)* inserts provisions into section 47 of the PSA1993 in order to make clear that a person who has had his guaranteed minimum pension converted shall continue to be treated as entitled to that guaranteed minimum pension for the purpose of calculating entitlement to additional state pension (the 'contracted out deduction').

Clause 15: Abolition of contracting out for defined contribution pension schemes

255. *Subsection (1)* provides that contracting-out certificates for money purchase occupational pension schemes and appropriate scheme certificates (i.e. contracting-out certificates for personal pension schemes) will be cancelled from the date that this subsection is brought into force ("the abolition date").

256. *Subsection (3)* introduces *Schedule 4. Part 1* of the Schedule contains amendments, mostly to the PSA1993, which will take effect on the abolition date. *Part 2* of the Schedule contains amendments which can be brought into force at a later date. The purpose of bringing the amendments in *Part 2* of the Schedule into force at a later date is to ensure that the existing statutory mechanisms for HMRC to deal with administrative matters concerning the contracted-out rebate and certification of schemes etc. can remain in place until any matters outstanding at the date of abolition of COMPs and APPs have been dealt with before the relevant legislation is repealed.

257. *Subsection (4)* introduces *Part 3* of *Schedule 4* which contains saving provisions. As with *Part 2*, the purpose of *Part 3* is to ensure that any administrative matters relating to a scheme's contracted-out status prior to the date of abolition can be completed after that date.

258. *Subsection (5)* provides for the consequential amendments and the saving provisions contained in *Parts 1* and *3* of *Schedule 4* to have effect from the abolition date.

259. *Subsection (6)* provides a regulation-making power to allow for consequential etc. provision to be made if required as a result of the abolition of contracting-out for money purchase schemes and personal pension schemes.

260. *Subsection (7)* provides that the power contained in *subsection (6)* can be used to amend, repeal or revoke any Act or subordinate legislation provided it was passed or made before the end of the Session in which the Bill is passed.

261. *Subsection (8)* allows for any regulations made under the power in *subsection (6)* to be subject to the negative resolution procedure.

262. But *subsection (9)* provides that any use of the power in *subsection (6)* to vary primary legislation is subject to affirmative resolution.

Schedule 4: Abolition of contracting-out for defined contribution pension schemes

Part 1

263. The amendments in this part of the Schedule will take effect from the date on which COMP and APP contracting-out certificates are cancelled by virtue of *clause 15(1)* of the Bill (“the abolition date”).

Amendments to Pension Schemes Act 1993

264. *Paragraph 2* amends section 7 (issue of contracting-out and appropriate scheme certificates). As a result of the amendment of subsection (1), HMRC can no longer issue certificates stating that personal pension schemes are appropriate schemes. In addition, when read with the amendments to section 9, the effect is that HMRC can no longer issue a contracting-out certificate in respect of a money purchase occupational pension scheme. Subsections (4) to (6) are omitted to reflect the fact that appropriate scheme certificates can no longer be issued.

265. *Paragraph 3* amends the definition of “contracted-out employment” in section 8(1) to reflect the fact that from the abolition date a money purchase occupational pension scheme can no longer be contracted-out in relation to an earner’s employment. *Paragraph 3(3)* inserts a new subsection (1A) into section 8. New subsection (1A) includes an amended definition of contracted-out employment by reference to a money purchase scheme. This definition now only relates to periods of “contracted-out employment” before the abolition date. This historical definition is required because, although after the abolition date it will no longer be possible for an earner to be in contracted-out employment by reference to a COMP, such periods will continue to be relevant for the calculation of a person’s additional pension. The definition will also be needed during the period immediately after the abolition date for dealing with matters relating to periods before that date which are still outstanding at the date of abolition e.g. contracted-out rebates.

266. *Paragraph 3(4)* amends section 8(2) to reflect the fact that section 42A is being repealed.

267. *Paragraph 4* contains amendments to section 9 (requirements for certification of schemes). Section 9(3), which deals with requirements for a money purchase scheme to be contracted-out, is omitted. Section 9(5), which deals with the requirements for a personal pension scheme to be contracted out, is also omitted. Consequential amendments are made to section 9(6) (which deals with relevant requirements for contracted-out and appropriate schemes).

268. *Paragraph 5* amends section 10 (protected rights). Section 10(3)(a) is amended to reflect the fact that the definition of “minimum contributions” is to be repealed.

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

269. *Paragraph 6* omits section 12 (determination of basis on which scheme is contracted-out) to reflect the fact that it will no longer be necessary for certificates to state whether a scheme is contracted-out by virtue of subsection (2) or (3) of section 9, since it will only be possible for schemes to contract out by virtue of section 9(2) (contracting-out requirements for salary related occupational schemes).

270. *Paragraph 7* replaces the cross-heading before section 26 with “Requirements for schemes with members with protected rights”.

271. *Paragraph 8* inserts a new section 25A into the Act. New section 25A applies to money purchase occupational pension schemes which ceased to be contracted-out as a result of *clause 15(1)* of the Bill, as well as to personal pension schemes which cease to be appropriate schemes as a result of the same provision. For as long as people have protected rights under such schemes, or are entitled to any benefit giving effect to such rights, new section 25A(3) requires such schemes to continue to comply with sections 26 to 32 (which such schemes would currently be required to comply with in order to be contracted-out) and prescribed requirements (i.e. the requirements which are currently imposed in relation to COMPs and APPs under section 9(3)).

272. *Paragraph 9* amends section 33 (tax requirements to prevail over certification requirements), and its sidenote, to include references to new section 25A.

273. *Paragraph 10* amends section 33A (appropriate schemes: blowing the whistle) so that it applies to personal pension schemes which cease to be contracted-out as a result of *clause 15(1)* of the Bill.

274. *Paragraph 11* amends section 34 (cancellation, variation, surrender and refusal of certificates) so that after the abolition date this section will only apply to schemes contracted-out by virtue of satisfying section 9(2).

275. *Paragraph 12* amends section 38 (alteration of the rules of appropriate schemes) so that, rather than applying to appropriate schemes, it applies to personal pension schemes that were appropriate schemes. The prohibition on rule changes continues to apply for as long as there are people who have protected rights under the personal pension scheme or who are entitled to any benefit giving effect to such rights under the scheme.

