Pensions Bill 2011

SUMMARY OF IMPACTS

Final Proposal stage
Produced 13 January 2011

For Introduction to the House of Lords on 12 January 2011
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Executive Summary

1. The proposals set out in the Pensions Bill 2011 help ensure a pensions system that is fair and financially sustainable. The proposed regulatory changes build on the reforms introduced by the Pensions Acts 2007 and 2008, to respond to shifts to demographic, social and economic contexts since the Acts and to refine existing legislation.

2. Further details of the measures contained in the Bill are available in the Explanatory Notes which accompany the Bill, available from http://services.parliament.uk/bills/

3. The Government recognises a responsibility to consider the impact, in terms of costs and benefits, of new regulatory proposals on the private sector and civil society organisations.

4. In addition to the above, the Government also has a statutory duty to consider whether new regulatory proposals have impacts on individuals that differ by the protected characteristics of race, disability and gender.¹

5. This note summarises the Impact Assessments (including with respect to equality legislation) for the pension reform provisions contained in the Pensions Bill 2011. Individual Impact Assessments for the significant regulatory proposals contained in the Bill are at Annexes A-E. A number of measures in the Bill have no significant impacts. These measures are summarised at Annex F.

¹ Following the Equality Act 2010, from April 2011 a new public sector equality duty will take effect. This will replace the three current public sector duties (covering race, disability and gender equality) with a duty providing protection against discrimination on the grounds of race, disability, gender, age, gender reassignment, sexual orientation, pregnancy and maternity, and religion and belief (the protected characteristics). Further information is available from the Equalities and Human Rights Commission website at: http://www.equalityhumanrights.com/advice-and-guidance/public-sector-duties/
Background

6. In 2010 the Government announced three significant reviews of pensions policy: into the timing of the increase in State Pension age to 66; of automatic enrolment into workplace pensions; and of public sector pensions.

State Pension age review

7. Under legislation introduced by the Pensions Act 1995, women’s State Pension age is to be equalised with men’s, rising from 60 in 2010 to 65 by 2020. Following this, both women’s and men’s State Pension age is to rise to 66 by 2026 under the Pensions Act 2007. It is then to rise to 67 by 2036, and to 68 by 2046.

8. Since then, official projections of average life expectancy have been revised upwards. Life expectancy projections (made in 2009) indicate that men and women reaching 66 in 2026 are expected to live, on average, at least 1.5 years longer than was thought at the time the Pensions Act 2007 was legislated. Further, the UK economy is recovering from the longest and deepest recession since official records began in 1955.

9. In response to these challenges, in June 2010 the Government issued a Call for Evidence on the timing of the increase in State Pension age to 66. This was followed in November 2010 by the publication of a White Paper outlining the Government’s response, and decision to bringing forward the increase to 66.

Making Automatic Enrolment Work review

10. The Pensions Act 2008 introduced a series of private pensions reforms to enable and encourage individuals to save more for retirement, building on the foundation of the State Pension. The 2008 Act was followed by the Workplace Pension Reform Regulations of 2010. These reforms focused on the use of auto-enrolment into workplace pension schemes, from which an individual would need to actively opt-out, to build private saving. This was combined with a minimum employer contribution, and the creation of a pension scheme - now known as the National Employment Savings Trust (NEST) - that could be used by any employer.

11. In 2010, the Government established an independent review into workplace pension reform, Making Automatic Enrolment Work. The review examined the scope of auto-enrolment policy (as part of which, whether NEST was necessary).

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2 DWP analysis based on Office for National Statistics Cohort Life Expectancy principal projections, for average life expectancy for men and women resident in the UK.
3 The Call for Evidence document, and the subsequent White Paper A sustainable State Pension: when the State Pension age will increase to 66 are available for download at: www.dwp.gov.uk/spa-66-review
As part of this, the review team undertook a consultation on the scope of reforms and the options for amending the policy. 4

**Measure of inflation**

12. In June 2010 the Government announced that it had decided to use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the general measure of inflation for up-rating of social security benefits, State Pensions and public sector pensions. In July it was announced that CPI would also be used for the revaluation and indexation of private sector occupational pensions schemes, increases to Financial Assistance Scheme payments, and the revaluation and indexation of pension compensation. The CPI is considered a more appropriate measure of inflation than RPI, as it is calculated in accordance with a common EU methodology to measure price levels, and is the index used by the Bank of England to measure inflation.

**Independent Public Service Pension Commission**

13. The Independent Public Service Pension Commission’s (IPSPC) interim report published on 7 October 2010 recommends that the most effective way to make short-term savings on public sector pensions is to increase member contributions.

14. The Government has accepted these recommendations, and requires members of public sector pension schemes to increase, or to start making, contributions towards the costs of providing pensions under those schemes, which includes the Judicial Pension Schemes.

**Summary of regulatory proposals**

15. The regulatory proposals of the Pensions Bill 2011 largely, therefore, build on previous legislation, to introduce changes to legislation that reflect recent Government decisions, or refine existing legislation in the light of operation.

16. **State Pension age increase to 66** (Clause 1)

16.1. The Pensions Bill 2011 proposes an amendment to the timetable for the increase to 66, so that State Pension age increases from 65 to 66 between 2018 and 2020. The increase in State Pension age to 66 must be applied to both men and women, to comply with the EU Directive that requires equal treatment of men and women in social security matters. To enable the increase to 66 to be implemented from 2018, the Bill also proposes an amendment to the timetable for equalising women’s State Pension age with men’s so that women’s State Pension age rises more quickly from 2016 to reach 65 by 2018.

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4 The *Making Automatic Enrolment Work* review report is available for download at [www.dwp.gov.uk/docs/cp-oct10-fulldocument.pdf](http://www.dwp.gov.uk/docs/cp-oct10-fulldocument.pdf)
16.2. This change to the timetable for increasing State Pension age will affect approximately 5 million men and women in Great Britain, of whom approximately 4.5 million will have an increase in their State Pension age, against the legislated timetable, of a year or less. The measure will deliver significant net savings to Government. Some women will see their State Pension age rise by more than a year; however, women will still, on average, claim State Pension for longer than men.

16.3. A full Impact Assessment of the amendment to the timetable for increasing State Pension age is at Annex A.

16.4. There are a small number of consequential amendments in the Bill which result from the above proposals. The most significant of these brings forward the date from which the minimum or maximum qualifying ages of certain benefits were due to have been aligned to State Pension age, from April 2024, when the State Pension age would have started to rise above 65 under the legislated timetable, to December 2018, when it will do so under these proposals. This will mainly affect claims for Disability Living Allowance (which cannot currently be awarded where the conditions of eligibility are not satisfied before age 65), Attendance Allowance (where the minimum age condition is currently 65) and awards of Widow’s Pension (which currently terminate at 65).

17. Workplace Pensions reform (auto-enrolment) measures

17.1. The Pensions Bill includes proposals to implement the findings of the independent review of automatic enrolment into workplace pensions. These measures concern:
- Changes to the earnings threshold for eligibility for automatic enrolment and the qualifying earnings band on which contributions are paid (Clauses 5, 8, 9);
- The introduction of an optional waiting period of up to three months before the automatic enrolment duty commences (Clause 6);
- Simplification of the way an employer can certify that their pension scheme meets the necessary quality test (Clause 10); and
- A change to the timing of automatic re-enrolment, so that regulations must secure that there is not more than one automatic re-enrolment date in any period of two years and nine months, rather than in any period of three years (Clause 7).

17.2. The Bill also includes minor amendments that refine auto-enrolment legislation, which will have minimal or no impacts. These measures concern:
- Transitional arrangements for Defined Benefit and hybrid pensions schemes, to allow employers a choice as to whether they use these arrangements (Clause 11);
- Continuity of scheme membership, to clarify the duty on employers to re-enrol employees following change or closure of a scheme (Clause 4);
- No indemnification for penalties and fines, to ensure that trustees or managers of pensions funds cannot take money out of scheme funds to pay for penalties and fines (Clause 13); and
- Rules that govern the service of compliance notice and documents sent by the Pensions Regulator (Clause 26).

17.3. Together, the auto-enrolment measures proposed will ease the burden on employers and industry whilst maintaining the key aim of ensuring individuals are able to save for their retirement. They reduce contribution and administrative costs for employers. Annual tax relied and foregone tax revenue to the Government will also fall. The measures are likely to affect women more strongly than men due to underlying inequalities in private pension provision.

17.4. A full Impact Assessment of the auto-enrolment measures is at Annex B.

18. Revaluation and indexation of private sector occupational pensions

18.1. The change to using CPI as the inflation measure for revaluation and indexation of occupational pensions is largely delivered through secondary legislation by the annual revaluation order.

18.2. The measures in the Pensions Bill (Clause 14) are i) minor amendments which address references to the RPI in primary legislation; and ii) an amendment to ensure schemes are not required to increase pensions in payment by the higher of RPI or CPI.

18.3. The amendment to ensure schemes are not required to increase pensions in payment by the higher of RPI or CPI will affect the expected value of the pensions of pension scheme members. There will be a corresponding decrease in the expected value of the pensions liabilities of pensions providers.

18.4. A full assessment of the impact of the revaluation and indexation of private sector occupational pensions by CPI was published in December 2010. A copy is attached at Annex C for information. Note that the Impact Assessment evaluates the total impact of the change to CPI for both i) revaluation and indexation as delivered by the measures contained within the Pensions Bill (the minor impact); and also ii) revaluation as delivered by the annual revaluation order (the major impact).

19. Pensions protection measures

19.1. The Pensions Bill 2011 also contains a number of proposals for change to pensions protection legislation concerning to the Pensions Protection Fund (PPF) and the Pensions Regulator (tPR).

19.2. The most significant PPF-related measure concerns the indexation of pension compensation by CPI rather than RPI, to ensure consistency with changes to other pensions indexation (Clause 15). The measure in the Bill is only in respect of indexation. The change to the revaluation rules for pensions compensation is to be taken forward by regulations.
19.3. Eight further pensions protection measures relating to the PPF amend legislation in light of live running since April 2005 (Clause 17). The aims are to reduce unnecessary bureaucracy, time and/or resources; clarify the policy intent; or enhance existing rules. The measures cover:
- Scheme valuations completed before transfer into the PPF
- Reconsideration of schemes that have not transferred into the PPF
- Content of certain determination notices made by the PPF
- Minimum length of a PPF assessment period
- Changes to the requirements associated with certain statutory instruments
- Pension compensation: deferral past normal pension age
- Pension compensation: revaluation of pension credit members

19.4. The Bill also contains a measure (Clause 21) that amends time periods relating to tPR’s anti-avoidance powers, with the aim of ensuring the statutory time periods operate fairly for business particularly in cases with inherent complexity (for example where the companies involve large multi-national or multi-employer groups).

19.5. Taken together, the pensions protection measures in the Pensions Bill do not impose burdens on business or others. The PPF estimate that the change to indexation of pension compensation will produce a reduction in their current liabilities. This reduction represents a transfer from current members of the PPF to employers sponsoring defined benefit schemes through a compulsory levy. The other measures in the Bill relating to the PPF deliver moderate savings in administrative costs to schemes in a PPF assessment period. Changes relating to tPR will not affect the great majority of businesses, but deliver non-quantifiable benefits.

19.6. An Impact Assessment on the above pensions protection measures is at Annex D. Note that the Impact Assessment evaluates the impacts of both i) the change in indexation of pensions compensation by CPI (as delivered by the measures in the Bill); and ii) in revaluation of pensions compensation by CPI (as delivered by regulations).

20. Judicial pensions measures (Clause 24)

20.1. Judicial pension schemes are constituted in accordance with primary legislation. Clause 24 introduces provisions into the current judicial pension schemes (JPS) to allow contributions to be taken from April 2012 towards the cost of providing personal pension benefits to members of those schemes.

20.2. Contributions will only be taken during the period in which the individual judge is accruing full pension benefits (15 or 20 years depending upon the applicable scheme) and in accordance with regulations. However, if the judge retires, resigns or is removed from office during such period contributions will stop being taken from the date he/she leaves office. The rate of contribution has yet to be determined. The provision is expected to deliver savings to Government through reduction in the liabilities of the JPS.
20.3. An Impact Assessment on the above provisions is at Annex E.

21. Other measures

21.1. The Pensions Bill 2011 also contains a number of minor or corrective amendments, primarily to private pensions legislation. These measures clarify or change the original policy, or align with further reform proposals; or, in a few cases, are technical amendments to correct inaccuracies in legislation. Consequently, these measures do not introduce significant costs or benefits to the private sector or civil society organisations; or to the public sector over the cost threshold. Therefore individual Impact Assessments of these regulatory proposals have not been carried out. These measures are summarised in Annex F.

21.2. As noted, full discussion of the measures of the Bill is given in the accompanying Explanatory Notes available from http://services.parliament.uk/bills/
Summary of costs and benefits

Table 1: Summary of cost and benefit impacts of Pensions Bill 2011

<table>
<thead>
<tr>
<th>Measure: Change to the timetable for increasing State Pension age to 66 (see Annex A for further details)</th>
<th>Impact assessment period: 2016-2026</th>
<th>Price base year: 2010/11</th>
<th>Total Benefit (Present Value (PV)): £59,100 million</th>
<th>Total Cost (PV): £30,600 million</th>
<th>Net Benefit (Net Present Value (NPV)): £28,500 million</th>
<th>Net Transfer (NPV, £m): 0</th>
<th>Net Resource (NPV, £m): £2,850 million per annum average annual increase in employment income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Details of measure</td>
<td>Clause(s)</td>
<td>Impact on Individuals</td>
<td>Impact on Employers</td>
<td>Impact on Pensions Industry</td>
<td>Impact on Government</td>
<td>Regulatory burden on business and civil society organisations</td>
<td></td>
</tr>
<tr>
<td>Implement increase in State Pension age for men and women from 65 to 66 between 2018 and 2020. Amend the timetable for equalisation of women’s State Pension age from 2016, to reach 65 by 2018.</td>
<td>Clause 1</td>
<td>Changes to legislated increases in State Pension age will affect approx. 5 million people in GB; the majority will qualify for their State Pension a year later than under the legislated timetable. Net total benefits of approximately £3 billion between 2016 and 2026 in:  - Transfer costs of £33.4 billion in reduced pensions-related benefits, and £8.1 billion additional tax and Negligible and indirect. Note that the State Pension age is distinct to the Default Retirement Age. Negligible and indirect. Some pension schemes provide an integrated private pension linked to statutory State Pension age, which will be changed by this proposal. However, the measure introduces no new regulatory burden. Between 2016 and 2026:  - Net transfer benefits of £30 billion in reduced benefit-related expenditure  - Net transfer benefits of £8.1 billion in tax and NICs  - Net resource costs of £10 million in administration expenditure</td>
<td>Negligible and indirect.</td>
<td>Negligible and indirect.</td>
<td>None. This measure introduces no new regulatory burdens on business and civil society organisations.</td>
<td></td>
<td></td>
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</tbody>
</table>
### PENSIONS BILL 2011 - Impact Assessments Summary

<table>
<thead>
<tr>
<th>National Insurance contributions (NICs)</th>
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</thead>
<tbody>
<tr>
<td>- Transfer benefits of £3.4 billion in increased working-age benefits</td>
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<tr>
<td>- Net resource benefits – expected increase in gross employment income of £41 billion.</td>
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#### Workplace pension reforms (auto-enrolment): various measures (see Annex B for further details)

|-------------------------------------|---------------------|------------------------------------|---------------------------------|--------------------------------|-------------------------------|------------------------------------------------------------------|

#### Summary of measures

The package of changes which the Bill proposes in relation to the workplace pension reforms is deregulatory in nature. They reduce costs for employers by £170 million a year in contributions, and £6 million a year in ongoing administrative costs. Exchequer costs will also fall: annual tax relief will fall by around £70 million a year and foregone tax revenue will fall by £40 million a year. Unless otherwise stated, the figures presented with respect to workplace pensions reforms are provided as steady state levels in 2011/12 earnings terms.

#### Details of measure

| Introduction of a Waiting Period of up to three months, with opt in during that three months | Clause 6 | Reduces the number of individuals automatically enrolled by up to 0.5 million. Reduces accumulated savings by up to three | Reduces costs for employers. Saving on administration of at least £3 million per annum, and an estimated saving in contribution | Reduces costs for providers. Fewer small pots to administer and improved persistency of pensions | Reduces Exchequer costs. Saves an estimated £60 million in tax relief, and £40 million in foregone tax revenue, | Reduces burden for employers and industry. Reduces numbers of individuals savings and |
## PENSIONS BILL 2011 - Impact Assessments Summary

<table>
<thead>
<tr>
<th></th>
<th>Years on average - if all employers operate the maximum waiting period.</th>
<th>Costs of £150 million per annum. Relatively larger impact for small and micro employers.</th>
<th>Saving.</th>
<th>Per annum.</th>
<th>Total amounts saved.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Increase Earnings</strong></td>
<td><strong>Clauses 5, 8, 9</strong></td>
<td>Reduces the number of individuals automatically enrolled by up to 0.6 million. Persistent low earners will already get high replacement-rates from the state pensions system.</td>
<td>Reduces costs for employers. Employers will need to enrol slightly fewer individuals. Avoids employers having to process very small pensions contributions. Estimated savings on employer contributions are £30 million per annum. Estimated savings on administration costs are £3 million per annum. Relatively larger impact on savings for micro employers.</td>
<td>Reduces costs for providers. Providers administer fewer small pots of pensions than under the previously planned reforms.</td>
<td>Reduces Exchequer costs. Saving of £10 million, per annum, each on tax relief and tax revenues foregone.</td>
</tr>
<tr>
<td><strong>Certification - simplified 3-stage test</strong></td>
<td><strong>Clause 10</strong></td>
<td>Minimal impact - there is a slight risk that some individuals could receive less than the level of contributions currently set out in legislation.</td>
<td>Reduces costs for employers. Allows employers to easily use existing good quality schemes. A simplified test makes it easier for employers to ensure they are compliant with the minimum contribution requirements.</td>
<td>Beneficial. It will be easier for employers to continue using existing pension scheme arrangements.</td>
<td>Negligible impact – it is expected that this will remain broadly the same or potentially higher, depending on how employers take forward their duties.</td>
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</tbody>
</table>
**PENSIONS BILL 2011 - Impact Assessments Summary**

<table>
<thead>
<tr>
<th>Introduce greater flexibility around re-enrolment</th>
<th>Clause 7</th>
<th>Whilst certain individuals could be re-enrolled slightly more or less frequently, the average impact should be minimal.</th>
<th>Reduces costs for employers. Greater flexibility will allow employers to undertake re-enrolment at a time that works best for them.</th>
<th>We expect provider profitability to remain broadly the same. However, if all enrolled late, then providers could lose contributions. Could also increase if employers choose to enrol early.</th>
<th>Negligible impact: exchequer costs remain broadly the same. There could be a slight reduction in exchequer costs if employers choose to enrol 3 months late. Some may decide to enrol early if this ties in with existing pay arrangement which would lead to a slight increase in exchequer costs.</th>
<th>Reduces burdens for employers. No regulatory impact on civil society organisations.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flagging: tPR will ensure that micro employers know that NEST has been designed to meet their needs</td>
<td>N/A – legislation not required</td>
<td>Beneficial. Making the process more straightforward for the smallest employers should improve compliance levels. That will improve the number of individuals who are automatically enrolled into a pension scheme</td>
<td>Reduces costs, particularly for micro employers. Flagging will help micro employers in making a choice about which qualifying scheme to use. It should therefore reduce the burdens of making that choice.</td>
<td>No impact. The industry currently does not serve the segment of the market which will benefit from flagging.</td>
<td>No impact.</td>
<td>Reduces the burden that micro employers face in choosing a qualifying pension scheme. No impact on civil society organisations.</td>
</tr>
<tr>
<td>Miscellaneous set of corrective amendments to the Pensions Act 2008</td>
<td>Clauses 11, 12, 13, 26</td>
<td>No impact – the changes set out ensure that the intention of the reforms is enacted.</td>
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</table>

**Up-rating of occupational pensions (see Annex C for further details)**

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### PENSIONS BILL 2011 - Impact Assessments Summary

<table>
<thead>
<tr>
<th>Details of measure</th>
<th>Clause(s)</th>
<th>Impact on Individuals</th>
<th>Impact on Employers</th>
<th>Impact on Pensions Industry</th>
<th>Impact on Government</th>
<th>Regulatory burden on business and civil society organisations</th>
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</thead>
<tbody>
<tr>
<td>Provision to ensure schemes choosing to increase pensions in payment by RPI are not required to pay the higher of CPI or RPI.</td>
<td>Clause 14</td>
<td>The total value of pensions in payment will decrease by £2.3 billion over the lifetime of pensions payable arising from existing Defined Benefit liabilities.</td>
<td>Removing the requirement to pay the higher of RPI or CPI reduces liabilities associated with existing pension rights by £2.3 billion.</td>
<td>No impact.</td>
<td>No impact.</td>
<td>None. This measure introduces no new regulatory burdens on business and civil society organisations.</td>
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**Pensions protection measures (see Annex D for further details)**


**Summary of measures**

The pensions protection measures which the Bill proposes do not impose burdens on business.

The use of CPI in calculating pension compensation payments (for both revaluation and indexation) will lead to lower payments to members over the lifetime of the scheme. However, the reduction in PPF liabilities will lead to the compulsory levy on employers sponsoring Defined Benefit Pension Schemes who fund the PPF being lower than it would have been if revaluation and indexation had remained linked to RPI.

The PPF administrative changes deliver moderate savings (less than £500,000 per annum) to schemes in the PPF or an assessment period.

<table>
<thead>
<tr>
<th>Details of measure</th>
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<th>Impact on Individuals</th>
<th>Impact on Employers</th>
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<th>Regulatory burden on business and civil society organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indexation of pensions compensation by CPI</td>
<td>Clause 15</td>
<td>The switch to CPI (for both revaluation and indexation) is expected</td>
<td>The reduction in PPF liabilities represents an expected transfer of</td>
<td>See impact on employers.</td>
<td>No impact. No additional costs to</td>
<td>None. This measure introduces no new regulatory burdens on business and civil society organisations.</td>
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</table>
**PENSIONS BILL 2011 - Impact Assessments Summary**

<table>
<thead>
<tr>
<th>Action</th>
<th>Description</th>
<th>Impact</th>
<th>Additional Information</th>
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<tbody>
<tr>
<td>Rather than RPI</td>
<td>to lead to lower payments to members over the lifetime of the scheme. The PPF estimate a 4.8% reduction (NPV £500 million) in current liabilities resulting from the change, based on an estimate of 0.5% for the RPI-CPI gap. The £500 million figure relates to all changed future cash-flows. However, the vast majority of the changed cash-flows will occur over the next 60 years. Note: the £500 million figure includes revaluation and indexation. The Bill only covers the indexation change, and therefore accounts for only part of this impact.</td>
<td>£500 million (NPV) from current members of the PPF to employers sponsoring Defined Benefit Pension Schemes who fund the PPF through a compulsory levy. Correspondingly, the transition period during which the vast majority of the cash flows are changed is expected to be approximately 60 years.</td>
<td>The PPF has indicated that it will be reducing the pensions protection levy for 2011/12, partly in response to the reduced liabilities it is likely to need to meet in relation to change to CPI.</td>
</tr>
<tr>
<td>Scheme valuations completed before transfer into the PPF</td>
<td>No impact. No additional costs to individuals expected.</td>
<td>(See column on impact to pensions industry)</td>
<td>These proposals combined are expected to deliver estimated savings of less than £500,000 per annum in administrative costs, to</td>
</tr>
<tr>
<td>Reconsideration of schemes that have not</td>
<td>Clause 17</td>
<td>No impact. No additional costs to Government expected</td>
<td>No impact. No additional costs to business and civil society organisations.</td>
</tr>
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</table>

De-regulatory
<table>
<thead>
<tr>
<th>Activity</th>
<th>Details</th>
<th>Impact</th>
<th>Additional Costs to Individuals</th>
<th>Additional Costs to Government</th>
<th>Additional Costs to the Pensions Industry</th>
<th>Additional Costs to Business and Civil Society Organisations</th>
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<tbody>
<tr>
<td>Transferred into the PPF</td>
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<td>Content of certain determination notices made by the PPF</td>
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<tr>
<td>Minimum length of a PPF assessment period</td>
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<td>Changes to statutory instruments</td>
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<td>Pension compensation: deferral past normal retirement age</td>
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<tr>
<td>Pension compensation: revaluation of pension credit members</td>
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<tr>
<td>Time periods relating to tPR’s anti-avoidance powers</td>
<td>Clause 21</td>
<td>No impact. No additional costs to individuals expected.</td>
<td>Will not affect the vast majority of businesses. Non-quantifiable benefits to those employers subject of a tPR warning notice.</td>
<td>No additional costs to the pensions industry expected.</td>
<td>No impact. No additional costs to Government expected</td>
<td>None. This measure introduces no new regulatory burdens on business and civil society organisations.</td>
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</table>

Judicial pensions measures (see Annex E for further details)
## PENSIONS BILL 2011 - Impact Assessments Summary

<table>
<thead>
<tr>
<th>Details of measure</th>
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<th>Impact on Individuals</th>
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<th>Regulatory burden on business and civil society organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Require contribution to personal element of judicial pension; take power to set rate of contribution.</td>
<td>Clause 24</td>
<td>An estimated 2,000 salaried members of judiciary will pay contributions towards their personal pensions benefits. Contribution rate is yet to be determined. See Impact Assessment at Annex E for contribution scenarios.</td>
<td>No impact.</td>
<td>No impact.</td>
<td>Negligible administrative costs to Government. Savings from reduced liabilities of Judicial Pension Scheme, equivalent to impact on individuals once contribution rate has been determined. See Impact Assessment at Annex E for contribution scenarios.</td>
<td>None. This measure introduces no new regulatory burdens on business and civil society organisations.</td>
</tr>
</tbody>
</table>

### Other measures in the Pensions Bill (see Annex F for further details)

Note: the below measures clarify the original policy; or, in a few cases, are technical amendments to correct inaccuracies in legislation. Consequently, these measures have no impacts on business, or civil society organisations; or costs to the public sector of £5 million or greater; and some measures have no impacts at all.

<table>
<thead>
<tr>
<th>Details of measure</th>
<th>Clause(s)</th>
<th>Impact on Individuals</th>
<th>Impact on Employers</th>
<th>Impact on Pensions Industry</th>
<th>Impact on Government</th>
<th>Regulatory burden on business and civil society organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power to set date for commencement of additional pension consolidation by order</td>
<td>Clause 3</td>
<td>Under the original proposals around 11 million people who built up contracted-out pension rights between 1978 and 1997 would have had</td>
<td>No impact.</td>
<td>No impact.</td>
<td>No impact.</td>
<td>None. This measure introduces no new regulatory burdens on business and civil society organisations.</td>
</tr>
<tr>
<td>Measure Description</td>
<td>Clause</td>
<td>Description</td>
<td>Impact</td>
<td>Impact</td>
<td>Impact</td>
<td>Impact</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------------</td>
<td>--------</td>
<td>-----------------------------------------------------------------------------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Abolition of new Payable Uprated Contracted-out Deduction Increments (PUCODIs) from April 2012</td>
<td>Clause 2</td>
<td>Approximately 120,000 people currently entitled to PUCODIs in their own right; and a further 9,000 people, through inherited rights, will no longer receive PUCODIs. See Annex F.</td>
<td>No impact</td>
<td>No impact</td>
<td>Net total savings of under £1 million per annum between 2011/12 and 2015/16 (2011/12 prices).</td>
<td>None. This measure introduces no new regulatory burdens on business and civil society organisations.</td>
</tr>
<tr>
<td>Financial Assistance Scheme (FAS) – transfer of assets</td>
<td>Clause 7</td>
<td>No impact. [Note: this legislation will apply to Northern Ireland as well as Great Britain.]</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
</tr>
<tr>
<td>FAS – amount of payments</td>
<td>Clause 8</td>
<td>No impact. [Note: this legislation will apply to Northern Ireland as well as Great Britain.]</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
</tr>
<tr>
<td>Amendments to legislation concerning payments of surplus to employers, to some schemes and in some circumstances</td>
<td>Clause 20</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>No impact</td>
<td>None. This measure introduces no new regulatory burdens on business and civil society organisations.</td>
</tr>
</tbody>
</table>
**PENSIONS BILL 2011 - Impact Assessments Summary**

| Amendments to legislation concerning the requirement for Cash Balance scheme members to purchase an indexed annuity | Clause 16 | Expected will affect around 80,000\(^5\) members of cash balance schemes in the UK. See Annex G. | No impact. | No impact. | No impact. | None. This measure introduces no new regulatory burdens on business and civil society organisations. |
| Amendment to enable the Secretary of State to make grants to advisory bodies | Clause 25 | No impact. | No impact. | No impact. | No impact. | None. This measure introduces no new regulatory burdens on business and civil society organisations. |
| Amendment to Pensions Act 2007 with respect to calculation of debts due to contracted-out pension scheme in the event of bankruptcy | Clause 22 | No impact. | No impact. | No impact. | No impact. | None. This measure introduces no new regulatory burdens on business and civil society organisations. |
| Amendment to Pensions Schemes Act 1993 with respect to calculation of debts due to contracted-out pension scheme in the event of bankruptcy | Clause 23 | No impact. | No impact. | No impact. | No impact. | None. This measure introduces no new regulatory burdens on business and civil society organisations. |

**Notes:**
- Figures are rounded to the nearest whole number – see Annexed Impact Assessments for further details. Figures may not sum due to rounding.
- “Negligible” indicates that costs or benefits arise but under are under the rounding threshold for the measure in question, as the separate measures of the Bill consider costs and benefits of significantly different scales. See the annexed Impact Assessment of the relevant measure for further details.

---

\(^5\) An estimated figure based on Barclays scheme membership (around 60,000) plus members of other cash balance schemes (for example Diageo, RSPB, Provident Financial Services, House of Fraser).
Summary of equality impacts

22. Gender

22.1. Women have longer average life expectancy than men; and have faced historical inequalities in pensions provision. Due to these underlying factors, the measures of the Pensions Bill 2011 are likely to have a greater effect on women than on men.

22.2. Women's State Pension age currently is lower than men's. The measure to change the timetable for increasing State Pension age to 66 (Clause 1) will equalise women's State Pension age with men's sooner than currently legislated (reaching 65 in 2018, rather than 2020). This means some women will see an increase in their State Pension age of greater than a year, while the increase in State Pension age will never exceed a year for men. Consequently, women will still, on average, draw their State Pension for longer than men. For a full analysis of the impacts of the increase in State Pension age by gender, see Annex A.

22.3. Women on average have lower earnings than men, due to a number of factors that include working fewer hours, and being employed in lower paying sectors. An increase to the earnings threshold for auto-enrolment (clauses 5, 8, 9) will therefore make women less likely to be part of the group that are auto-enrolled. When taken together, the workplace pension reform (auto-enrolment) proposals mean that the proportion of women in the group eligible for automatic enrolment into a qualifying pension scheme will decrease from 38 per cent to 37 per cent. However, the auto-enrolment reforms as set out in the Pensions Act 2008 will give women substantial opportunities to build pension savings in their own right. Government estimates that between nine and ten million people will qualify for automatic enrolment, and of these three to four million are expected to be women. See Annex B for further discussion.

22.4. The change to the indexation of occupational pensions (Clause 14) and pensions compensation (Clause 15) may have a greater impact on women than on men. See Annexes C and D.

22.5. As of December 2010 there are 2,234 salaried judiciary: 458 women and 1,776 men. Detailed figures show that although there are more male judges overall, there is a more equal split of women and men among younger judges, who may be expected to pay any additional pension contributions for longer. However, these figures would not alter the Government's view that this measure is proportionate in pursuit of a legitimate aim. See Annex E.