276. *Paragraph 13* amends section 42A by providing a new subsection (8) setting out a definition of “appropriate flat-rate percentage” and “appropriate age-related percentage” in view of the fact that the sections including definitions of these terms (sections 42B and 45A) are to be repealed. Section 42A provides for the calculation of reduced rates of national insurance contributions, and rebates, for earners in COMPs. The section is retained during the period immediately after the abolition date

so that HMRC can continue to deal with any matters in connection with reduced rates of national insurance contributions, and rebates, which are outstanding at the date of abolition.

277. *Paragraph 14* omits section 42B. Section 42B provides for the Secretary of State to make a report and then an order specifying the “appropriate flat-rate percentage” and the “appropriate age-related percentage”. These percentages are used to determine national insurance rebates for COMPs, and there will therefore be no need for the Secretary of State to make further orders after the abolition date.

278. *Paragraph 15* amends section 43 by providing a new subsection (7) defining “the earner’s chosen scheme”. This is necessary because the current definition is contained in section 44, which is to be repealed. Section 43 deals with the payment of contracted-out rebates (minimum contributions) to appropriate personal pension schemes. The section is retained for the period immediately after the abolition date so that HMRC can continue to deal with any minimum contributions relating to the period before the abolition date which are outstanding as at the date of abolition.

279. *Paragraph 16* omits section 44. Section 44 provides a mechanism for an earner to choose that contracted-out rebates (minimum contributions) must be made by HMRC to the earner’s chosen APP. After abolition of APPs this section will no longer be required.

280. *Paragraph 17* amends section 45 by inserting a new subsection (4), defining “appropriate age-related percentage” for the purpose of the section. The new subsection is required in view of the fact that the definition is currently included in section 45A which is to be repealed. Section 45 sets out how contracted-out rebates to APPs (minimum contributions) are to be calculated. Section 45 is retained for the period immediately after abolition so that HMRC can continue to deal with any minimum contributions relating to the period before the abolition date which are outstanding as at the date of abolition.

281. *Paragraph 18* omits section 45A. Section 45A provides for the Secretary of State to make a report and then an order specifying the “appropriate age-related percentage” for the purposes of calculating minimum contributions under section 45. After the abolition of APPs there will be no need for the Secretary of State to make further orders.

282. *Paragraph 19* amends section 48A. That section deals with the reduction of an earner’s additional pension in respect of any tax week in which a contracted-out rebate was paid as a result of the earner’s membership of a contracted-out occupational pension scheme or an APP. In section 48A(1)(a), the reference to section 42A is amended to reflect the fact that from the abolition date no further contracted-out rebates in respect of COMPs will be made (although rebates resulting from pre-abolition periods of membership of a COMP will continue to affect a person’s entitlement to additional pension). Similarly, in section 48A(1)(b), the reference to

section 45(1) is amended, to reflect the fact that from the abolition date no further national insurance rebates in respect of APPs will be made (although rebates resulting from pre-abolition periods of membership of an APP will continue to affect a person's entitlement to additional pension).

283. *Paragraph 20* amends section 50. That section gives power to HMRC to approve arrangements for schemes which cease to be certified as contracted-out or APPs or to issue a certificate of non-approval. The effect of the amendments is that HMRC's powers under section 50 extend to schemes which cease to be COMPs or APPs as a result of *clause 15(1)* of the Bill. *Paragraph 20* also makes various consequential amendments to section 50 to reflect the fact that there will be no money purchase contracted-out schemes after the abolition date.

284. *Paragraph 21* amends section 52. Section 52 provides for the continued supervision by HMRC of occupational pension schemes which used to be contracted-out and personal pension schemes which used to be APPs. The effect of the amendments is that the supervision requirements also apply to schemes which cease to be COMPs and APPs as a result of *clause 15(1)* of the Bill.

285. *Paragraph 22* amends section 55, which deals with contributions equivalent premiums. The amendment reflects the fact that after the abolition date COMPs will cease to exist, and therefore the existing provision that the section applies to contracted-out occupational pension schemes other than COMPs becomes superfluous.

286. *Paragraph 23* amends section 68A (safeguarded rights). The reference to section 9(3) in section 68A(5) is replaced by a reference to a "money purchase contracted-out scheme" in view of the fact that section 9(3) is to be omitted. The references in this subsection to rights under, or derived from, a COMP or APP are retained because safeguarded rights which arose pre-abolition and which are attributable to COMP or APP service will continue to include COMP or APP rights.

287. *Paragraph 24* amends section 87 (the general protection principle). The amendment re-states the present position that the section only applies to occupational pension schemes contracted-out by virtue of satisfying section 9(2) but without doing so by referring to COMPs, which will not exist after the abolition date.

288. *Paragraph 25* amends section 96, which deals with cash equivalents. The amendment reflects the fact that appropriate schemes will cease to exist from the abolition date. The effect of the amendment is that, where a transfer is made to a personal pension scheme which is unable or unwilling to accept a transfer payment for guaranteed minimum pensions or protected rights, the member will have a right to the balance of the cash equivalent after deduction of liabilities for guaranteed minimum pensions and/or protected rights.

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

289. *Paragraph 26* amends section 156 so as to allow HMRC to give information to a former APP for the purposes of Part III.

290. *Paragraph 27* amends section 163 (exemption of certain schemes from rule against perpetuities) so as to remove a reference to APPs that becomes redundant after the abolition.

291. *Paragraph 28* amends section 164 (Crown employment) by removing references to provisions of the Act which are to be repealed.

292. *Paragraph 29* amends section 177 (general financial arrangements) by removing references to provisions of the Act which are to be repealed.

293. *Paragraph 30* amends section 181(1) (general interpretation) by providing various new and amended definitions. Section 181(4) (regulations) is amended to reflect the fact that section 44 is to be repealed.

294. *Paragraph 31* inserts a new section 181A which deals with the interpretation of references to money purchase contracted-out schemes or appropriate schemes after the abolition date. The definitions apply in respect of periods before the abolition date, and mirror the existing definitions of the same expressions in the Act. These historical definitions are required because, although COMPs and APPS will cease to exist from the abolition date, the definitions used in this section will continue to be relevant for the calculation of a person's additional pension, and, during the period immediately after the abolition date, for dealing with matters relating to periods before abolition which are still outstanding at the date of abolition (for example contracted-out rebates).

Amendments to Pensions Act 1995

295. *Paragraph 32* amends section 149 of the PA1995. Section 149 gives a power to the Secretary of State to make regulations providing for schemes which provide both pensions capable of being contracted out by virtue of section 9(2) and pensions capable of being contracted out by virtue of section 9(3) to be treated as two separate schemes. The effect of the amendment is that schemes which provide both pensions capable of being contracted out by virtue of section 9(2), and pensions satisfying the requirements mentioned in new section 25A(3) are to be treated as two separate schemes for the purposes of Part 3 of the PSA1993.

Amendments to Welfare Reform and Pensions Act 1999

296. *Paragraph 33* omits section 1(10). The amendment removes the current condition that a stakeholder pension scheme which is a personal pension scheme must be an appropriate scheme. A consequential amendment is made to section 1(1).

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

297. *Paragraph 34* omits section 7, which allows orders under section 42B and 45A of the PSA1993 to specify different percentages in orders made under those sections for the purposes of for stakeholder schemes. Those sections are to be repealed and so section 7 is no longer needed.

Amendment to Pensions Act 2004

298. *Paragraph 35* omits section 257(7) of the PA2004. This subsection means that the pensions protection on transfer of undertakings protection of employment is not provided to employees in a contracted-out money purchase occupational pension schemes where the scheme only makes contributions based on the contracted-out rebate (minimum payments). The need for such an exemption will cease to exist after the abolition date.

Part 2

299. The amendments in *Part 2* are intended to be brought into force at a date later than the abolition date. The purpose of bringing the amendments in *Part 2* of the Schedule into force at a later date is to ensure that the existing statutory mechanisms for HMRC to deal with administrative matters concerning the contracted-out rebate and certification of schemes etc. can remain in place until any matters outstanding at the date of abolition of COMPs and APPs have been dealt with before the relevant legislation is repealed.

Social Security Contributions and Benefits Act 1992

300. *Paragraph 36* makes amendments to section 4C (regulation-making power in respect of retrospective tax legislation) to reflect the abolition of COMPs and APPs.

301. *Paragraphs 37* and *38* make amendments to sections 8 and 9 respectively (calculation of primary and secondary Class 1 contributions) to remove references to section 42A of the PSA1993, which is to be repealed.

302. *Paragraph 39* makes amendments to Schedule 1, which deals with the calculation of national insurance contributions in cases where an earner is employed in more than one employment, to reflect the fact that COMPs and APPs will have been abolished.

Pension Schemes Act 1993

303. *Paragraph 41* omits section 8(3), which allows for regulations to be made in relation to the manner in which minimum payments are to be made etc. Minimum payments derive from the contracted-out rebate and are paid to a COMP in respect of earners in contracted out employment.

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

304. *Paragraph 42* omits section 40(b), which currently provides for contributions to be paid by HMRC in respect of earners who are members of COMPs and APPs.

305. *Paragraph 43* omits section 42A, which provides for the calculation of national insurance rebates in respect of contracted-out employment in a COMP.

306. *Paragraph 44* omits section 43, which provides for HMRC to make minimum contributions to an APP which is an earner's chosen scheme.

307. *Paragraph 45* omits section 45, which provides for the calculation of minimum contributions.

308. *Paragraph 46* omits section 45B, which provides a power to make regulations dealing with the verification of ages for the purpose for determining "appropriate age-related percentages", and provides a power to disclose information in connection with contracted-out rebates.

309. *Paragraphs 47, 48 and 49* amend sections 50, 164 and 177 respectively to reflect the repeal of sections 42A, 43 and 45.

310. *Paragraph 50* omits the definition of "minimum contributions" in section 181(1) and omits a reference to section 43 in section 181(4). Minimum contributions are made to APPs, and will therefore no longer be required.

311. *Paragraph 51* amends Schedule 2 (certification regulations) by making a correction to paragraphs 4 and 6 to reflect the fact that section 66 has been repealed, and by amending the list of provisions in paragraph 5 to reflect repeals in this Schedule.

312. *Paragraph 52* amends Schedule 4 (priority in bankruptcy) to reflect the fact that COMPs will no longer exist.

Part 3 – Savings

313. *Paragraph 53* allows HMRC to continue to deal with COMP and APP certificates which are still outstanding at the abolition date.

314. *Paragraph 54* allows HMRC to continue to cancel, vary etc. COMP and APP certificates retrospectively after the abolition date.

Clause 16: Dispute resolution arrangements

315. *Clause 16* amends section 273 of the PA2004. That section of that Act (pensions disputes) substitutes a new section 50 into the PA1995 and adds new sections 50A and 50B. Section 273 has not yet been brought into force.

316. *Subsections (2), (3) and (9)* make minor textual amendments.

317. *Subsection (4)* inserts subsection (4A) into the new section 50. Subsection (4A) provides trustees or managers of an occupational pension scheme with the option of adopting two-stage dispute resolution arrangements. Schemes must provide for disputes to be considered by the trustees or managers, but the trustees or managers can choose for disputes to be considered by another person first. Any decision by the trustees or managers will confirm or replace any first-stage decision.

318. *Subsection (5)* inserts subsection (5A) into the new section 50. The effect is that the requirements of new section 50(5) apply equally to any first-stage arrangements. This means any decision on an application made under a discretionary first stage must be made and notified to the applicant within a reasonable period.

319. *Subsections (6) and (7)* make minor amendments to make it clear that the requirements of section 50B relating to the dispute resolution procedure apply only to applications to the trustees or managers, and not any discretionary first stage process.

320. *Subsection (8)* substitutes a new version of section 50B(3). The amendment replaces references to a fixed six-month time limit for applications to the trustees or managers for certain applicants with reference to a reasonable period. This will give the trustees or managers the flexibility to adopt time limits to suit either one or two stage arrangements.

321. *Subsection (10)* inserts a new subsection (4A) into new section 50B. This amendment makes it clear that a decision by the trustees or managers can be made by one or more of the trustees on behalf of the whole board.

Clause 17: Removal of Secretary of State's role in approving actuarial guidance

322. The clause introduces *Schedule 5* which amends pensions legislation and other legislation to remove the requirement for the Secretary of State to approve certain actuarial guidance.

Schedule 5: Removal of Secretary of State's role in approving actuarial guidance

323. This Schedule amends provisions which require actuarial guidelines to have been approved by the Secretary of State.

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324. *Paragraphs 1 and 2* amend sections 36C and 36F of the Bankruptcy (Scotland) Act 1985 and *paragraphs 3 and 4* amend sections 342C and 342F of the Insolvency Act 1986 respectively to remove the requirement that guidance prepared by a prescribed person to calculate the value of a pension scheme is to have been approved by the Secretary of State.