22.6. Around 94,000 out of the 120,000 people in receipt of PUCODIs in their own right are women. The average received by women is slightly higher than...
men; but both are around 20p a week. Around 6,000 of the 9,000 in receipt of inherited PUCODIs are women. The average received by women is again similar to men: around 30p a week. All those currently in receipt of PUCODIs, however, will continue to receive them. Consequently, the proposal to abolish PUCODIs for new recipients from April 2012 will have a greater impact on women rather than men in terms of the potential numbers affected. However, the impact is relatively small; and abolition will bring significant benefits in terms of enabling simplification of the State Second Pension and removing ongoing administrative complexities.

23. Race

23.1. There is some evidence that the change to the timetable for increasing State Pension age (Clause 1) may have an impact on certain ethnic minority groups. This is due underlying socio-economic factors such as different life and healthy life expectancies, and rates of participation in the labour market. However, evidence is not conclusive. See Annex A for further discussion.

23.2. The workplace pensions reform measures contained in the Pensions Bill 2011 are not expected to have a differential effect on black and minority ethnic groups. See Annex B for further discussion.

23.3. The percentage of Black, Asian, and Minority Ethnic (BAME) judges is 2.8%, where diversity data are known. This figure does not include all judges, primarily because diversity data for tribunals judges is currently being updated. However, the Government would not expect a dramatic change to the figures once the full data is available. See Annex E.

23.4. All other measures of the Pensions Bill 2011 are not expected to have significant impacts by race.

24. Disability

24.1. The evidence suggests that the change to the timetable for increasing State Pension age to 66 (Clause 1) will have a greater impact on disabled people relative to non-disabled people in terms of the probability of adjusting to a new State Pension age, due to relative labour market disadvantage. See Annex A.

24.2. All other measures of the Pensions Bill 2011 are not expected to have greater impacts on disabled people when compared to non-disabled people.

Conclusion

25. The Pensions Bill 2011 builds previous pensions reforms that began to address inequalities in state and private pensions provision, as legislated for in the Pensions Acts of 2007 and 2008. The major measures of the Bill respond to recent increases in average life expectancy projections, and economic
challenges, to help ensure that the pensions system is fair and financially sustainable. The Bill also contains refinements to existing legislation, which will bring greater clarity to a complex pensions system.

26. The legislative proposals of the Bill will deliver significant savings to Government, primarily due to changes to the timetable for increasing State Pension age to 66.

27. The Bill is deregulatory with respect to burdens on the private sector and civil society organisations. The measures of the Bill will see decreases overall in administrative costs and pensions liabilities for employers and pensions providers.

28. The Bill will have costs to individuals affected by State Pension reforms, primarily the increase in State Pension age; measures relating to automatic enrolment into workplace pensions; and measures relating to the indexation of occupational pensions and payments made by the FAS and the PPF. However, about seven million people are not saving enough for their retirement; and recent increases in average life expectancy, and the current economic context, place significant pressure on the pensions system. The State Pension age must reflect increasing longevity to ensure that the state pensions system is financially sustainable, and fair to working-age generations. Auto-enrolment into workplace pensions will enable individuals to save for their retirement, whilst balancing the costs and benefits to individuals and employers.

29. Underlying inequalities exist in average life expectancy, and socio-economic factors associated with different life and healthy life expectancies and rates of participation in the labour market. Consequently, the measures of the Pensions Bill are expected to have a differential impact on those affected by these inequalities. However, past reforms of the pensions system began to correct historical inequalities in pensions provision. The Bill will help ensure that our pensions system is financially sustainable, in the face of increases in longevity and economic challenges since previous Pensions Acts.
Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?
Since the Pensions Act 2007 set the timetable for increasing State Pension age from 65 to 68, both the demographic and the economic context have changed. Life expectancy is increasing faster than projected, bringing increased expenditure on pensions, social security and health, at a time when the UK is recovering from recession. The ratio of pensioners to working-age people is increasing, and the latter largely support the former through National Insurance and tax contributions. To maintain a sustainable state pensions system and intergenerational fairness, intervention to revise the timetable for increasing State Pension age to 66 is necessary.

What are the policy objectives and the intended effects?
The policy objectives are to revise the timetable for increasing State Pension age to 66 such that:
a. recent increases in life expectancy are taken into account;
b. the burden of support carried mainly by the working-age population, given the wider implications of increased spend on the pensions system, does not become unmanageable and unfair; and that
c. future spending on the state pensions system is sustainable.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)
This Impact Assessment examines the fiscal costs and benefits of the following options:
Option 1 (preferred) – increase to 66 by April 2020 by:
• increasing women’s State Pension age from 63 to 65 between April 2016 to November 2018; and
• increasing men’s and women’s State Pension age from 65 to 66 between December 2018 and April 2020.

Option 2 – increase to 66 by April 2022 by:
• increasing men’s and women’s State Pension age from 65 to 66 between April 2020 and April 2022.

Do nothing (baseline – maintain current timetable):
• increase women’s State Pension age from 60 to 65 between April 2010 and April 2020; and
• increase men’s and women’s State Pension age from 65 to 66 between April 2024 and April 2026.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?
This policy will be reviewed as part of wider consideration of the legislative timetable for future increases in State Pension age. See Post Implementation Review Plan on page 20

Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?
Not applicable

Ministerial Sign-off For final proposal stage Impact Assessments:
I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.
**Summary: Analysis and Evidence**

**Policy Option 1**

**Description:**
Increase state pension age to 66 by April 2020 (equalisation by 2018).

<table>
<thead>
<tr>
<th>Price Base Year</th>
<th>PV Base Year</th>
<th>Time Period</th>
<th>Net Benefit (Present Value (PV), rounded) (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Net Benefit (Present Value (PV), rounded) (£m)**

<table>
<thead>
<tr>
<th>Low: Optional</th>
<th>High: Optional</th>
<th>Best Estimate: £28,500 (PV)</th>
</tr>
</thead>
</table>

**COSTS (£m)**

<table>
<thead>
<tr>
<th>Total Transition (Constant Price, rounded) Years</th>
<th>Average Annual (excl. Transition) (Constant Price)</th>
<th>Total Cost (Present Value, rounded)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optional</td>
<td>Optional</td>
<td>Optional</td>
</tr>
<tr>
<td>Low</td>
<td>10</td>
<td>Optional</td>
</tr>
<tr>
<td>High</td>
<td>Optional</td>
<td>Optional</td>
</tr>
<tr>
<td>Best Estimate</td>
<td>£44,900</td>
<td>£30,600 (PV)</td>
</tr>
</tbody>
</table>

**Description and scale of key monetised costs by ‘main affected groups’**

- Individuals: reduction in pension-age benefits of £33.4 billion and increased income tax and National Insurance payments of £8.1 billion
- The Exchequer: additional spend of £3.4 billion on working-age welfare benefits and delivery costs of £10 million (IT, project, notification mailing, and call handling costs).

**Description and scale of key monetised benefits by ‘main affected groups’**

- Exchequer benefits from reduced spending on pension-age benefits by £33.4 billion and increased income tax and National Insurance receipts of £8.1 billion.
- Individuals gain £3.4 billion in additional working age welfare benefits, and expected higher employment might boost gross employment income by £41.2 billion over the period.

**Description and scale of key non-monetised costs by ‘main affected groups’**

- Those affected (see Table 5 for details) may have to adjust their retirement plans accordingly.
- Option has a negligible indirect impact on the private sector.

**Description and scale of key non-monetised benefits by ‘main affected groups’**

- Intergenerational fairness is promoted by taking into account recent increases in average life expectancy when setting the State Pension age timetable.

**Key assumptions/sensitivities/risks**

1. Projected rise in employment income depends on DWP modelling of aggregate employment impacts.
2. Revisions of longevity projections and economic assumptions would affect the estimates made.
3. There may be increased DWP spend outside the policy period on state pensions from people working longer and thus contributing to their State Pension and on Disability Living Allowance as a result of increasing the upper qualifying age to 66 earlier. Conversely, there may be lower spend on Attendance Allowance due to the corresponding increase in the minimum age threshold.
4. Increased income tax and National Insurance Contributions (NICs) receipts depend on HM Revenue & Customs (HMRC) and DWP modelling of aggregate employment impacts, and assumptions on average income tax/NICs paid by employed and non-employed. No estimate made of tax revenue from profits.
5. Effect on working-age welfare benefits spend depends on DWP modelling of employment impact.
6. Analysis excludes potential effect on HB/CTB spend.
7. Analysis is based on the structure of the welfare system, state pensions, taxes and National Insurance current at the time of publication.
8. There are increased income tax and NICs receipts outside of the policy period.
9. Modelling assumes that the timetable for increasing State Pension age to 67 and 68 is unchanged.

<table>
<thead>
<tr>
<th>Impact on admin burden (AB) (£m): NIL</th>
<th>Impact on policy cost savings (£m): No</th>
</tr>
</thead>
<tbody>
<tr>
<td>New AB: AB savings: Net: Policy cost savings:</td>
<td>N/A</td>
</tr>
</tbody>
</table>

3
Enforcement, Implementation and Wider Impacts

<table>
<thead>
<tr>
<th>What is the geographic coverage of the policy/option?</th>
<th>Great Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td>From what date will the policy be implemented?</td>
<td>06/04/2016</td>
</tr>
<tr>
<td>Which organisation(s) will enforce the policy?</td>
<td>N/A</td>
</tr>
<tr>
<td>What is the annual change in enforcement cost (£m)?</td>
<td>N/A</td>
</tr>
<tr>
<td>Does enforcement comply with Hampton principles?</td>
<td>N/A</td>
</tr>
<tr>
<td>Does implementation go beyond minimum EU requirements?</td>
<td>N/A</td>
</tr>
<tr>
<td>What is the CO₂ equivalent change in greenhouse gas emissions? (Million tonnes CO₂ equivalent)</td>
<td>Traded: N/A</td>
</tr>
<tr>
<td>Does the proposal have an impact on competition?</td>
<td>No</td>
</tr>
<tr>
<td>What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?</td>
<td>Costs: 100</td>
</tr>
<tr>
<td>Annual cost (£m) per organisation (excl. Transition) (Constant Price)</td>
<td>Micro 0</td>
</tr>
<tr>
<td>Are any of these organisations exempt?</td>
<td>No</td>
</tr>
</tbody>
</table>

Specific Impact Tests: Checklist

<table>
<thead>
<tr>
<th>Does your policy option/proposal have an impact on…?</th>
<th>Impact</th>
<th>Page ref within IA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory equality duties¹</td>
<td>Yes</td>
<td>See Annex, page 21</td>
</tr>
<tr>
<td>Competition</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Small firms</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Environmental impacts</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Greenhouse gas assessment</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Wider environmental issues</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Social impacts</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Health and well-being</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Human rights</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Justice system</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Rural proofing</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Sustainable development</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

¹ Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force.
**Summary: Analysis and Evidence**

**Policy Option 2**

**Description:**
Increase state pension age from 65 to 66 years between 2020 and 2022.

### Net Benefit (Present Value (PV), rounded) (£m)

<table>
<thead>
<tr>
<th>Price Base Year</th>
<th>PV Base Year</th>
<th>Time Period Years</th>
<th>Net Benefit (Present Value (PV), rounded) (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
<td>10</td>
<td>Low: Optional</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>High: Optional</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Best Estimate: £19,000 (PV)</td>
</tr>
</tbody>
</table>

### Costs (£m)

<table>
<thead>
<tr>
<th>Low</th>
<th>High</th>
<th>Best Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>£29,400</td>
<td>N/A</td>
<td>PV £19,300</td>
</tr>
</tbody>
</table>

#### Description and scale of key monetised costs by ‘main affected groups’
- Individuals: reduction in pension-age benefits of £21.7 billion and increased income tax and National Insurance payments of £5.6 billion
- The Exchequer: additional spend of £2 billion on working-age welfare benefits and delivery costs of £7 million (IT, project, notification mailing, and call handling costs).

#### Other key non-monetised costs by ‘main affected groups’
- Those affected (see Table 5 for details) may need to change their retirement plans accordingly.
- Option has a negligible indirect impact on the private sector.

### Benefits (£m)

<table>
<thead>
<tr>
<th>Low</th>
<th>High</th>
<th>Best Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>£57,400</td>
<td>N/A</td>
<td>PV £38,300</td>
</tr>
</tbody>
</table>

#### Description and scale of key monetised benefits by ‘main affected groups’
- Exchequer benefits from reduced spending on pension-age benefits by £21.7 billion and increased income tax and National Insurance receipts of £5.6 billion.
- Individuals gain £2 billion in additional working-age welfare benefits, and expected higher employment might boost gross employment income by nearly £28 billion over the period.

#### Other key non-monetised benefits by ‘main affected groups’
- Intergenerational fairness is promoted by taking into account recent increases in average life expectancy when setting the State Pension age timetable.

### Key assumptions/sensitivities/risks

1. Projected rise in employment income depends on DWP modelling of aggregate employment impacts.
2. Revisions of longevity projections and economic assumptions would affect the estimates made.
3. There may be increased DWP spend outside the policy period on state pensions from people working longer and thus contributing to their State Pension and on Disability Living Allowance as a result of increasing the upper qualifying age to 66 earlier. Conversely, there may be lower spend on Attendance Allowance due to the corresponding increase in the minimum age threshold.
4. Increased income tax and National Insurance Contributions (NICs) receipts depend on HM Revenue & Customs (HMRC) and DWP modelling of aggregate employment impacts, and assumptions on average income tax/NICs paid by employed and non-employed. No estimate made of tax revenue from profits.
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6. Analysis excludes potential effect on HB/CTB spend.
7. Analysis is based on the structure of the welfare system, state pensions, taxes and National Insurance current at the time of publication.
8. There are increased income tax and NICs receipts outside of the policy period.
9. Modelling assumes that the timetable for increasing State Pension age to 67 and 68 is unchanged.
Enforcement, Implementation and Wider Impacts

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
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<tbody>
<tr>
<td>What is the geographic coverage of the policy/option?</td>
<td>Great Britain</td>
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<td>From what date will the policy be implemented?</td>
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<td>Which organisation(s) will enforce the policy?</td>
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<tr>
<td>What is the annual change in enforcement cost (£m)?</td>
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</tr>
<tr>
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</tr>
<tr>
<td>Does implementation go beyond minimum EU requirements?</td>
<td>N/A</td>
</tr>
<tr>
<td>What is the CO₂ equivalent change in greenhouse gas emissions?</td>
<td>N/A</td>
</tr>
<tr>
<td>(Million tonnes CO₂ equivalent)</td>
<td></td>
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<td>Does the proposal have an impact on competition?</td>
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Specific Impact Tests: Checklist

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Statutory equality duties²</td>
<td>Yes</td>
</tr>
<tr>
<td>Statutory Equality Duties Impact Test guidance</td>
<td>See Annex, page 21</td>
</tr>
<tr>
<td>Economic impacts</td>
<td>No</td>
</tr>
<tr>
<td>Competition Competition Assessment Impact Test guidance</td>
<td>No</td>
</tr>
<tr>
<td>Small firms Small Firms Impact Test guidance</td>
<td>No</td>
</tr>
<tr>
<td>Environmental impacts</td>
<td>No</td>
</tr>
<tr>
<td>Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance</td>
<td>No</td>
</tr>
<tr>
<td>Wider environmental issues Wider Environmental Issues Impact Test guidance</td>
<td>No</td>
</tr>
<tr>
<td>Social impacts</td>
<td>No</td>
</tr>
<tr>
<td>Health and well-being Health and Well-being Impact Test guidance</td>
<td>No</td>
</tr>
<tr>
<td>Human rights Human Rights Impact Test guidance</td>
<td>No</td>
</tr>
<tr>
<td>Justice system Justice Impact Test guidance</td>
<td>No</td>
</tr>
<tr>
<td>Rural proofing Rural Proofing Impact Test guidance</td>
<td>No</td>
</tr>
<tr>
<td>Sustainable development Sustainable Development Impact Test guidance</td>
<td>No</td>
</tr>
</tbody>
</table>

² Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force.
Note of revisions to Impact Assessment published 3 November 2010

This Impact Assessment differs slightly from the version published as Annex C to the White Paper: A sustainable State Pension: when the State Pension age will increase to 66. The main differences are:

a. The estimated savings on DWP programme spend now includes modelling of the effect on Attendance Allowance and Disability Living Allowance of the State Pension age rise options, and a revision to the modelling of the savings from Pension Credit. The overall effect is to reduce net savings under Option 1 by £0.4 billion and under Option 2 by £0.5 billion (see Table 3).

b. Estimates of the increased revenue from income tax and NICs have been revised to ensure the figures do not over-represent the effect of high earners. As a result, the estimated gain is reduced by around a third (see Table 4).

c. There is a fuller description of the modelling of the change in lifetime pension income for hypothetical individuals (see notes following Table 8).

d. It looks in more detail at the possible wider economic impacts of raising the State Pension age (see ‘Wider Impacts’ section, paragraphs 64 to 66.

e. In the summary assessment and the annual profile of monetised costs and benefits, instead of focusing on the net impact of the measures on Government finances, the estimates now capture the overall impact of the measures on social transfers, taxation and employment income.

Evidence Base

References

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<td>Pensions Act 2007</td>
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Annual profile of monetised costs and benefits* - (£m) constant prices

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* For non-monetised benefits/costs please see summary pages and main evidence base section

Numbers rounded to nearest hundred million and exclude delivery costs (estimated at £10 million, a proportion of which is incurred prior to the policy implementation date)
Issue and rationale for intervention

1. People now spend more years on average drawing their State Pension than ever before. The relatively few men who reached 65 in 1926 lived a further 11 years on average, and women lived a further 13 years. Today, most men and women reach 65, and can expect to live another 21 years and 24 years respectively, on average.

2. In the legislated timetable women’s state pension age is due to be equalised with men’s (i.e. raised to 65) between 2010 and 2020, with a further rise in State Pension age for all to 66 by 2026, to 67 by 2036 and to 68 by 2046. But the demographic and the economic situation have changed since the timetable for increasing to 68 was set by the Pensions Act 2007. The timetable for the increase to 66 now needs to be reviewed in this new context.

The demographic context

3. The timetable for increasing State Pension age to 66, legislated for in the Pensions Act 2007, was based on 2004 projections of average cohort life expectancy. The Office for National Statistics (ONS) produced 2008 projections, and Table 1 summarises the upward revision since the current State Pension age increases were set in 2007.

Table 1: Revisions in projected cohort life expectancy for those reaching state pension age (SPa) in 2010 (UK average)

<table>
<thead>
<tr>
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<th>Life Expectancy at SPa (years)</th>
<th>Life Expectancy at SPa (years)</th>
<th>Revision between projections (years)</th>
<th>Percentage of adult life receiving State Pension 2004 projection</th>
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Note: These data are cohort mean life expectancies, calculated using age-specific mortality rates which allow for known or projected changes in mortality in later years and are UK average. ‘Adult Life’ is age 20 and over. Source: 2004-based principal population projections, Government Actuary’s Department (GAD); 2008-based principal population projections, ONS.

4. In 2010, the proportion of adult life spent, on average, by a man or woman in receipt of the State Pension is projected to be one percentage point above the proportion forecast in the 2004 population projections. This is equivalent to an extra 1.3 years’ life expectancy at State Pension age for men, and 1.5 years for women, on average, compared to that earlier forecast (see Table 1). By 2026, the year when State Pension age is currently due to reach 66, ONS now expects the increase to be even greater: an extra 1.5 years’ life expectancy for men and 1.6 years for women, on average.

5. Just taking into consideration people retiring in 2010, the latest revision in life expectancy is estimated to add additional spending on state pensions alone of £6.5 billion, in constant price terms, over the lifetime of that single pensioner cohort.

6. The State Pension is a crucial foundation for a secure old age. However, the age of entitlement to State Pension has not kept pace with increases in life expectancy. If the State Pension age had risen in line with average life expectancy at the age of 65 since 1926, when the contributory State Pension was first introduced, it would now need to be at least 75.

The economic context

7. The Government must protect fiscal stability in the long term. The UK economy is recovering from the longest and deepest recession since official records began in 1955. Failure to address rising debt in the UK risks pushing up long-term interest rates, which would affect not just the Government
but also families and businesses through the higher costs of loans and mortgages. Public spending on debt interest is unproductive and squeezes out spending on public services and social security. The reaction of bond markets and rating agencies to fiscal responsibility over the long term could leave interest rates lower for longer.

8. A high level of debt also puts an unfair burden on future generations. Public borrowing is, in essence, taxation deferred, and it would be irresponsible and unfair to accumulate substantial debts to fund spending that benefits today’s generation at the expense of subsequent generations.

9. So it is important that the financial implications of the state pensions system are addressed. Changing the State Pension age will have some delivery costs to the state, but these will be more than offset by the net savings on benefit expenditure; and the change is crucial to help ensure that the state pension system is more sustainable in the long term and fair across the generations.

10. An ageing population creates fiscal pressures not only through direct expenditure on the state pension system but also wider expenditure on health and social care. Relative to current levels of age-related spending on pensioners, projections from the Treasury’s long-term public finances model suggest that the total annual impact of demographic change on the public finances will be around 20.6% of GDP by 2029-30.

Intergenerational fairness

11. The pensions of current pensioners are mainly paid for by the current working population through their National Insurance contributions. This is sometimes referred to as a social contract between younger and older generations.

12. As life expectancy increases, the burden this places on our younger generations has grown and will continue to grow. In 1955, there were four people of working age (age 20 to State Pension age) for every one person of State Pension age in the United Kingdom (UK). There are now around three people of working age to every person of State Pension age, and this ratio is expected to decline. Consequently, each working-age person will be paying proportionately more towards the state pensions of older people in the coming years.

13. With unchanged policies, the extra cost arising from improvements in life expectancy will have to be borne through either higher taxes, reduced public spending in other areas or higher government borrowing. All three options are likely to have adverse economic consequences. There are also social implications. As younger people age, they will expect their state pensions to be funded by the next generations of workers. This kind of social contract would be put under greater pressure if young workers face rising tax rates to pay for other people’s pensions.

14. Bringing forward the equalisation of State Pension age at 65 and the increase to 66 provides a starting point to counterbalance the increases in longevity that are happening today and so help ensure that the fiscal implications of increased longevity are more sustainable and fairer between generations.

Policy objectives

15. The policy objectives are to revise the timetable for increasing the State Pension age such that:

   a. recent increases in life expectancy are taken into account;

   b. the burden of support carried by the working-age population, including the wider implications of increased spend on the state pensions system, does not become unmanageable and unfair; and that

   c. future spending on the State Pension is sustainable.

16. Revising the State Pension age timetable is the most appropriate policy lever to reflect increases in life expectancy projections and thus address the fiscal implications of longevity gains. Without revising the State Pension age timetable, meeting the future spending requirements of the State Pension would entail increased taxation or changes to the pensioner benefit system.

17. The key criteria when assessing options are:

   a. effect on financial sustainability of the state pensions system; and

   b. intergenerational and intragenerational fairness.
Description of options

“Do nothing” – the baseline

18. In the legislated timetable, women’s State Pension age is due to be equalised with men’s at 65 by April 2020. It is currently rising in steps of one month every two months, so that each single year increase takes two years to phase in.

19. State Pension age for both men and women will then increase from 65 to 66 between April 2024 and April 2026 in steps of one month every two months.

Option 1 – 65 to 66 from 2018 to 2020

20. State Pension age for both men and women will increase from 65 to 66 between December 2018 and April 2020 in steps of three months every four months.

21. In order to achieve this, the equalisation of State Pension age is accelerated from April 2016 with women’s State Pension age increasing in steps of three months every four so that it is 65 by November 2018.

22. The acceleration of equalisation is necessary because it would be discriminatory to increase men’s State Pension age before women’s.

Option 2 – 65 to 66 from 2020 to 2022

23. This option maintains the baseline equalisation timetable as set out at paragraph 18.

24. State Pension age for both men and women will then increase to 66 between April 2020 and April 2022 in steps of one month every two months.

Table 2: Simplified illustration of the timetable for each option. Transitions in bold.

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Note: Table shows the approximate State Pension age at July each year. Part-years are expressed as a percentage (e.g. 63.16 equals 63 years and two months).

Options Appraisal

“Do nothing” – the baseline

25. Inaction does nothing to address the impact of increased longevity on the state pensions system, nor does it promote intergenerational fairness.

26. Under the current timetable and latest population projections, the number of years that men, on average, will spend in receipt of state pensions will rise from 21.3 years in 2010 to 22.8 years in 2024, when the increase to 66 is set to begin in the baseline. For women, even though there would be a reduction from 28.6 years in 2010 to 25.3 years in 2024, on average, the time spent in receipt will still be higher than under the earlier 2004 population projections which had forecast a life expectancy at State Pension age of 23.8 years for women in 2024 on average (see Table 6).

3 The full timetable is published at Annex B to the White Paper “A sustainable State Pension: when the State Pension age will increase to 66” (Cm 7956) published on 3 November 2011 www.dwp.gov.uk/spa-66-review
27. This option does not meet the policy objectives. By failing to address the revision in the increase in average life expectancy it results in increased State Pension spend, which is hard to justify in terms of intergenerational fairness. It carries the risk of needing to address the rise in spending by increased taxation or changes to the pensioner benefits system.

**Option 1 – 65 to 66 from 2018 to 2020**

28. The key fiscal benefit of this option is that it delivers net benefits-related savings to DWP of £30 billion in real terms, with a further £8.1 billion gained in increased income tax receipts and NICs from people working for longer (see Tables 3 and 4).

29. Option 1 is estimated to affect 5 million people in Great Britain (GB), who will have an additional delay to State Pension age. In particular, the State Pension age for women born 6 December 1953 to 5 October 1954 (who are currently aged 56 or 57) would increase by between 1.5 and 2 years. The number affected is approximately 300,000. The Equality Impact Assessment (see Annex, page 21), gives a full discussion of the impact of this measure by gender.

30. A rise in State Pension age of one year is projected to decrease the lifetime pension income of men and women by between 3 per cent and 5 per cent (see Table 8 and the notes), based on DWP modelling of hypothetical individuals. However, if they work to the new pension age and save into a private pension, they would recover about half of this loss of lifetime pension income. For those individuals who will experience the maximum increase in State Pension age of two years, the potential loss is between 7 per cent and 9 per cent. Working longer and saving into a private pension would redress part of this loss in lifetime pension income. Taking into consideration the additional employment income, individuals' lifetime income would be improved if they work longer. There is further discussion of these points in the Equality Impact Assessment (see Annex, page 21).

31. However, these losses need to be viewed in context, as the lifetime pension income of men and women reaching state pension age between 2016 and 2020 will be boosted significantly by improvements in life expectancy (see Tables 6 and 7). On the latest projections, men in 2020 will still spend nearly 32 per cent of their adult life in receipt of state pensions on average. Though this is slightly lower than the proportion for men reaching state pension age in 2010, it is well above the ratio in 2000 and subject to revision as new projections become available. For women, while this option accelerates the time taken to bring women more closely into line with the proportion of life men spend in retirement on average, women would still spend two and a half years more time than men in receipt of state pensions.

32. This option helps address the revision in average cohort life expectancy projections (described in Table 1) closes the gap in the proportion of adult life in receipt of state pensions between the average man and women sooner. In this way it supports intergenerational and intragenerational fairness, and helps make the state pensions system more sustainable in the face of increasing longevity.

33. The wider economic benefits are that it results in additional people in employment (an extra 260,000 people in 2022), higher earnings (estimated at £5.3 billion in 2022) and higher national output (estimated at £8.9 billion in 2022) (see “Wider Impacts” section and Tables 14, 17 and 18).

**Option 2 – 65 to 66 from 2020 to 2022**

34. The key fiscal benefit of this option is that it delivers net benefits-related savings of £19.7 billion with a further £5.6 billion in increased income tax receipts and NICs.

35. Option 2 would affect 1.2 million fewer people than Option 1, with about 3.8 million people in GB having a revised State Pension age. Option 2 affects about the same number of men and women, while Option 1 affects around 300,000 more women than men. Under this option, no one would have an increase in State Pension age of more than a year.

36. The impact on lifetime pension income under this option would be broadly the same as under Option 1 for the affected individuals (i.e. those born April 1955 or later) with a reduction of between 3 per cent and 4 per cent of the lifetime pension transfers that they would get under the unchanged State Pension age timetable. By working for an additional year and saving into a private pension, the
affected individuals could reduce this loss in lifetime pension transfers to 2 per cent. For those who work longer, the additional employment income would offset any changes in pension income.

37. This option would reduce, on average, the amount of time spent in receipt of state pensions for men and women reaching State Pension age between 2020 and 2025.

38. The delay in raising the State Pension age underpinning this option is hard to justify in view of the significant upward revision in the life expectancy of those reaching age 65 over the next decade, and the consequential fiscal pressures. Those benefiting from increased longevity should share in the associated costs, and this option does not go as far as Option 1 in making this happen.

39. The wider economic benefits are that it results in additional people in employment (an extra 210,000 people in 2022) resulting in higher earnings (estimated at £4.2 billion in 2022) and higher national output (estimated at £7 billion in 2022 (see “Wider Impacts” section and Tables 14, 17 and18).

Detail of impact

40. Details of the impact of Options 1 and 2 against the baseline of currently legislated increases to the State Pension age are set out in the tables below. Additional information on differential impact is set out in the Equality Impact Assessment (Annex, page 21.)

Table 3: Effect on DWP spend on benefits of each option (£ billion, 2010/11 prices)

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Totals may not appear to sum correctly due to rounding.

Table 4: Additional income tax and NI receipts (£ billion, 2010/11 prices)

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Totals may not appear to sum correctly due to rounding. Please see paragraph 44 for underlying assumptions.
Table 5: Number of people (thousands) by length of additional time to State Pension age

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<tr>
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<td>2,337</td>
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<td>120</td>
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<td>126</td>
<td>4,972</td>
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</table>

Note: Totals may not appear to sum correctly due to rounding. These estimates are based on the number of men and women alive in 2009, and resident in GB. The birth distribution which was adopted is based on the distribution of births in England and Wales in the given year (1953 to 1960).

The estimates for the number of women affected by an increase of 4 to 6 months under Option 1 published on 3 November contained an error which is now corrected. As a result, the total is increased by 31,000, taking the overall rounded total of men and women affected by this option to 5 million rather than 4.9 million.

Table 6: Number of years in receipt of State Pension (UK)

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<td>27.2</td>
<td>28.5</td>
<td>26.2</td>
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<td>24.4</td>
<td>24.5</td>
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</tbody>
</table>

Note: The data in the table are cohort life expectancy at the state pension age for the average man and woman resident in the UK in the specified year, and includes the effect of the equalisation of female state pension age with male.

Table 7: Proportion of adult life (%) in receipt of State Pension (UK)

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<td>Current</td>
<td>29.8</td>
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<tr>
<td>Current</td>
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<td>41.5</td>
<td>37.9</td>
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<td>35.9</td>
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<td>37.7</td>
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<td>35.8</td>
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<td>34.3</td>
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<tr>
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<td>40.5</td>
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<td>37.9</td>
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</table>

Note: The data in the table are cohort life expectancy at the state pension age for the average man and woman resident in the UK in the specified year, as a percentage of their cohort life expectancy at age 20, and includes the effect of the equalisation of female state pension age with male.

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4 Some of these men and women will not be eligible to receive state pensions (about 5%), while there will be others who will be able to claim state pensions while residing overseas (about 10% of the State Pension caseload). Moreover some of these men and women are expected to die before reaching State Pension age (about 5%). In total considering all these factors, the numbers affected by the proposal should be very close to the numbers in these tables.
Table 8: Change in lifetime total state and private pension transfers compared to baseline (hypothetical cases)

### a) Full career average earnings

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<td>Retire at old State Pension age</td>
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<td>Retire at old State Pension age</td>
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Note: Rounded to nearest full percentage point.

### b) Full career high earnings

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Note: Rounded to nearest full percentage point.
c) Interrupted career/ low earnings - dependent on Pension Credit throughout retirement

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Note: Rounded to nearest full percentage point.