325. *Paragraphs 5 and 6* amend the PSA1993. Section 12A is amended to remove the requirement for the Secretary of State's approval in the case of prescribed guidance to determine whether a pension scheme which has applied to contract out under section 9(2B) meets the statutory standard and section 113 is amended to remove the requirement for the Secretary of State's approval in the case of prescribed guidance on the information to be given about schemes to members.

326. *Paragraphs 7 and 8* amend the PA1995. Section 67D is amended to remove the power to make regulations to require prescribed guidance to calculate the actuarial value of an affected member's subsisting rights to have been approved by the Secretary of State. Section 119 is amended to remove the power to make regulations to require the prescribed guidance to value a scheme's assets and liabilities to have been so approved.

327. *Paragraph 9* amends section 230 of the PA2004 to remove the power to make regulations to require the Secretary of State's approval in the case of prescribed actuarial guidance.

Part 3: Personal Accounts Delivery Authority

Clause 18: Personal Accounts Delivery Authority

328. *Clause 18* establishes a body corporate called the 'Personal Accounts Delivery Authority' (the "Authority") upon Royal Assent of the Bill to cover the whole of Great Britain and Northern Ireland. The Authority is not a servant or agent of the Crown, and as such does not enjoy the associated status, immunity or privileges. The clause also introduces *Schedule 6*, which contains provisions about the membership of the Authority and other matters.

Clause 19: Initial function of the Authority

329. The Authority may do what it thinks appropriate to prepare for the implementation of, or for advising on the modification of, any relevant proposals about personal accounts.

330. In this clause the phrase 'advising on the modification of any relevant proposals about personal accounts' relates to the Authority's advisory role in understanding the commercial and operational implications on implementation of

policy proposals. This could amount to suggesting additions, omissions or variations in the proposals to reflect, for example, industry best practice.

331. *Subsection (2)* defines the meaning of ‘relevant proposals’ as being any proposals made by the Secretary of State connected with the establishment of a national low-cost portable pensions savings scheme, and any additional proposals that relate to this subject matter, or relate to matters that are incidental or supplemental to the proposals or to consequential or transitional matters. Proposals are to be considered relevant whether or not Parliament has given the approval on which their implementation would depend. The Government will make proposals relating to personal accounts and the Authority needs to be able to prepare for these before Parliament has given its approval. However, by virtue of *subsection (4)* the Authority will not be able to implement any proposals requiring the approval of Parliament in advance of Parliament giving its approval.

332. *Subsection (3)* provides the Authority with incidental powers in connection with the discharge of its main function.

333. *Subsection (4)* provides that the Authority may not implement any of the proposals requiring Parliament’s approval unless such approval has been received. Before any such approval is given the Authority can only formulate proposals and take preparatory steps towards their implementation when approved.

334. *Subsection (5)* provides that the Authority may not borrow money for the purpose of, or in connection with, performing its functions from anyone.

335. *Subsection (6)* provides that the Secretary of State may issue guidance to the Authority from time to time about the discharge of the Authority’s functions as outlined in this clause.

336. *Subsection (7)* obliges the Authority to have regard to any guidance that may be issued by the Secretary of State under *subsection (6)* in discharging its function as outlined in this clause.

Clause 20: Management of the Authority

337. *Clause 20* places the Authority under a duty, when managing its affairs, to have regard to such guidance concerning the management of public bodies as they consider appropriate and, subject to such guidance and insofar as they are applicable to the Authority, to generally accepted principles of good corporate governance.

338. Guidance on the running of public bodies includes that provided by the Cabinet Office, for example the *Guidance on Codes of Practice for Board Members of Public Bodies* (February 2000). Principles of good corporate governance are currently set out in the *Combined Code* published by the Committee on Corporate

Governance in June 1998, which combines the provisions of the *Cadbury* and *Greenbury* codes on corporate governance with the Committee's own work.

339. *Subsection (2)* qualifies the obligation on the Authority to have regard to accepted principles of good corporate governance so that it is subject to general guidance detailed in *subsection (1)(a)* and it only applies to the extent that may be regarded as reasonably applicable to a statutory corporation.

Clause 21: Winding up of the Authority on abandonment etc. of proposals

340. *Subsection (1)* provides that if the Secretary of State considers that it is no longer necessary for the Authority to continue to exist because the condition of *subsection (3)* is met, namely, that as a result of the abandonment or modification of relevant proposals on the personal accounts scheme it is no longer necessary for the Authority to exist, he may by order provide for the winding up and dissolution of the Authority.

341. *Subsection (2)* provides that if the Secretary of State considers that it is no longer necessary for the Authority to continue to exist because the condition of *subsection (3)* is met at any time after 2008 he must, as soon as is reasonably practicable, make an order providing for the dissolution of the Authority.

342. *Subsection (4)* clarifies that the Secretary of State is not obliged to reintroduce an order for the Authority's dissolution by virtue of *subsection (2)* if such an order has been previously defeated in either House of Parliament.

343. *Subsection (5)* makes provision for the order to include, among other things, details on the transferring and dividing of the Authority's property, rights and liabilities on dissolution of the Authority.

344. *Subsection (6)* provides for the order to include consequential, incidental, or supplemental provisions, and transitional, transitory or saving arrangements as determined appropriate by the Secretary of State as a result of the winding up and dissolution of the Authority.

345. *Subsection (7)* enables the Secretary of State to use the order to remove what will be redundant provisions from the Bill in the event of the dissolution of the Authority.

346. *Subsection (8)* provides that the power to make an order for the Authority's dissolution is subject to the affirmative resolution procedure in both Houses of Parliament.

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in the House of Commons on 28th November 2006 [Bill 12]*

Schedule 6: The Personal Accounts Delivery Authority

Part 1: Members and employees etc.

347. *Part 1* deals with the members and employees of the Authority. The table below summarises the appointment procedures for the Authority and its staff.

	Initial appointment by	Subsequent appointments by	Terms and conditions set by	Remuneration set by
Chairman	Secretary of State	Secretary of State	Secretary of State	Secretary of State
Chief Executive	Secretary of State	Chairman and other non-executive members, subject to Secretary of State approval	Initial Appointment – Secretary of State. Thereafter- Chairman and other non-executive members, subject to Secretary of State approval	Initial Appointment – Secretary of State. Thereafter- Chairman and other non-executive members, subject to Secretary of State approval
Non-executive members (other than Chairman)	Secretary of State	The Authority, subject to Secretary of State approval	Initial appointment - Secretary of State. Thereafter, the Authority, subject to the approval of the Secretary of State.	Initial appointment - Secretary of State. Thereafter, the Authority, subject to the approval of the Secretary of State.