The illustrative outcomes shown in Table 8 are based on DWP modelling of the state and private pension lifetime incomes of three types of hypothetical single individual (men and women) born on each year between 1953 and 1959 who have average life expectancy when they reach State Pension age:

- A: Full career, average earnings: assumes person is in continuous employment since age 25 on average earnings for a man or woman and saving 8 per cent per cent of earnings into a private Defined Contribution (DC) scheme throughout;
- B: Full career, high earnings: assumes person in continuous employment since age 25 on double average earnings and saving 8 per cent of earnings into a private DC scheme throughout;
- C: Interrupted working record; no private pension and dependent throughout retirement on the standard minimum Pension Credit guarantee.

The modelled individuals lose one year’s worth of pension entitlement, except women born in 1954 and men dependent on Pension Credit born in 1954 (who are modelled to lose two years in Option 1 – the maximum possible loss under Option 1).

Individuals are modelled to react in two ways to the State Pension age rise – in the first they retire at the previous State Pension age and start drawing their private pension; while in the second, they work (and for the high and average earnings cases, continue to save) to the new State Pension age.

These stylised cases are designed to show the maximum possible loss for individuals born in that year. Most of those affected will not have such high entitlements to State Pension or Pension Credit, or would not have the maximum delay in State Pension or Pension Credit age illustrated (only those born 6 March to 5 April 1954 will in fact experience the maximum two-year delay).

The amount of State Pension income that individuals could actually lose as a result of a change in State Pension age varies significantly, depending on the delay they face as a result of the new timetable and on their individual entitlement. The latter would, in turn, depend on the amount of qualifying years of National Insurance they build up before reaching State Pension age, and also on their level of income. Similarly, the amount of Pension Credit income that individuals could actually lose as a result of a change in Pension Credit qualifying age also varies significantly, depending on the delay they face as a result of the new timetable and on their individual entitlement. The latter mainly depends on the gap between their weekly income from the Guarantee Credit minimum income threshold.

The estimated percentage loss in lifetime pension income depends crucially on assumed life expectancy. Any upward revision in life expectancy would reduce these losses.
Risks and Assumptions

41. **Future increases in State Pension age:** Modelling is limited to 2026 as this is when State Pension age would rise to 66 under the current legislation. The modelling assumes the rises in State Pension age beyond 66 remain unchanged.

42. **Labour market:** the announcement of an increase in State Pension age is assumed to increase the age at which males would exit the labour market from age 55 onwards; for instance, a 66 year-old man would adopt the exit rate from the labour market currently adopted by a 65-year old. Women’s exit rates are assumed to converge to men’s exit rates as a result of State Pension age equalisation. This modelling was done by DWP using HM Treasury’s (HMT’s) cohort employment model.

43. **Increased DWP spend outside of policy period:** From 2026/27, when State Pension age would be 66 under the current timetable for all persons reaching State Pension age in that year, the effect of increasing State Pension age under both options is estimated to result in a slight increase in benefit spend (of less than £0.1 billion p.a.) compared to the baseline. This is because a proportion of those affected will have increased State Pension entitlement from contributing for longer (note: estimates modelled on current state pensions system). This impact declines over the lifetime of those affected by the delayed State Pension age.

44. As a consequence of these proposals, the upper age for qualification for Disability Living Allowance (DLA) and minimum age for qualification for Attendance Allowance (AA) will be raised in line with State Pension age following equalisation from December 2018 rather than April 2024. After 2026, the extra expenditure on DLA beyond the policy period resulting from additional numbers qualifying for DLA during that period is likely to continue to exceed the saving from a corresponding reduction in awards of AA initially by less than £0.05 billion p.a.). The impact declines over the lifetime of those affected by the delayed State Pension age.

45. **Income tax and National Insurance figures:** Estimated additional yield is based on employment impacts (see paragraphs 62 and Table 14) plus baseline employed brought into NICs through the change in the State Pension age, and is based on the difference in estimated median tax and NICs paid by employed and non employed adults of relevant ages under the 2010/11 tax and National Insurance system (for example, estimated tax and NICs paid by additional 66-year old males in employment is based on median tax and NICs paid by 65-year olds currently). The calculation of median tax and NICs is based on the Survey of Personal Incomes data for 2007/085 projected to 2010/11. No estimate is made of potential tax revenue from additional profits made by companies.

46. HMRC modelling indicates that there may be £1.4 billion additional revenue in the period between the announcement of this policy and the date when it starts being implemented. This reflects an adjustment in labour market participation in anticipation of the change in State Pension age. A similar increase in revenue is forecast over the ten years following the implementation of this policy.

47. **Longevity projections:** State Pension spending is substantially affected by revisions in longevity projections. The above analysis was based on the 2008-based national population projections. Further upward revisions in life expectancy at State Pension age would result in higher spending on state pensions and pensioner benefits. They would also reduce the estimates of the potential loss in lifetime pension transfers as a result of pension age change.

48. **Impact on gross employment earnings and on GDP:** Projected additional gross employment earnings and national output are based on the estimated employment impacts (see paragraphs 60 and 61) of the policy. These projections cannot be directly compared to the additional income tax and national insurance figures as the latter are based on a different methodology. The modelling adopts a static approach, with the additional employment assumed not to have an impact on the projected level of wages, and companies are assumed to sustain the increased employment by a commensurate rise in capital investment. No further (multiplier) effects are assumed.

Administrative Burden

49. The administrative burden on DWP of either option against the baseline of currently legislated increases to the State Pension age is minimal compared to the benefits they realise. There will also be minimal difference in implementation cost between the two options.

50. Costs associated with communicating the change will depend on decisions about how this is to be delivered. As well as ensuring that information about the changes is available on its website and in

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5 Survey of Personal Incomes (SPI), 2007-08
its leaflets and guides, the Government intends to communicate these changes in State Pension age to individuals affected in a timely way, and is considering how best this can be done. There is also IT work to be undertaken, with associated staffing costs.

51. Costs are high-level and indicative at this stage, but as an illustration of the relatively small difference between the two options, a rough estimate for IT, project, notification mailing and call handling costs would be £10 million for Option 1 and £7 million for Option 2.

52. Cost of implementation is therefore not a factor in deciding between the options, as the costs difference between the options is not significant.

Wider Impacts

Impact between constituent countries of Great Britain

53. Life expectancy differs across Great Britain. Though life expectancy at State Pension age is lower in Scotland and Wales than in England, men and women in these countries experienced the same increase in life expectancy in absolute terms over the last decade.

54. ONS projections of cohort life expectancy imply that both options would not result in a widening of life expectancy at State Pension ages between constituent countries of Great Britain.

Table 9: Cohort average life expectancy (years) at State Pension age - Men

<table>
<thead>
<tr>
<th>Year</th>
<th>England</th>
<th>Wales</th>
<th>Scotland</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>Option 1</td>
<td>Option 2</td>
</tr>
<tr>
<td>2000</td>
<td>19.3</td>
<td>19.3</td>
<td>19.3</td>
</tr>
<tr>
<td>2010</td>
<td>21.5</td>
<td>21.5</td>
<td>21.5</td>
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<tr>
<td>2016</td>
<td>22.2</td>
<td>22.2</td>
<td>22.2</td>
</tr>
<tr>
<td>2017</td>
<td>22.3</td>
<td>22.3</td>
<td>22.3</td>
</tr>
<tr>
<td>2018</td>
<td>22.4</td>
<td>22.4</td>
<td>22.4</td>
</tr>
<tr>
<td>2019</td>
<td>22.5</td>
<td>22.5</td>
<td>22.5</td>
</tr>
<tr>
<td>2020</td>
<td>22.6</td>
<td>22.6</td>
<td>22.6</td>
</tr>
<tr>
<td>2021</td>
<td>22.7</td>
<td>22.7</td>
<td>22.7</td>
</tr>
<tr>
<td>2022</td>
<td>22.8</td>
<td>22.8</td>
<td>22.8</td>
</tr>
<tr>
<td>2023</td>
<td>22.9</td>
<td>22.9</td>
<td>22.9</td>
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<tr>
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<td>23.0</td>
<td>23.0</td>
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<td>2025</td>
<td>22.4</td>
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<td>22.4</td>
</tr>
<tr>
<td>2026</td>
<td>22.3</td>
<td>22.3</td>
<td>22.3</td>
</tr>
</tbody>
</table>

Source: 2008-based principal population projections, ONS.

Table 10: Cohort average life expectancy (years) at State Pension age - Women

<table>
<thead>
<tr>
<th>Year</th>
<th>England</th>
<th>Wales</th>
<th>Scotland</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>Option 1</td>
<td>Option 2</td>
</tr>
<tr>
<td>2000</td>
<td>27.4</td>
<td>27.4</td>
<td>27.4</td>
</tr>
<tr>
<td>2016</td>
<td>26.5</td>
<td>26.5</td>
<td>26.5</td>
</tr>
<tr>
<td>2017</td>
<td>25.7</td>
<td>25.7</td>
<td>25.7</td>
</tr>
<tr>
<td>2018</td>
<td>25.3</td>
<td>25.3</td>
<td>25.3</td>
</tr>
<tr>
<td>2019</td>
<td>25.1</td>
<td>25.1</td>
<td>25.1</td>
</tr>
<tr>
<td>2020</td>
<td>25.2</td>
<td>25.2</td>
<td>25.2</td>
</tr>
<tr>
<td>2021</td>
<td>25.3</td>
<td>25.3</td>
<td>25.3</td>
</tr>
<tr>
<td>2022</td>
<td>25.4</td>
<td>25.4</td>
<td>25.4</td>
</tr>
<tr>
<td>2023</td>
<td>25.5</td>
<td>25.5</td>
<td>25.5</td>
</tr>
<tr>
<td>2024</td>
<td>24.9</td>
<td>24.9</td>
<td>24.9</td>
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<td>2025</td>
<td>24.7</td>
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<td>24.7</td>
</tr>
<tr>
<td>2026</td>
<td>24.8</td>
<td>24.8</td>
<td>24.8</td>
</tr>
</tbody>
</table>

Source: 2008-based principal population projections, ONS.
Regional impact

55. There are no projections of regional life expectancy. However, data from the Department of Health shows areas that, while the life expectancy of most of the areas with the worst health and deprivation indicators in England lags behind other more prosperous areas, some areas have seen increases in life expectancy greater than the England average. In Manchester, for example, male life expectancy has improved faster than the England average. ⁶

Impact on people from different socio-economic backgrounds

56. While average life expectancy differs among people from different socio-economic backgrounds, national statistics suggest that there have been very substantial improvements in longevity at age 65 across all socio-economic groups (see Table 11).

Table 11: Improvements in life expectancy at age 65 for manual and non-manual workers

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>years</td>
<td>%</td>
<td>years</td>
</tr>
<tr>
<td>All men</td>
<td>4.0</td>
<td>31.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Non-manual</td>
<td>3.9</td>
<td>27.9</td>
<td>2.1</td>
</tr>
<tr>
<td>Manual</td>
<td>3.6</td>
<td>29.3</td>
<td>1.9</td>
</tr>
<tr>
<td>All women</td>
<td>2.7</td>
<td>16.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Non-manual</td>
<td>2.6</td>
<td>14.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Manual</td>
<td>1.8</td>
<td>10.7</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Note: These are period life expectancy data from ONS Longitudinal Study. Period life expectancy data may underestimate actual life spans as they do not take account of known and/or projected improvements in age-specific mortality. Manual worker groups are defined as socio-economic groups IIIM (skilled manual), IV (partly skilled) and V (unskilled). Non-manual worker groups are defined as socio-economic groups: I (professional), II (managerial & technical), IIIN (skilled non-manual).

57. Data from ONS Longitudinal Study covering England and Wales suggests that had State Pension age risen by one year between the periods 1997-2001 and 2002-05 (the latest period for which data are available), men and women from the manual classes who reached State Pension age in the 1997-2001 period would spend, on average, no less time in receipt of State Pension than had they retired in the period 2002-05. The proportion of people surviving to this higher State Pension age would also not have been reduced.

58. This suggests that, if these trends continue, an increase in State Pension age of a year by 2020 should not lead, on average, to a reduction in the time spent in receipt of state pensions by people previously employed in manual occupations.

Table 12: Life expectancy (years) by social class – change in recent years

<table>
<thead>
<tr>
<th>Life expectancy at age</th>
<th>I</th>
<th>II</th>
<th>IIIN</th>
<th>IIIM</th>
<th>IV</th>
<th>V</th>
<th>Non-manual</th>
<th>Manual</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992-1996</td>
<td>65</td>
<td>17.1</td>
<td>15.7</td>
<td>15.4</td>
<td>14.3</td>
<td>14.0</td>
<td>12.6</td>
<td>15.8</td>
<td>14.0</td>
</tr>
<tr>
<td>1997-2001</td>
<td>65</td>
<td>18.3</td>
<td>17.1</td>
<td>16.7</td>
<td>15.2</td>
<td>14.1</td>
<td>13.3</td>
<td>17.1</td>
<td>14.7</td>
</tr>
<tr>
<td>2002-2005</td>
<td>66</td>
<td>17.4</td>
<td>17.3</td>
<td>16.6</td>
<td>15.5</td>
<td>15.0</td>
<td>13.3</td>
<td>17.1</td>
<td>15.2</td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992-1996</td>
<td>60</td>
<td>25.6</td>
<td>23.9</td>
<td>23.4</td>
<td>22.1</td>
<td>21.4</td>
<td>20.6</td>
<td>23.7</td>
<td>21.5</td>
</tr>
<tr>
<td>1997-2001</td>
<td>60</td>
<td>24.8</td>
<td>24.3</td>
<td>24.1</td>
<td>22.3</td>
<td>21.9</td>
<td>21.0</td>
<td>24.2</td>
<td>21.9</td>
</tr>
<tr>
<td>2002-2005</td>
<td>61</td>
<td>25.5</td>
<td>24.5</td>
<td>23.3</td>
<td>22.0</td>
<td>22.1</td>
<td>20.8</td>
<td>24.0</td>
<td>21.9</td>
</tr>
<tr>
<td>2002-2005</td>
<td>62</td>
<td>24.5</td>
<td>23.7</td>
<td>22.5</td>
<td>21.1</td>
<td>21.3</td>
<td>19.9</td>
<td>23.1</td>
<td>21.0</td>
</tr>
</tbody>
</table>

Note: These are period life expectancy data drawn from ONS Longitudinal Study. Period life expectancy data may underestimate actual lifespans as they do not take account of projected improvements in age-specific mortality.

Table 13: Survival probability (%) from age 50 by social class – change in recent years

<table>
<thead>
<tr>
<th>Survival to age</th>
<th>I</th>
<th>II</th>
<th>IIIN</th>
<th>IIIM</th>
<th>IV</th>
<th>V</th>
<th>Non-manual</th>
<th>Manual</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Male</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992-1996</td>
<td>65</td>
<td>91.1</td>
<td>88.7</td>
<td>87.2</td>
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<td>85.4</td>
<td>76.2</td>
<td>88.7</td>
<td>83.9</td>
</tr>
<tr>
<td>1997-2001</td>
<td>65</td>
<td>92.0</td>
<td>90.8</td>
<td>88.8</td>
<td>86.5</td>
<td>85.9</td>
<td>82.0</td>
<td>90.4</td>
<td>85.9</td>
</tr>
<tr>
<td>2002-2005</td>
<td>66</td>
<td>93.4</td>
<td>90.9</td>
<td>89.9</td>
<td>87.8</td>
<td>86.6</td>
<td>83.2</td>
<td>91.0</td>
<td>87.0</td>
</tr>
<tr>
<td><strong>Female</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992-1996</td>
<td>60</td>
<td>98.1</td>
<td>96.6</td>
<td>96.8</td>
<td>95.9</td>
<td>95.4</td>
<td>94.2</td>
<td>96.8</td>
<td>95.5</td>
</tr>
<tr>
<td>1997-2001</td>
<td>60</td>
<td>96.8</td>
<td>96.6</td>
<td>96.5</td>
<td>95.9</td>
<td>95.1</td>
<td>94.8</td>
<td>96.6</td>
<td>95.5</td>
</tr>
<tr>
<td>2002-2005</td>
<td>61</td>
<td>98.1</td>
<td>96.1</td>
<td>96.6</td>
<td>96.1</td>
<td>95.1</td>
<td>94.8</td>
<td>96.6</td>
<td>95.6</td>
</tr>
<tr>
<td>2002-2005</td>
<td>62</td>
<td>97.9</td>
<td>95.5</td>
<td>96.1</td>
<td>95.5</td>
<td>94.3</td>
<td>94.5</td>
<td>96.0</td>
<td>94.9</td>
</tr>
</tbody>
</table>

Note: These are period life expectancy data drawn from the ONS Longitudinal Study. Period life expectancy data may underestimate actual lifespans as they do not take account of projected improvements in age-specific mortality.

**Healthy Life Expectancy/Disability Free Life Expectancy**

59. The distinction between life expectancy and healthy life expectancy is important, and the data show that long-term differences by socio-economic status and geographical area do exist. The Government as a whole is committed to reducing these long-term differences. Average healthy life expectancy and disability-free life expectancy are not rising as quickly as life expectancy – but they are rising. Men and women of 65 in 2006 could expect to enjoy about three extra years of healthy life, on average, when compared to 1981.

60. Assuming past trends in healthy and disability-free life expectancy continue, while the two options would reduce the average period in retirement spent in good health or disability-free compared to the current timetable, this should remain above the 2010 level among men.

61. The impact of the two options could be stronger on women, as their life expectancy is projected to grow at a slower pace than that for men, and healthy and disability-free life expectancy has increased less rapidly in the past. However on the basis of past trends, while the two options could reduce slightly the period in retirement spent in good health or disability-free among women, they should still enjoy healthier retirements than men on average.

**Labour market**

62. Based on the assumptions noted in paragraph 42, Option 1 would result in an additional 260,000 people working in 2022. For Option 2 the figure is 210,000.

Table 14: Additional number of people working (thousands)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<tbody>
<tr>
<td>1</td>
<td>140</td>
<td>170</td>
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<td>2</td>
<td>80</td>
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<td>210</td>
<td>190</td>
<td>160</td>
<td>130</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Rounded to the nearest ten thousand

63. Increasing State Pension age is projected to slightly reduce the proportion of people aged 50 to 65 who are inactive (i.e. neither employed nor seeking work); however within that overall group, the impact on those aged 65 is projected to be more significant with a reduction of up to 23 per cent in the number of inactive people in that age group during the years affected by the State Pension age change.

---

### Table 15: Percentage change in the number of 55-65 year olds who are inactive

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-5%</td>
<td>-6%</td>
<td>-6%</td>
<td>-7%</td>
<td>-8%</td>
<td>-7%</td>
<td>-6%</td>
<td>-5%</td>
<td>-3%</td>
<td>-2%</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>-3%</td>
<td>-3%</td>
<td>-3%</td>
<td>-4%</td>
<td>-5%</td>
<td>-6%</td>
<td>-5%</td>
<td>-4%</td>
<td>-3%</td>
<td>-1%</td>
<td></td>
</tr>
</tbody>
</table>

Note: Rounded to nearest whole percent

### Table 16: Percentage change in the number of 65 year olds who are inactive

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0%</td>
<td>-6%</td>
<td>-12%</td>
<td>-16%</td>
<td>-22%</td>
<td>-23%</td>
<td>-19%</td>
<td>-15%</td>
<td>-10%</td>
<td>-4%</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>-5%</td>
<td>-11%</td>
<td>-16%</td>
<td>-21%</td>
<td>-18%</td>
<td>-14%</td>
<td>-9%</td>
<td>-3%</td>
</tr>
</tbody>
</table>

Note: Rounded to nearest whole percent

### Impact on gross employment earnings and on GDP

64. An increase of one year in the average effective working life has been estimated to result in additional annual national output worth up to 1 per cent of GDP,\(^9\) approximately £13 billion.

65. The projected rise in the number of people working as a result of the rise in State Pension age could generate a significant increase in gross employment earnings. Under Option 1 the peak increase compared to baseline would be of £5.3 billion in 2022. Under Option 2, the impact would be smaller, peaking at £4.2 billion in 2022.\(^{10}\)

### Table 17: Additional gross employment earnings as a result of more people working (£ billion, 2010/11 prices)

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<td>3.4</td>
<td>2.8</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Note: Rounded to the nearest £0.1 billion. Summary on pages 2 and 4 excludes data for tax year 2026/27 as it is outside the policy period.

66. The increase in labour supply will also boost GDP above the projected baseline. On the basis that employment earnings account for around 60 per cent of gross value added\(^{11}\) and assuming a constant capital-labour ratio, GDP could be between £7 billion and £9 billion higher in 2022. In the period 2016 to 2026, the increase in labour supply due to the increase in State Pension age could boost national output by between £50 billion (Option 2) and £75 billion (Option 1).

### Table 18: Impact of additional employment on GDP (£ billion, 2010/11 prices)

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<td>5.7</td>
<td>4.7</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Note: Rounded to the nearest £0.1 billion.

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\(^{10}\) For both options, the estimate of the additional gross employment earnings was computed by multiplying the additional number of people working by the projected median gross earnings. The median gross earnings by gender and age were taken from the Annual Survey of Hours and Earnings (ASHE) 2009, and increased in line with projected national earnings growth.

\(^{11}\) See ONS Blue Book, Section 2.
Private sector

67. There is negligible, indirect impact on the private sector under either option. State Pension age is unrelated to the Default Retirement Age (DRA). The DRA is being phased out, which may have an impact on the private and public sectors, but that policy change is not dependent on the proposals discussed in this paper.

68. In the Call for Evidence, three organisations and nine individuals raised an issue concerning the impact of bringing forward the increase to 66 with regards to integrated pensions. These private pensions are paid in advance of State Pension age at a higher rate and, when the recipient reaches State Pension age, reduced by an amount calculated with reference to the basic State Pension. Some scheme rules may provide an integrated pension until State Pension age as defined in statute, which will be changed by legislation enacting the Government’s decision to bring forward the increase to 66. However, this change in statutory State Pension age does not introduce a new regulatory burden on such scheme providers.

69. The Government notes that existing tax legislation in place for integrated schemes (paragraph 2 of Schedule 28 of the Finance Act 2004) refers to age 65 (rather than statutory State Pension age) as the maximum age at which an integrated pension may be reduced without incurring extra tax charges. Therefore amendments to this legislation will be needed, and the representations made by respondents on this point will be considered at that time.

Implementation

70. Implementation by DWP will consist of IT changes and communicating the change to customers, with consequential call handling.

71. An initial assessment of the required IT changes has been performed. Several systems will need to be updated, with some work from 2011 but the bulk carried out in 2014/15 and 2015/16.

72. As well as ensuring that information about the changes is available on its website and in its leaflets and guides, the Government intends to communicate these changes in State Pension age to individuals affected in a timely way, and is considering how best this can be done.

73. Over the implementation period there is a potential for peaks of customer activity, particularly claims for state pension. Plans will be in place to deal with the effects of this on DWP operational delivery businesses.

Conclusion

74. The preferred option is Option 1: equalisation by 2018, followed by a rise to 66 by 2020.

75. While Option 2 goes some way to meeting the policy objectives, the further delay it entails in raising State Pension age to 66 is hard to justify in the face of the changing context outlined above, especially the significant upwards revision of average life expectancy projections since the previous timetable was set.

76. The Government recognises the differential impact of an increased State Pension age on different groups as outlined in part above and in more detail in the Equality Impact Assessment. As acknowledged, the preferred option does have a stronger impact on certain groups. However, Option 2 does not eliminate all differential impacts and it forgoes the larger impact on sustainability and intergenerational equality that Option 1 brings.

77. Option 1 best addresses the policy objectives, balancing fairness and sustainability.

Post Implementation Review (PIR) Plan

78. Implementation does not finish until 2020. In light of increased longevity, the Government will consider the current timetable for further rises in State Pension age, with due regard to any available evidence about the impact of the policy discussed in this assessment, and put forward proposals in due course.
Annex

Equality impact assessment

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1. Introduction

1.1. On 3 November 2011, the Government published its proposals for bringing forward the increase in the State Pension age to 66, in “A sustainable State Pension: When the State Pension age will increase to 66” (the White Paper).\(^{12}\)

1.2. The Government proposes to increase the State Pension age to 66 for both men and women by April 2020, bringing forward the date from which it was due to reach 66 under legislation passed in 2007 by six years. At present, women’s State Pension age, which is gradually being increased to bring it into line with men’s, is not due to reach 65 until April 2020. To make the proposed change without increasing the gap in State Pension age between men and women, women’s State Pension age will first be increased to 65 more quickly between April 2016 (when it will be 63) and November 2018.\(^{13}\) The increase to 66 will then be phased in between December 2018 and April 2020.

1.3. As a result of these changes, women born from 6 April 1953 to 5 April 1960 and men born from 6 December 1953 to 5 April 1960 will have a higher State Pension age than if no change to the current timetable was made.

Why bring the increase to 66 forward?

1.4. The current timetable for increasing the State Pension age from 65 to 68 between 2024 and 2046 was designed to reflect projected increases in average life expectancy. The decision to raise the State Pension age, taken by the previous Government, followed broad acceptance within and outside Parliament of the reality that rising longevity can no longer be ignored if the State Pension is to be both affordable in the long-term, and provide a decent foundation income in retirement.

1.5. Since that timetable was set in 2007, the projections it was based on have been revised, adding a year and a half to the time people can, on average, expect to spend drawing their State Pension. Without corrective action, this will result in increased spending on the State Pension. While restoring stability in the public finances both in the immediate and longer term is a clear priority, this Government is also committed to reversing the historical decline in the value of the basic State Pension. Accordingly, the Government has guaranteed that it will be increased by the highest of the increase in average earnings or prices or 2.5 per cent, from April 2011.

1.6. Bringing forward the timing of the increase to 66 is a necessary adjustment to the current timetable to ensure we continue to share the extra cost of rising longevity fairly between those contributing to and those receiving the State Pension.

1.7. A more detailed account of the background and context for the proposed change is at Chapter One of the White Paper.

Scope of this assessment

1.8. The Equality Act 2010 simplifies and strengthens the existing framework of anti-discrimination legislation. Under the Act, from April 2011 a new public sector equality duty will take effect, replacing the three current public sector duties covering race, disability

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\(^{12}\) Cm 7956. The White Paper can be found at [www.dwp.gov.uk/spa-66-review](http://www.dwp.gov.uk/spa-66-review)
\(^{13}\) European Union Directive 79/7 requires Member States to implement equal treatment between men and women in social security matters. The current timetable for equalising the state pension age was set by the Pensions Act 1995. Any change to that timetable that either increased the existing gap between men and women or delayed the point at which the pension ages became equal is likely to breach the terms of the Directive.
PENSIONS BILL 2011 – IMPACTS - ANNEX A: STATE PENSION AGE

and gender equality with a new duty providing protection against discrimination on the grounds of race, disability, gender, age, gender reassignment, sexual orientation, pregnancy and maternity, and religion and belief (the protected characteristics).

1.9. This assessment looks at the available evidence to determine the extent to which the effect of the proposed change differs between persons sharing a protected characteristic and persons who do not. In particular, it looks at:

- the impact on the time a person may receive their State Pension;
- the effect on a person’s income in retirement; and
- the likelihood of a person being able to adjust to the new State Pension age (for example, by working longer).

1.10. As a matter of good practice, the Department for Work and Pensions (DWP) aims to assess the impacts of its policy changes against the extended duties ahead of the legislative requirement coming into force, as far as this is possible. The assessment does not however look at sexual orientation or religion and belief, as we have insufficient evidence on which to base conclusions. Nor does it look at pregnancy and maternity as the proposed change is unlikely to affect anyone in that protected group.14

Evidence base

1.11. This assessment is largely based on Office for National Statistics (ONS) data on life expectancy, evidence drawn from survey data, and DWP modelling.

1.12. As part of the Call for Evidence published on 24 June 2010,15 we asked:

What evidence should the Government consider to ensure no group is disproportionately impacted by the level of the state pension age and any change to the timing of the State Pension age increase to 66?

1.13. This question was included to help ensure we considered as wide a range of evidence as possible in the Equality Impact Assessment. Many of the responses drew attention to evidence of differences in life expectancy and healthy life expectancy between different socio-economic groups. This issue is addressed in Chapter 2 of the White Paper.

1.14. Specific issues raised in relation to equality impacts included:

- the potential risk of treating men less favourably than women, if men’s state pension age was increased to 66 earlier than women’s;
- different patterns of labour market attachment at older ages between men and women;
- the potential for differential impacts on disabled people and people from certain ethnic minorities, who may be less likely to be able to work up to a higher State Pension age.

1.15. However, as acknowledged by the Equalities and Human Rights Commission, there is a lack of data available in some of the protected areas. This restricts the extent to which we are able to predict the impact of the proposed rise in State Pension age. This is particularly the case in relation to data on life expectancy – clearly important in analysing

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14 Protection under the Equality Act applies to women who are pregnant or on maternity leave; or, if not in employment, for the period of six months after the birth.
15 The call for evidence ran from 24 June to 6 August: the published document can be found at www.dwp.gov.uk/spa-66-review
2. Gender impact

Impact on time in receipt of the state pension

2.1. As explained in the opening paragraph, under the current timetable, before April 2020 women can start receiving their State Pension at a younger age than men. The proposed change brings forward the point at which men’s and women’s State Pension ages are due to be equalised at 65, from April 2020 to December 2018. This means that all men and women born on or after 6 December 1953 will have the same State Pension age.

2.2. Bringing forward the timetable for equalisation, followed by the further rise to 66 between December 2018 and April 2020, means that while the increase in State Pension age would never exceed a year for men, some women would have their State Pension age increased by more than a year compared to the legislated timetable. We estimate that around 300,000 women in Great Britain born between 6 December 1953 and 5 October 1954 will have their State Pension age increased by 18 months or longer: in the most extreme case, women born between 6 March and 5 April 1954 would have an increase of two years. However, because women tend to live longer than men, the proposed change will still mean women will be able to draw their State Pension for longer than men, on average.

Figure 1: Average life expectancy at legislated and proposed State Pension age

![Average life expectancy chart](chart.png)

Source: ONS 2008-based principal projections; UK average mean cohort measure
See Appendix for data table.

Impact on lifetime pension income

2.3. This difference in life expectancy means that the proposed increase in State Pension age has a slightly different impact on total lifetime pension income for men and women, depending on their income level and whether they work up to their new State Pension age.
PENSIONS BILL 2011 – IMPACTS - ANNEX A: STATE PENSION AGE

age. To help understand this, we have modelled the impact using hypothetical examples of single individual male and female high, median and low earners. For the purposes of the model, we have assumed that:

- the high and median earners have worked and saved into a private Defined Contribution scheme\(^\text{16}\) from age 25;
- if they work on to their new State Pension age, they continue to add to their private pension pot and annuitise it on reaching that age;
- the low earners have no private saving, and build up insufficient State Pension to exceed the threshold for Pension Credit; \(^\text{17}\)
- all income groups will experience the projected average life expectancy for men and women at their respective State Pension ages.

2.4. Note that this analysis focuses on illustrating the impact on income in retirement. So, while as explained below, it indicates a reduction in post-retirement income, it does not take account of gains in working-life income through earnings (or working-age benefits) received in the period up to the new State Pension age that will either wholly or partially replace the income a person would have received from their private and / or state pensions.

2.5. Based on this model, men born between 1955 and 1959 would generally lose a slightly higher proportion of their lifetime pension income as a result of the increase in State Pension age than women in the same age group, because the increase of a year comprises a slightly higher proportion of a man’s post-State Pension age lifetime than a woman’s, on average. In most cases, this equates to a reduction of around 5 per cent in State Pension income compared to 4 per cent for women. When private pension saving is taken into account, the relative loss would still be marginally higher for men than women, but for both, the overall reduction (state plus private pension) would be between 3 per cent and 4 per cent.