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Executive members (other than Chief Executive and other employees)	Secretary of State	The Chairman and other non-executives, subject to Secretary of State approval	Initial Appointment – Secretary of State. Thereafter- Chairman and other non-executive members, subject to Secretary of State approval	Initial Appointment – Secretary of State. Thereafter- Chairman and other non-executive members, subject to Secretary of State approval
Other staff	The Authority	The Authority	The Authority	The Authority

348. *Paragraph 1* specifies that both the Secretary of State and the Authority must aim to ensure the Authority’s membership is between 3 and 9 members. The membership of the Authority is to consist of a chairman, appointed by the Secretary of State, non-executives appointed subject to *sub-paragraphs (2) and (3)* (namely that first non-executives will be appointed by the Secretary of State, with any subsequent appointments to be made by the Authority with Secretary of State approval), and any executive members appointed as mentioned in *paragraph 6* of the Schedule.

349. *Paragraph 2* describes how the Secretary of State must, before appointing a chairman or another non-executive member, and from time to time once they have taken up their position, ensure that they do not have a conflict of interest, defined in *sub-paragraph (6)* as any interest, financial or otherwise, that is likely to affect prejudicially the way they carry out their functions.

350. *Sub-paragraph (3)* provides that any person mentioned in *sub-paragraph (4)* must, if the Secretary of State requests, provide information that will allow the Secretary of State to satisfy himself that they do not have a conflict of interest.

351. *Sub-paragraph (5)* states that *sub-paragraphs (1) to (4)* apply both when the Secretary of State makes an appointment and when he approves an appointment made by the Authority.

352. *Sub-paragraph (7)* sets out the activities that are not to be considered a conflict of interest. These include being, or having been, involved on behalf of the relevant authority in activities connected with the discharge of the relevant authority’s functions relating to occupational or personal pension schemes. They also include being, or having been, a trustee or manager of an occupational or personal pension scheme, or an employee of such a trustee or manager.

353. *Paragraph 24(1)* defines the relevant authority as either the Secretary of State or the Department for Social Development in Northern Ireland.

354. *Paragraph 3* deals with the tenure of office of non-executive members including the terms of their appointment, the procedure for non-executive resignation and the grounds, under *sub-paragraph (5)*, on which the Secretary of State may, by notice in writing, remove a non-executive from office.

355. *Paragraph 4* provides for the Authority to provide such remuneration, allowances, pensions or gratuities to non-executives, as determined by the Secretary of State.

356. *Sub-paragraph (3)* provides for the Authority to pay compensation to the chairman or non-executive members if they cease to hold their position for a reason other than the expiry of their term of office and the Secretary of State thinks there are special circumstances that make compensation appropriate.

357. *Sub-paragraph (4)* states that if a non-executive who is a participant of a pension scheme relevant to his membership ceases to be a non-executive and becomes instead an employee and/or an executive member of the Authority, the Secretary of State may, for the purposes of pension provision, determine that that person's service as employee/executive may be treated as if it were service as a non-executive member.

358. *Paragraph 5* provides for the Secretary of State to be able to appoint a non-executive member to the post of deputy chairman to discharge the functions of the chairman in such cases and in such a way as the Secretary of State or chairman may direct.

359. *Sub-paragraph (1) of paragraph 6* states the executive members of the Authority will be the chief executive of the Authority and other persons, if any, appointed in accordance with *sub-paragraph (4) or (5)*.

360. *Sub-paragraph (2)* states that the Authority is not required by *sub-paragraph 1(1)(c)* to have any executive members until the Secretary of State has appointed the initial chief executive.

361. *Sub-paragraph (4) of paragraph 7* states that if an executive who is a participant in a pension scheme relevant to his membership ceases to be an executive and becomes instead a non-executive member of the Authority, the Secretary of State may, for the purposes of pension provision, determine that that person's service as a non-executive is to be treated as if it were service as an employee.

362. *Sub-paragraph (5)* states that if an executive member who is a participant in a pension scheme relevant to his membership ceases to be an executive member without ceasing to be an employee of the Authority, the Secretary of State may, for the

purposes of pension provision, determine that that person's service as an employee is to be treated as if it were service as an executive member.

363. *Paragraphs 6(7) and 8* allow the Authority to appoint other employees of the Authority who are not executive members, and for the Authority to determine their terms and conditions.

364. *Paragraph 8(3)* states that if an employee of the Authority is a participant in a pension scheme relevant to his employment, ceases to be an employee and becomes an executive or a non-executive member of the Authority, the Secretary of State may, for the purposes of pension provision, determine that that person's service is to be treated as if it were service as an employee.

Part 2: Proceedings etc.

365. *Paragraph 9* sets out the committees the Authority may establish and who their members may be.

366. *Sub-paragraph (1)* provides that the Authority has the power to establish committees for the purpose of discharging any of its functions and for the purpose of giving advice to the Authority about matters relating to the discharge of its functions.

367. *Sub-paragraph (2)* provides that the membership of those committees may consist of or include people who are neither members nor employees of the Authority.

368. *Sub-paragraph (3)* provides that the committees must include at least one member or employee of the Authority except where:

- the committee has been established for the sole purpose of giving advice to the Authority about matters relating to the discharge of its functions; and
- it has not been authorised, by virtue of the delegation provisions in *paragraph 14*, to discharge functions on behalf of the Authority.

369. *Sub-paragraph (4)* states the Authority may pay such remuneration or expenses to a member of a committee who is neither a member nor employee of the Authority as it determines.

370. *Paragraph 10* enables a committee of the Authority to establish a sub-committee.

371. *Sub-paragraph (2)* provides that a member of a sub-committee must also be a member of the committee which established it.

372. *Paragraph 11* details how the Authority, its committees and sub-committees may regulate their proceedings.

373. *Sub-paragraph (1)* states that the Authority may (subject to *paragraph 13* – regarding disqualification for acting in relation to certain matters) regulate or determine its own, its committees’ and its sub-committees’ procedures. In addition it can enable a committee or sub-committee to regulate or determine its own affairs subject to any provision made by the Authority.

374. *Sub-paragraph (2)* provides for the chairman and non-executive members of the Authority to determine, by a majority of non-executive members, the procedure for the discharge of separate functions conferred upon them.

375. *Sub-paragraph (3)* clarifies that the power to regulate or determine procedure described in this paragraph includes the power to specify a quorum for meetings, to make provision that in specified circumstances the Authority or the chairman and non-executives can exercise their respective powers of appointment at a meeting which is inquorate, and to make provision for taking decisions by a majority.

376. *Sub-paragraph (4)* requires the Authority to publish all these procedures.

377. *Paragraph 12* obliges the Authority to maintain proper records of its proceedings and those of its committees and sub-committees, a meeting of the chairman and other non-executive members and anything done by an employee or member of the Authority as a result of the delegation provisions made under *paragraph 14(a)* or *(b)*.

378. *Paragraph 13* sets out the situations where a member of the Authority, the chairman or other non-executive members or any member of a committee or sub-committee will be unable to act at a meeting as a result of having an interest in a matter to be discussed at that meeting.

379. *Sub-paragraph (1)* states that this paragraph applies at any meeting of the Authority, the chairman and other non-executives, or any committee or sub-committee when a participant has a direct or indirect interest in any matter that will be discussed at a meeting they are involved in.

380. *Sub-paragraph (2)* obliges the person to declare the interest and requires the declaration to be recorded in the minutes of the meeting.

381. *Sub-paragraph (3)* states that any person who declares an interest cannot then take part in any discussions or decisions relating to that matter unless:

- in the case of a meeting of the Authority, or a meeting of the chairman and the non-executives, the other members present resolve unanimously that the interest is to be disregarded; or

- in any other case, the other members of the committee or the sub-committee present resolve, in the manner authorised by the Authority, that the interest is to be disregarded.

382. *Sub-paragraph (4)* states that in granting an authorisation under *sub-paragraph (3)(b)*, so that a member of a committee or sub-committee may take part, the Authority must ensure that it does not allow a person to take part in a discussion or decision at a meeting of a committee (or sub-committee of such a committee) established by *paragraph 9(1)(a)* for the purpose of discharging any of the authority's functions unless:

- no less than two-thirds of those other members of the committee (or sub-committee) who are both present and able to vote are in favour of the resolution; and
- the number of other members in favour of the resolution is not less than the quorum of the committee (or sub-committee).

383. *Sub-paragraph (5)* states that for the purposes of *paragraph 13* a general notification given at or sent to a relevant meeting that a person has an interest as a member, officer, employee or otherwise in a specified body corporate or firm, or is connected with a specified person (other than a body corporate or firm) and is to be regarded as interested in any matter involving that body corporate, firm, or person is to be deemed to comply with *sub-paragraph (2)* for that meeting and any subsequent relevant meeting of the same type.

384. *Sub-paragraph (6)* states that for the purpose of determining under *sub-paragraph (5)* whether a person is connected with another person, section 252 of the Companies Act 2006 (which determines whether a person is connected with a director of a company) is to apply.

385. *Sub-paragraph (7)* states that a general notification for the purposes of *sub-paragraph (5)* remains in force until it is withdrawn.

386. *Sub-paragraph (8)* lists 'relevant meetings' as those of the Authority, of the chairman and non-executive members or of a committee or sub-committee. It also sets out that a meeting is of the same type as another 'relevant meeting' if they both fall within the same paragraph of *sub-paragraph (8)*.

387. *Sub-paragraph (9)* provides that a person required to make a declaration to meet the requirements of this paragraph is not obliged to attend the meeting, and is to be considered to have complied with this paragraph if he takes reasonable steps to ensure that notice of his interest is read out and considered at the meeting.

388. *Sub-paragraph (10)* sets out the activities that are not to be considered to constitute an interest for the purposes of this paragraph. These include being, or having been, involved on behalf of the relevant authority (see *paragraph 24(1)*), in

activities connected with the discharge of the relevant authority's functions relating to occupational or personal pension schemes. These also include being, or having been, a trustee or manager of an occupational or personal pension scheme, or an employee of such a trustee or manager.

389. *Paragraph 24(1)* defines the relevant authority referred to in *sub-paragraph (10)*.

390. *Paragraph 14* enables the Authority to delegate any function conferred on it to a member, an employee or a committee.

391. *Paragraph 15(1)* provides that:

- a vacancy among the Authority members, or its committees or sub-committees;
- any defect in the appointments of members of the Authority; or
- a failure to comply with the requirements of *paragraph 11*, relating to the proceedings of the Authority, committees and sub-committees;

will not affect the validity of any proceedings of the Authority, the chairman and other non-executive members, a committee or a sub-committee.

392. *Sub-paragraph (2)*, states that nothing in *sub-paragraph (1)(c)* validates proceedings of a meeting which is inquorate other than for the reasons set out in *sub-paragraph (1)(a)* or *(b)*.

393. *Paragraph 16* provides for the authentication of the Authority's seal by the chairman or another member or any other person authorised by the Authority (generally or specifically).

394. *Sub-paragraph (3)* states that this paragraph does not apply to Scotland. In Scotland documents are executed under signature and therefore application of the seal would not be appropriate.

395. *Paragraph 17* obliges the Authority to produce an annual report detailing that year's proceedings and its financial position and to send a copy to the Secretary of State, who must lay a copy of the report before Parliament.

Part 3: Money

396. *Paragraph 18* provides for the Secretary of State, subject to Treasury consent, to make grants to the Authority out of money provided by Parliament.

397. *Paragraph 19* provides that the Authority must prepare an annual statement of accounts and send a copy to the Secretary of State. It must also send a copy of the

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statement to the Comptroller and Auditor General, who will report on the statement and lay a copy of it before Parliament.

Part 4: Supplementary

398. *Paragraphs 20 and 21* amend the appropriate legislation to disqualify members of the Authority from membership of the House of Commons or Northern Ireland Assembly.

399. *Paragraphs 22 and 23* amend the Public Records Act 1958 and the Freedom of Information Act 2000 so that these Acts apply to records of, and information held by, the Authority.

400. *Paragraph 24(1)* defines key terms used this within this schedule.

401. *Sub-paragraph (2) of paragraph 24* states that the functions of the relevant authority in relation to occupational pension schemes and personal pension schemes include any such functions conferred at any point after the passing of this Act.

Part 4: General

Clause 24: Consequential provision etc., repeals and revocations

402. *Subsection (1)* provides that the Secretary of State may make supplementary, incidental or consequential provision; or such transitory, transitional or savings provision as he deems appropriate for the purposes of the Act.