2.6. For high and median earners, working on to the higher State Pension age of 66 would, based on this model, reduce the loss to around 2 per cent of lifetime pension income for both men and women. Men are able to close the gap with women mainly because they tend to earn more than their female equivalents and are therefore able to boost their retirement income by more through higher contribution rates to their private pension “pot”. (And, having worked on and added to their pension pot, from the point at which they retire, both men and women would have a slightly higher annual income in retirement compared to retiring at 65.) For both men and women without private saving and dependent on Pension Credit, working on may not result in any improvement to post-retirement income. This is because any resultant gain in State Pension accruals (either by adding qualifying years if they had had fewer than the 30 required for a full basic State Pension, or by increasing their State Second Pension) would be offset by reduced Pension Credit entitlement.

2.7. If we compare men and women born in 1954, the relative loss in lifetime pension income is greater for women than men in the high and median income groups because they will experience a bigger increase in State Pension age than their male counterparts. However, working on would limit the overall reduction to around 4 per cent (again

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\(^{16}\) The modelling assumes a full career and saving 8 per cent of earnings in a non-contracted out DC scheme throughout. Under a DC scheme, the pension is determined by the contributions made and any return earned on the accumulated contributions, and by the expected length of retirement. Further details and tables showing the results of the modelling are in table 8 of the Impact Assessment.

\(^{17}\) Pension Credit is an income-related benefit. The standard minimum guarantee credit can be claimed by both men and women at women’s State Pension age and provides an income (in combination with any other income from other sources) of £132.60 per week for a single person and £202.40 for a couple (rates from April 2010). The state pension can consist of a flat-rate basic pension and/ or additional State Pension (now known as State Second Pension) related to the level of a person’s actual or credited earnings between set thresholds.
assuming continuing contributions to a private pension pot). However, the effect of an additional two years’ saving would be to generate an extra 5 per cent total lifetime pension income for the period from age 66 onwards for a woman on median earnings. An equivalent man on median earnings would see an increase of 3 per cent extra total lifetime pension income from age 66 onwards (the result of working and saving for an additional year).

2.8. Of those born in 1954, men and women on low incomes – i.e. characterised by this model as those reliant on Pension Credit, with no private pension saving – would be most affected. As Pension Credit qualifying age rises in line with women’s State Pension age, entitlement to Pension Credit for both men and women would start up to two years later than under current plans. As a consequence, women in this situation would lose up to around 8 per cent of the total lifetime pension income they would otherwise have received had their State Pension age been unchanged, while men would lose up to 9 per cent. If we also adjust to take account of the fact that people in the lowest income groups are likely to have lower than average life expectancy, this could equate to a loss of up to 10 per cent. It is difficult to estimate how many this could affect due to limitations on forecasting Pension Credit receipt. But a very indicative estimate, based on current patterns of receipt, suggests that around 11 per cent of women and 15 per cent of men reaching 64 in 2018 may be affected to some extent by an increase in Pension Credit qualifying age of more than a year (including men and women who are members of a couple) although the maximum possible increase of two years will only affect a small proportion of these.

2.9. This potential reduction needs however to be set in context. Life expectancy for all social groups, including those in the bottom socio-economic group, has improved significantly over the last decades. As an illustration, data from the ONS longitudinal study of life expectancy by socio-economic class indicates that between 1992-96 and 2002-05, life expectancy at 65 for former male manual workers rose by 13.6 per cent. Similarly, the generosity of state pensions for those on low incomes has also increased: Pension Credit for a single individual amounts to 22.1 per cent of average earnings (33.8 per cent for a couple). This compares to 18.8 per cent (29.2 per cent for a couple) of average earnings provided in 1992 by Income Support for a person aged 60-74.

2.10. Because women tend to live longer than men, women would receive more State Pension income over their lifetime than a man with a comparable National Insurance (NI) contribution record. This also applies for those women whose pension age will be increased by two years compared to a man with a one-year increase.

2.11. Women historically have weaker NI contribution records than men and consequently lower State Pension outcomes. However, women reaching State Pension age from April 2010 onwards are expected to have higher State Pension entitlements as a result of number of changes made to the State Pension over the last 30 years, including those introduced by the Pensions Act 2007. As a result of these changes, by late 2018 – when State Pension ages will be equalised at 65 under this proposal, 16 months earlier than planned – around the same proportion of women as men (around 90 per cent) are expected to reach State Pension age with entitlement to a full basic State Pension.

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18 Period life expectancy data by socio-economic class. Manual worker groups are defined as socio-economic groups IIIM (skilled manual), IV (partly skilled) and V (unskilled). Non-manual worker groups are defined as socio-economic groups: I (professional), II (managerial & technical), IIIN (skilled non-manual).


20 As well as legislating to increase the State Pension age to 68, the Pensions Act 2007 included measures to improve coverage by reducing the number of contribution years needed for a full basic State Pension to 30 and extending the existing arrangements for recognising caring responsibilities.
2.12. Women also lag behind men in building up additional (i.e. earnings-related) State Pension. While changes made in 2002 to boost the accrual rate for low earners and enable carers to build up rights for the first time plus further reforms under the 2007 Act are also expected to boost women’s additional State Pension accruals, they are not projected to catch up with men’s until at least 2040. Equality in the amount of total State Pension received would, even under the existing timetable, therefore not be achieved until at least two decades after State Pension age equalisation.

2.13. However, even though women with similar levels of State Pension entitlement to men receive more State Pension income in retirement over their lifetimes, men in the high and median income groups would still have higher overall total lifetime retirement incomes than their female equivalents, because men tend to have higher rates of private pension provision.

2.14. Working longer, combined with the introduction of auto-enrolment, should enable more women to save for longer in a private pension scheme. Assuming that equalising the State Pension age will result in more women working to older ages (see paragraph 2.21, below) this should go some way towards addressing the current imbalance in retirement incomes between men and women.

Likelihood of adjusting to the new State Pension age

2.15. In this section we look at differences between men’s and women’s employment rates at older ages, and the reasons for being out of the labour market. While the proportion of people aged 50 to State Pension age who are actively engaged in the labour market has increased in the last decade, it is still below that of the working-age population as a whole. As the table below shows, the employment rate differs between men and women: while men are more likely to be in employment than women in each age band, the proportion of men in employment drops off more steeply in the five years before pension age, whereas women are more likely than men to be in work in the five years immediately before and after State Pension age.

<table>
<thead>
<tr>
<th>Table 1: Labour market activity as a percentage of population</th>
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<tbody>
<tr>
<td>Age 50-54 %</td>
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<tr>
<td>All</td>
</tr>
<tr>
<td>Employed</td>
</tr>
<tr>
<td>Unemployed</td>
</tr>
<tr>
<td>Inactive</td>
</tr>
<tr>
<td>All</td>
</tr>
<tr>
<td>Men</td>
</tr>
<tr>
<td>Employed</td>
</tr>
<tr>
<td>Unemployed</td>
</tr>
<tr>
<td>Inactive</td>
</tr>
<tr>
<td>All</td>
</tr>
<tr>
<td>Women</td>
</tr>
<tr>
<td>Employed</td>
</tr>
<tr>
<td>Unemployed</td>
</tr>
<tr>
<td>Inactive</td>
</tr>
<tr>
<td>All</td>
</tr>
</tbody>
</table>

Note: The unemployed rate is a proportion of the population not the International Labour Organisation unemployment rate.

* Not significant due to small sample size
Source: Labour Force Survey, Q1 2010
2.16. As Table 2 shows, up to age 60, ill-health or disability is the main reason given for being “inactive” – that is, neither working nor looking for work – for both men and women, with men more likely to be inactive for this reason than women. In the five years immediately before current State Pension age, however, retirement becomes the single biggest reason for inactivity among men; more than double that of women.

2.17. While the next-biggest reason for inactivity after ill health among men is retirement, a significantly higher proportion of women than men are inactive because of looking after family and home: 31.5 per cent of those aged 50 – 54, and 24.2 per cent of those aged 55 – 59, compared to, respectively, 13.4 per cent and 7 per cent of men.

Table 2: Reason for inactivity, as a proportion of total inactive

<table>
<thead>
<tr>
<th>Reason for inactivity</th>
<th>Age 50-54 %</th>
<th>Age 55-59 %</th>
<th>Age 60-64 %</th>
<th>Age 65-69 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>sick, injured or disabled</td>
<td>54.2</td>
<td>47.9</td>
<td>22.8</td>
<td>8.4</td>
</tr>
<tr>
<td>looking after family and home</td>
<td>24.9</td>
<td>18.1</td>
<td>6.2</td>
<td>2.4</td>
</tr>
<tr>
<td>retired and would like work</td>
<td>*</td>
<td>*</td>
<td>2.2</td>
<td>2.8</td>
</tr>
<tr>
<td>retired and does not want work</td>
<td>5.6</td>
<td>20.1</td>
<td>62.3</td>
<td>83.3</td>
</tr>
<tr>
<td>Does not need or want employment</td>
<td>5.2</td>
<td>6.2</td>
<td>2.5</td>
<td>1.4</td>
</tr>
<tr>
<td>others</td>
<td>9.7</td>
<td>6.9</td>
<td>4.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
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<td>100.0</td>
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</table>

2.18. In recent years, there has been some reduction in the proportion of people in the group aged 50 to State Pension age who are out of the labour market due to ill-health, although among men, the trend is more marked, with a decrease from 16.6 per cent in 1998 to 11.5 per cent in 2010\textsuperscript{21}. The corresponding improvement for women is less strong, with a decrease of just over three percentage points, from 15.1 per cent to 12.0 per cent. And, as explained in Chapter 2 of the White Paper, both healthy and disability-free life expectancy at older ages is increasing, albeit more slowly than absolute life expectancy.

2.19. There has also been a steady downward trend in the proportion of women who cite caring for family or home as the reason they are not economically active, with a fall from 11.0

\textsuperscript{21} Source: Labour Force Survey, Q1 data for each year
2.20. Although the proportion of women aged 55 to 65 who are out of the labour market is currently 17.9 percentage points higher than the corresponding proportion of men (51.2 per cent compared to 33.3 per cent), by 2020 that gap is projected to have narrowed by ten percentage points as women’s State Pension age gradually increases to 65. While speeding up the State Pension age equalisation timetable is not projected to increase dramatically the rate at which the gap shrinks, it is still expected to have a positive effect, narrowing the gap from 10.9 per cent to 9.2 per cent in 2016 and from 7.9 per cent to 7.7 per cent in 2020.

2.21. While the average age for women to leave the labour market is currently 62.4 – i.e. around two years after State Pension age - this is still two years earlier than men (64.5). Equalising the State Pension ages earlier, and bringing forward the planned increase to 66 is expected to result in an increase in the number of both men and women working at older ages, compared to the legislated increase (see Figure 2).

Figure 2: Estimated additional increase in employment rates compared to legislated timetable: men and women aged 55 to 65

Source: HMT cohort employment model
See Appendix for data table.

2.22. The analysis in this section demonstrates that, although there are some positive trends, for a variety of reasons, older people are less likely to be in work than younger age groups, and older women are less likely to be employed outside the home than men. While these differences are in part explained by early retirement, for people not in work and without access to a private pension the proposed change is likely to mean they will need to rely on working-age benefits or a partner’s income. However, this risk, which is

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22 Source: HMT cohort employment model, based on Labour Force Survey data.
likely to be stronger for women than men, already exists under the legislated timetable for increasing women’s State Pension age to 65 and subsequently increasing it to 66 for men and women.

2.23. The Government is committed to removing barriers to employment for older people through measures such as extending flexible working and phasing out the Default Retirement Age. Those unable to work to the higher State Pension age will, as now, be able to receive working-age benefits.

Summary – gender impact

2.24. This proposal will close the current gender gap in State Pension age more quickly and thereby reduce the advantage currently enjoyed by women over men as a result of a lower pension age and higher life expectancy. Women will, however, on average still receive their State Pension for longer than men. By late 2018 (when the State Pension ages will be equal under these proposals) over 90 per cent of both women and men reaching State Pension age are likely to have built up a full basic State Pension.

2.25. The picture in relation to the impact on lifetime pension income is more complex, in part due to the effect of earlier equalisation. All other things being equal, in general men would lose a slightly higher proportion of their lifetime pension income than women as a result of increasing the State Pension age, because of lower average life expectancy. However, because of higher average earnings, men may be in a better position than women to offset part of this loss through higher additional contributions to a private (Defined Contribution) pension scheme. In contrast, the proportionate loss of lifetime pension income for women affected by the maximum increase of two years would generally be greater than for their male contemporaries, other than those men whose entitlement to Pension Credit would also be delayed by two years.

2.26. Overall, we conclude that while some aspects of the change will impact women more strongly than men, the impact is not disproportionate and is a consequence of closing the gender gap in State Pension age earlier than under current plans.

3. Gender reassignment impact

3.1. Legal recognition of a transsexual person’s acquired gender can have implications for their State Pension entitlement. Currently, a transsexual woman born before 6 April 1955 will have a lower State Pension age in her acquired gender than in her birth gender; the opposite is the case for a transsexual man.

3.2. Under the proposed change, men and women born on or after 6 December 1953 will have the same State Pension age as a person of the opposite sex born on the same day. The proposed change will therefore bring forward the point from which the anomalies linked to unequal State Pension ages that affect transsexual people are removed.

3.3. More generally, we have no evidence to suggest that the proposed change would have a measurably differential impact on trans people compared to non-trans people.

4. Race impact

Impact on time in receipt of State Pension

4.1. Robust projections of life expectancy data by ethnicity are not available. This is principally because a person’s ethnicity is not recorded on the death certificate. A number of attempts have been made to estimate life expectancy by ethnicity, for example by using
PENSIONS BILL 2011 – IMPACTS - ANNEX A: STATE PENSION AGE

self-reported limiting long-term illness as a predictor for mortality rates and / or data on small area geographical mortality rates combined with data on ethnic population distributions. While these methods have limitations, they provide some evidence that life expectancy may vary according to a person’s ethnic background.

4.2. ONS analysis of the 2001 Census data for England and Wales shows distinct variations between different ethnic groups in self-reported rates of long-term illness or disability which restricted daily activities. After taking account of the different age structures of the groups, Pakistani and Bangladeshi men and women had the highest rates of disability. Rates were around 1.5 times higher than people of White British background. In contrast, Chinese men and women had the lowest rates.

4.3. Analysis undertaken in 2007 of Labour Force Survey data 2002-5 of responses to the questions “Do you have any health problems or disabilities that you expect will last for more than a year?” and “Do these health problems or disabilities, when taken singly or together, substantially limit your ability to carry out your normal day to day activities?” demonstrates similar findings in respect of the relative prevalence of disability among people aged 40 and over of Pakistani, Bangladeshi, Black African and White British ethnic background.

4.4. While there are variations between ethnic groups in the prevalence of certain health conditions, there is no clear evidence that ethnicity itself plays a strong part in differences in life expectancy. There is stronger evidence that variations are likely to be primarily associated with socio-economic status. There is evidence to suggest that people of Pakistani and Bangladeshi origin have lower levels of employment and income than other ethnic groups and are consequently more likely to be in manual and unskilled social classes. By contrast, there is also evidence to suggest that some ethnic groups are more likely than the White British population to be in social classes with higher life expectancies so it is important to recognise that the picture is not uniform.

4.5. While we do not have robust life expectancy data based on ethnicity, we do know that life expectancy for all social classes and all local authority areas has increased in recent decades. We have therefore considered the evidence in relation to life expectancy by social class, as a means of looking at the potential impact of the proposed change on different ethnic groups.

4.6. In particular, DWP analysis of data extracted from the ONS Longitudinal Study on life expectancy by social classes in England and Wales suggest that had State Pension age increased to 66 in the period 2002-05 (the most recent date for which this data is available) men in the lower socio-economic groups would still on average have spent no less time in receipt of State Pension than men in the same social classes reaching State Pension age at 65 in 1997-2001 (see Impact Assessment, Table 12). If we make the same comparison over a ten-year period, the data suggest that men in all social classes retiring at 66 in 2002-05 would spend longer in receipt of State Pension than those

25 Ibid. The estimates suggest that individuals from Pakistani and Bangladeshi ethnic backgrounds may have lower life expectancy on average than individuals from White British backgrounds whilst those from Chinese and Black African backgrounds may have higher life expectancy.
29 Estimates derived from 2001 census data show that in England and Wales around 40 per cent of people of White British origin are in manual social classes (classes IIIM, IV & V) compared to 47 per cent of Pakistani and 51 per cent of Bangladeshi. However these are not national statistics and should be treated with extreme caution.
retiring at age 65 in 1992-96.