403. *Subsection (2)* gives effect to *Schedule 7*, which contains repeals and revocations as a consequence of the measures in the Bill.

404. *Subsections (3) to (7)* provide for when those repeals and revocations are to have effect. In essence, they are to have effect at the same time as the underlying provision in the Bill with which they are associated.

Clause 25: Financial provisions

405. This clause provides for any expenditure incurred by the Secretary of State by virtue of the Act (for example in setting up the Personal Accounts Delivery Authority), and any increase in sums payable under other Acts which are attributable to this Act, to be paid out of money voted by Parliament. The clause also makes provision for increased payments into the Consolidated Fund. These will occur as a result of section 165(5) of the SSAA1992, which provides for amounts to be paid into

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that Fund out of the National Insurance Fund which correspond to amounts paid out of voted money in respect of administrative expenses of the Secretary of State.

Clause 26: Northern Ireland

406. This clause applies to Orders in Council made while devolved government in Northern Ireland is suspended. If such an Order in Council states that it makes provision for Northern Ireland for purposes corresponding to those of this Act, it will not have to be passed by the affirmative resolution procedure but could instead be passed by the negative resolution procedure.

FINANCIAL EFFECTS OF THE BILL

Benefit payment costs

407. By 2020, the total annual additional spend on pensioner benefits due to the reform package is estimated to be around £15bn in 2006-07 prices.

408. This is on top of existing projected annual spending on pensioner benefits of £95 billion in 2020 (in 2006-07 prices, assuming the state pension credit standard minimum guarantee is uprated in line with prices from 2008).

409. The table below shows the profile of the total annual spending on pensioner benefits as a percentage of GDP, with the whole state reform package taken into account:

	2010	2020	2030	2040	2050
Percentage of GDP	6.2	6.1	6.8	7.3	7.3

Notes:

- Pensioner benefits includes the state pension, pension credit, housing benefit, council tax benefit, and disability benefits.
- There are some knock on effects of pension reform on working age benefits which are not reflected here.
- Abolition of contracting-out for defined contribution schemes decreases contracting out rebate revenue foregone. This is not reflected in the costs here, but is contained in Annex A of the RIA.
- Full details of costs and break downs are contained in Annex A of the RIA.

Administration costs

410. The administration cost of pension reform given below represents a current best estimate. This includes both the Department for Work and Pensions' and HMRC's costs. This will be refined as these reforms are taken forward and more detailed planning is undertaken within each area of reform.

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411. The total administrative cost in the period from Royal Assent to 2022 is estimated to be £211m.

412. This covers:

- The cost of state pension reforms up to 2022 including both the costs of implementation and ongoing operational costs;
- The cost of setting up the Personal Accounts Delivery Authority in the period prior to the Royal Assent of planned future legislation relating to personal accounts, subject to the approval of Parliament;
- The cost for other private pension reforms (conversion of guaranteed minimum pensions and the abolition of contracting-out for defined contribution schemes) covering the period between 2007-08 and 2012-13; and
- Administrative savings for HMRC that will arise as a result of abolishing contracting-out for defined contribution schemes in the period from 2013 to 2022.

EFFECTS OF THE BILL ON PUBLIC SERVICE MANPOWER

413. Some of the reform measures will lead to a gradual increase in the number of staff required to manage the caseload within The Pension Service.

414. This gradual increase will be offset by savings in staffing levels as a result of the simplification measures.

415. Overall the effect of reforms on public service staffing levels is considered to be marginal.

SUMMARY OF THE REGULATORY IMPACT ASSESSMENT

416. A full Regulatory Impact Assessment is published alongside the Bill. Copies are available from the library as well as from the Department for Work and Pensions Website (www.dwp.gov.uk).

Administration costs of proposed reforms

417. The costs set out below represent the estimated implementation and administration costs associated with the reforms set out in the Bill, and include costs to both the Department for Work and Pensions and HMRC.

State Pension reforms

418. It is estimated that the administrative costs of the state pensions reforms in the Bill will be in the region of £192million up to 2022. This figure includes both the costs of implementation and ongoing operational costs.

Personal Accounts Delivery Authority

419. It is estimated that the delivery costs of the Authority, as set out in this Bill, will total £21million in 2007-08 and 2008-09. Further legislation for personal accounts is intended, subject to the approval of Parliament.

Private Pension reforms

420. It is estimated that the abolition of contracting-out for defined contribution schemes and the conversion of guaranteed minimum pensions will cost £8million between 2009-10 and 2011-12.

Costs and benefits to individuals

421. The reforms as set out in the Bill are expected to have the following impact on individuals:

- 90 per cent. of people are expected to be in receipt of full basic state pension by 2025;
- The value of state pensions will be increased as a result of the earnings up-rating of the basic state pension (for the highest earners, this may be tempered by a reduction in the amount of state second pension they receive due to the speeding up of the changes to accrual rates);
- The standard minimum guarantee element of state pension credit will be of increased value as a result of earnings up-rating; and
- The raising of state pension age will mean that people will become entitled to state pension later in life. State pension age will be gradually raised by a year between each of the periods 2024-26, 2034-36 and 2044-46.

Gender impact

422. The effect of the reforms to state pension set out in the Bill will be to increase the percentage of people with limited contribution records who will be entitled to the full basic state pension. Women are disproportionately represented in this group, so will be affected more as a result of these reforms than men.

*These notes refer to the Pensions Bill as introduced
in the House of Commons on 28th November 2006 [Bill 12]*

Race impact

423. With reference to paragraph 422 above, some groups of ethnic minority women are particularly likely to have broken contribution conditions, or to have never worked in paid employment. Therefore these women will be affected more as a result of state pension reforms than other groups. No exact assessment of this impact can be made due to a lack of data.

Impact on Employers

Abolition of contracting-out for defined contribution schemes

424. The abolition of contracting-out for defined contribution schemes will have an impact on employers, as those currently running such schemes will have to start paying full rate National Insurance contributions.

425. However, under the current system the contracting-out rebate received by employers must be paid back into the scheme. This will no longer be the case.

426. There will be one-off costs with respect to the abolition of contracting-out for defined contribution schemes, which will affect approximately 4,000 out of a total of 69,000 occupational schemes.

Raising state pension age

427. It is estimated that the raising of state pension age will increase employment, which will restrain the growth of wages.

Impacts on Small Firms and Competition

428. The reforms in the Bill are not expected to have any significant effect on small businesses. In addition, no impact on competition is foreseen.

EUROPEAN CONVENTION ON HUMAN RIGHTS

429. Section 19 of the Human Rights Act 1998 requires the Minister in charge of a Bill in either House of Parliament to make a statement about the compatibility of the provisions of the Bill with the Convention rights (as defined by section 1 of that Act). The Secretary of State for Work and Pensions, John Hutton, has made the following statement:

"In my view the provisions of the Pensions Bill are compatible with the Convention rights."

430. *Clauses 1 and 2* make changes to entitlement conditions for Category A and B retirement pensions. It is possible that *clause 1* might engage Article 1 of the First Protocol, in that it changes the contribution conditions for entitlement to those pensions for those reaching state pension age on or after 6 April 2010, meaning that those reaching state pension age prior to this date would have had to satisfy more onerous conditions to get a full state pension. The Government considers that this measure is compatible with the Convention rights as it is a proportionate response: those affected will have gone through their working lives fully aware of the conditions necessary to get a full state pension. As regards *clause 2*, it is also possible that a person who was subject to the old legislation might attempt to bring a claim under Article 1 of the First Protocol read with Article 14 arguing that they were subject to less favourable treatment under the previous legislation. The Government considers that this argument would have little chance of success for various reasons, not least because being subject to different legislation is unlikely to be accepted as founding a “status” under Article 14. Further, under Article 1 of the First Protocol, if a person were to argue that under the old legislation they were deprived of the possibility of claiming a Category B pension before their partner claimed their Category A pension, the response may be that they could not be said to have enjoyed a legitimate expectation to it at that time so as to have a “possession” under Article 1 of the First Protocol and that in defining conditions of entitlement, the state cannot be said to be interfering with them.

431. *Clause 3* makes changes to crediting arrangements for the basic state pension. It is possible that this clause will engage Article 14 and Article 1 of the First Protocol. Again, this is because the changes will not apply to those reaching state pension age prior to 6 April 2010, who have to satisfy more onerous conditions to build entitlement to basic state pension. The Government considers that that this measure is compatible with the Convention rights for similar reasons as apply in relation to *clause 1*. It is intended to improve the prospects of a group that currently finds it harder to build entitlement to the basic state pension.

432. *Clause 4* provides for the abolition of adult dependency increases. It engages Article 1 of the First Protocol as a consequence of the fact that no new payments of adult dependency increases will be made after 6 April 2010 and existing entitlements will end by 6 April 2020 at the latest. The Government considers that this measure is compatible with the Convention rights for the following reasons:

- Those currently in receipt of adult dependency increases will have been given over 13 years’ notice of the intention to abolish them;
- The availability of pension credit will mitigate the impact for pensioners on low and moderate incomes; and
- The other measures in the Bill will have the effect of increasing from 2010 the numbers of people who will receive a full or increased basic state pension in their own right.

433. *Clauses 5 to 8* amend the rules in relation to the up-rating of basic state pension and other benefits. It is possible that *clause 5* will engage Article 1 of the First Protocol as the Secretary of State is given discretion as to how to estimate the general level of earnings for the purposes of up-rating the basic state pension. Additionally, *clause 6* might engage Article 14 and Article 1 of the First Protocol, as it provides for widowed mother's allowance, widow's pension, widowed parent's allowance and bereavement allowance to continue to be uprated in line with prices, breaking the link with the up-rating of the basic state pension. The Government considers that this measure is compatible with the Convention rights because these benefits are not comparable with pensions in that they are paid to people with different needs and responsibilities. They are designed for people of working age as well, and other working age benefits are up-rated by prices. Similarities in their contribution conditions and those of pensions are for historical reasons.

434. *Clause 9* provides for changes to deemed earnings factors with reference to the state second pension, and may engage Article 14 and Article 1 of the First Protocol on the same basis as *clause 3* which relates to basic state pension. The Government considers that this measure is compatible with the Convention rights for the same reasons as those set out in relation to *clause 3*.

435. *Clauses 10 to 12* provide for the simplification of accrual rates for the state second pension. It is possible that these clauses will engage Article 14 and Article 1 of the First Protocol in that they will affect the levels of pension attributable to accruals in the future. The Government considers that these measures are compatible with the Convention rights in that any reduction in the total level of state second pension payable to a person will be offset by their basic state pension gains through earnings up-rating (*clause 5*).

436. *Clause 13* provides for the increase in state pension age for men and women and potentially engages Articles 1 and 14 of the First Protocol as some people will have to wait longer than others for their State Pension. The Government considers that that this measure is compatible with the Convention rights as the measure has a legitimate aim: the change in state pension age is necessary for valid socio-economic reasons and those affected will have many years' notice before the changes come into force.

437. *Clauses 14 to 17* provide for the reform of occupational and personal pension schemes. *Clause 14*, which provides for the conversion of guaranteed minimum pensions, may engage Article 1 of the First Protocol in that it interferes with accrued rights. The Government considers that this measure is compatible with the Convention rights as the overall value of rights will be maintained. It is also possible that *clause 15*, regarding the abolition of contracting-out for defined contribution schemes, will engage Article 1 of the First Protocol, in that it removes the option of paying lower National Insurance contributions. The Government's view, however, is that this falls within the realms of paragraph 2 of Article 1, which allows the passing

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of laws that the State ‘deems necessary to control the use of property in accordance with the general interest or to secure the payment of taxes or other contributions or penalties.’

TRANSPOSITION NOTES

438. None of the measures in this Bill have any effect on or are affected by any European Directive.

COMMENCEMENT

439. The following provisions will come into force on Royal Assent:

- *Clause 5, clause 6 and Part 5 of Schedule 1* insofar as they relate to the up-rating of the standard minimum guarantee;
- Part 3 of the Bill, relating to the establishment of the Personal Accounts Delivery Authority; and
- Part 4 (general provisions).

440. The following provisions will come into force on such day as the Secretary of State may by order appoint:

- *Clause 14*, which relates to the conversion of guaranteed minimum pensions;
- *Clause 15(1), Part 2 of Schedule 4 and Part 5 of Schedule 7* relating to the abolition of contracting-out for defined contribution schemes;
- *Clause 17, Schedule 5 and Part 6 of Schedule 7* relating to the removal of the Secretary of State’s role in the approval of actuarial guidance notes.

441. The other provisions of the Bill will come into force two months after Royal Assent.

PENSIONS BILL

EXPLANATORY NOTES

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