4.7. If these trends continue, this suggests that the proposal to increase the State Pension age to 66 by 2020 may not reduce time spent in receipt of State Pension for men for any social group compared to those reaching State Pension age today. By extension, this may suggest that the proposed change would not have a disproportionate impact between ethnic groups in terms of time spent receiving the State Pension for men – assuming that socio-economic status is a reasonable substitute for ethnicity-based life expectancy estimates.

4.8. Similarly, the data suggest that if the State Pension age for women had been increased from 60 (actual State Pension age) in 1997-2001 to 61 in 2002-05, women from the manual classes who reached that age would spend, on average, no less time in receipt of State Pension had they retired in the later period than if they had retired in the earlier one.

4.9. A State Pension age increase of two years for women, on the other hand, would have reduced time spent in receipt for all social groups compared to those reaching State Pension age five years earlier. This reduction would however have been no greater for those in the least advantaged socio-economic group relative to those in the skilled manual and skilled non-manual groups. The same applies when the comparison is made over a ten-year period. This suggests that while there would be a negative impact on women in all social classes from the proposed increase in State Pension age to 66 by April 2020 (which, for some women would entail an increase of between 18 months and two years), it should not disproportionately affect women from any one ethnic group as compared to another in terms of reducing relative length of time in retirement – again, on the assumption that socio-economic status is a reasonable substitute for life expectancy differences between ethnic groups.

Impact on lifetime pension income

4.10. Based on our modelling of how the proposed change will affect lifetime pension incomes of hypothetical single individuals (see paragraphs 2.3 to 2.8), although this approach clearly has limitations, it is indicative of the relative impact of the change. In particular, it shows that people who rely mainly on the State Pension and Pension Credit in retirement will lose proportionately more than higher earners who carry on contributing to their private pension income.

4.11. Relating this to differences between ethnic groups, of current pensioners, people of Black or Black British origin have the lowest levels of non-State Pension and investment income (£46 per week), compared to White (£155), Asian/Asian British (£133) or Chinese/Other (£120) and a higher proportion of those from that ethnic minority group are receiving income-related benefits (53 per cent compared to 31 per cent from White ethnic origin).31 This is reflected to some extent in income distribution data: 40 per cent of pensioners of Pakistani and Bangladeshi origin and 29 per cent of Black and Black British are in the bottom fifth income group, compared to 14 per cent White.32 (Note, however, that these data relate to all current pensioners and may not correspond to younger pensioners.)

4.12. For those who will experience a delay of a year in receipt of State Pension income, the difference between the low and higher income groups is between a proportionate loss of around 4 per cent of lifetime pension income compared to 2 per cent. We would not

expect the impact of the increase to 66 under the legislated timetable to be significantly different. However, there is potentially a more marked difference in outcomes for those affected by an increase of more than a year.

4.13. At the extreme end, a person who would qualify for Pension Credit two years later than under the legislated timetable could see a reduction in lifetime pension income of up to 10 per cent. (Note, however, that only those born in a single month will experience this maximum delay; those born between 6 December 1953 and 5 October 1954 would qualify between 18 months and two years later than under current plans). Evidence on benefit receipt is inconclusive, due to lack of robust data which does not allow us to distinguish between different ethnic groups beyond very broad categories. But the available evidence relating to employment levels and health indicates that people from Bangladeshi and Pakistani origin in particular may be more likely to be dependent on Pension Credit; this suggests that there may be a stronger impact on these ethnic groups than on others.

4.14. Again, however, this impact needs to be seen within the overall picture of improvements in both the generosity of State Pensions (both means-tested and contributory) and the length of time people are likely to be receiving state pensions for, as a result of increased life expectancy.

Likelihood of adjusting to the new State Pension age

4.15. The relative socio-economic status of people from different ethnic groups is reflected in the data on rates of labour market participation and receipt of certain benefits. Unfortunately, particularly when looking at the older age group who will be affected by the proposed change we are not able to make detailed comparisons, due to lack of data.

4.16. However, from the data that are available, it is clear that currently a person from a non-white ethnic group:

- is more likely than a person from a white ethnic group to be in receipt of one of the main working-age benefits (Jobseeker’s Allowance, Employment and Support Allowance, Incapacity Benefit or Income Support) prior to the point at which Pension Credit becomes available (17 per cent compared to 13 per cent);
- is twice as likely to be entitled to Pension Credit at the minimum age at which that benefit is payable.

4.17. Looking at labour market activity rates, in the age group 50 to State Pension age:

- people from an non-white ethnic group are less likely to be in employment;
- people from an Asian ethnic background are significantly more likely to be out of the labour market due to sickness or disability or family responsibilities than people from any other ethnic background;
- people from a Black ethnic background are more likely to be unemployed than people from any other ethnic group.

Family Resources Survey and DWP modelling
Table 3: Breakdown of labour market status by ethnic group

<table>
<thead>
<tr>
<th>Age 50 to State Pension age</th>
<th>White %</th>
<th>Asian %</th>
<th>Black %</th>
<th>Other %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
<td>71.6</td>
<td>59.0</td>
<td>68.2</td>
<td>68.2</td>
</tr>
<tr>
<td>Unemployed</td>
<td>3.6</td>
<td>6.2</td>
<td>11.7</td>
<td>*</td>
</tr>
<tr>
<td>Inactive</td>
<td>24.8</td>
<td>34.8</td>
<td>20.0</td>
<td>28.0</td>
</tr>
<tr>
<td>inactive - sick or disabled</td>
<td>11.5</td>
<td>18.6</td>
<td>11.3</td>
<td>7.9</td>
</tr>
<tr>
<td>inactive - looking after family and home</td>
<td>3.7</td>
<td>11.4</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>inactive - retired</td>
<td>6.1</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>inactive - others</td>
<td>3.4</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>All</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Labour Force Survey, Q1 2010
* Not significant due to small sample size

4.18. There is some evidence that the gap in labour market participation may be narrowing. Data from the Labour Force Survey indicates that between the first quarter of 2002 and the first quarter of 2010 the employment rate for people of non-white ethnic origin increased by almost three times that of the white ethnic group (an increase of nearly 10 percentage points compared to 3.5), while the level of inactivity due to disability or ill-health fell by nearly 7 percentage points compared to 3.4 for the white ethnic group. These broad-brush data are of course only indicative of a positive trend, and mask significant differences in and between ethnic groups.

4.19. Overall, the evidence suggests that delaying the point at which the State Pension and Pension Credit become payable is likely to have a greater adverse impact on certain ethnic groups compared to others, as they are less likely to be working up to the new State Pension age. This impact is likely to be stronger for those affected by a delay in Pension Credit income of more than a year than for other groups.

4.20. However, this impact reflects the effect of existing labour market disadvantage, rather than the cause. The Government is committed to tackling the employment gap between ethnic minority groups and the overall working-age population. For example, the independent Ethnic Minority Advisory Group (EMAG) has been invited to look at four priority areas – covering the role of public sector procurement, encouraging entrepreneurship, female employment and education and skills – and produce recommendations. EMAG has established four task groups to take this work forward.

4.21. The Government has also committed to introducing new arrangements for supporting people on out-of-work benefits, and aims to have the new Work Programme in place nationally by the summer of 2011. The Work Programme will be designed to provide tailored support to a wide range of customers facing obstacles to returning to work, from the long-term unemployed to those who may previously have been receiving incapacity benefits for many years, and should assist more people, including those from ethnic minorities, to gain employment.

Summary – race impact

4.22. There is some evidence to suggest that the proposal may have a greater impact on certain ethnic minority groups due to underlying socio-economic factors. However, this evidence is not conclusive and needs to be treated with caution. Improvements in, for example, narrowing the employment gap between certain ethnic minorities and the general population will mitigate the impact.
5. Disability impact

Impact on time spent receiving the State Pension

5.1. Shorter life expectancy is linked to a number of health conditions that may cause disability, such as chronic heart disease, as evidenced by the availability of impaired life annuities which are calculated on the assumption that the person will draw it for a shorter time due to a pre-existing health condition. However, we are not aware of any data specifically relating to life expectancy trends based on disability status. We cannot therefore say what impact the proposed change would have on time spent in receipt of state pensions for a disabled person compared to a disabled person reaching State Pension age today, or whether this is greater, or the same, as the impact on a non-disabled person.

Impact on lifetime pension income

5.2. The impact of the proposed increase in State Pension age on the lifetime pension incomes of disabled people is more complex to assess. Although disabled people may qualify for additional benefits such as Disability Living Allowance or Attendance Allowance which significantly increase their income, after adjusting to take account of the additional costs which a disabled person may have, the net income may be less than that of a non-disabled person. Furthermore, not all disabled people are eligible for these benefits. On average, as discussed above, disabled people have lower levels of private pension provision and are less likely to be in work in the period immediately preceding State Pension age.

5.3. Taking this into account, it is likely that a higher proportion of disabled people than non-disabled people would fall into the lowest income group. Disabled people are more likely than non-disabled people to be dependent on working-age benefits in the period prior to State Pension age and in receipt of Pension Credit from the earliest point that benefit is available: while 30 per cent of disabled people aged 60 to 64 are estimated to be eligible for Pension Credit, only 13 per cent of non-disabled people are.

5.4. As discussed at paragraphs 4.12 and 4.13, while an increase of a year is likely to reduce overall lifetime pension income by around 4 per cent for a person reliant on Pension Credit, this impact could be doubled for those who will experience a delay in Pension Credit eligibility of up to two years. For a disabled person whose disability is related to a condition that is likely to reduce life expectancy, the relative impact would be stronger still (although this needs to be seen in context: a person with a life-limiting health condition would spend less time in receipt of State Pension than a person without such a condition, irrespective of when the State Pension age was set).

Likelihood of adjusting to the new State Pension age

5.5. Compared to the non-disabled population, disabled people are more likely to be in low-paid employment and have interrupted work records; they are also more likely to leave the labour market early.

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35 Disability Living Allowance is payable where the ill-health or disability began before age 65. Attendance Allowance, which does not include extra help with mobility needs, is available where the condition began after age 65. Under the Pensions Act 2007, the age threshold was set to increase in line with state pension age from April 2024; under these proposals that will now be brought forward to December 2018 i.e. the point at which State Pension age will be higher than 65.
36 Source: Family Resources Survey 2008/09; DWP modelling of entitlement to Pension Credit
5.6. There are about 2.3 million people aged between 50 and State Pension age who have a work-limiting illness or disability of whom only around 40 per cent are economically active (that is, employed or actively seeking work). Those without a work-limiting disability are more than twice as likely to be in work.

Table 4: Labour market activity for persons aged 50 to State Pension age (SPa) for those with and without a work limiting disability

<table>
<thead>
<tr>
<th>Labour market activity for persons aged 50 to SPa with a work-limiting disability</th>
<th>Labour market activity for persons without a work-limiting disability</th>
<th>Labour market activity for population aged 50 to SPa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
<td>36.7</td>
<td>82.5</td>
</tr>
<tr>
<td>Unemployed</td>
<td>3.8</td>
<td>3.9</td>
</tr>
<tr>
<td>Inactive: sick or disabled</td>
<td>45.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Inactive: Family and home</td>
<td>4.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Inactive: Retired</td>
<td>6.0</td>
<td>5.9</td>
</tr>
<tr>
<td>Inactive: Other</td>
<td>3.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Total:</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Labour Force Survey Q1 2010

5.7. The likelihood of being in work also varies significantly depending on the type of disability: for example, in 2007 only 21 per cent of people with mental health problems or learning disabilities were in employment compared to 65 per cent of people with diabetes.37

5.8. Although the prevalence of disability increases with age, the difference between those aged 60 to 64 and 65 to 69 is slight (37 per cent rising to 38 per cent)38 so we do not consider that the proposed increase in State Pension age of a year for the majority of those affected is likely to significantly increase the proportion of disabled people who are not in work prior to pension age, even if there is no improvement in the rates of employment for disabled people.

5.9. While ill-health or disability is given as the reason for being out of the labour market for the majority of people aged 50 to State Pension age who are inactive, the trend in recent years has been positive with a decline from a high point of 16 per cent overall in the first quarter of 1998 to 11.7 per cent in the first quarter of 2010. However, the gap in employment rates between disabled and non-disabled people (as shown in Table 4) remains significant.

5.10. Measures to address this include the launch of a new programme to provide support for severely disabled people. The new programme, Work Choice, was introduced in October. It replaces WORKSTEP and Work Preparation and sits alongside the new Work Programme (see paragraph 4.21). Work Choice will help into work disabled people who face the most complex and long term barriers to employment and who may require high intensity support in the workplace.

38 *Ibid*, p.12
Summary – disability impact

5.11. The evidence indicates that this proposal is likely to have a stronger impact on some disabled people than non-disabled people in terms of the probability of adjusting to a higher State Pension age, due to relative labour market disadvantage. As a consequence, disabled people are more likely than non-disabled people to spend the additional period up to State Pension age on working-age benefits, although we have no evidence to indicate that the change will result in a higher proportion of disabled people claiming those benefits than are already claiming them prior to current State Pension age. Measures to support disabled people into work may mitigate this impact.

5.12. As disabled people are also more likely to be reliant on Pension Credit at minimum qualifying age than non-disabled people, there will be a proportionately greater impact for those born in 1954 whose entitlement will be delayed by more than a year, compared to the impact of a single year’s increase. However, we consider this is justifiable in the wider context of the need to ensure that the state pensions system (including Pension Credit) is to be both affordable in the long-term, and provide a decent income in retirement.

6. Age equality impact

6.1. By definition, State Pension age gives rise to different treatment according to age, because people below that age are not eligible for a State Pension. Under the current legislation, people already have different State Pension ages, depending on when they were born: for example between 2010 and 2020, all women will have a State Pension age of a year higher than a woman born a year earlier. The effect of speeding up the rate at which women’s State Pension age is to be equalised with men’s and then increasing to 66 by 2020, is that for women born 6 April 1953 to 5 March 1955, the difference between their State Pension age and that of a women a year younger will be between 1.25 years and – for those born 6th March to 5th April 1954 – three years.

6.2. Although the Government recognises that for those most affected, this is a significant increase, it also considers that raising the State Pension age to 66 by 2020 is justified, to prevent too great a gap building between the projected increases in life expectancy and the current State Pension age timetable. This in turn would result in an unfair cost being passed to younger generations.

7. Monitoring

7.1. A decision about when to implement an increase in the State Pension age must, in order to provide adequate notice, be taken several years in advance. This means that the original assessment of the probable impact will be formed on the basis of data that will almost certainly be revised before the change is implemented, but the need to give notice limits the extent to which new evidence can reasonably modify that decision. This is particularly the case in relation to projections of life expectancy which, since they are projections, are inherently uncertain; all we can say with confidence is that to date, every new set of projections indicates an increase in longevity compared to the previous set. Therefore, while regular review of the projections will inform decisions about future changes in the State Pension age, it is unlikely to affect this proposal.

7.2. This assessment also makes a number of assumptions about the potential impact of the proposed change based on current labour market data. We intend to keep this under review to enable a more refined assessment of the probable impact to be made nearer the time. Regular monitoring of outcomes under the new Work Programme will also be undertaken, which will provide further evidence relating to its effectiveness in assisting
people – in this context, particularly people from ethnic minorities and disabled people – into work.

8. Conclusion

8.1. The proposed change will bring forward the date from which the State Pension age is 66 for men and women by six years to 6 April 2020; that is, the date from which under current legislation, the State Pension age would be equalised at 65.

8.2. This timetable has been chosen because the Government considers the available evidence on life expectancy demonstrates that the current timetable is too slow in reacting to increased longevity, and, in the light of the urgent need to stabilise the public finances both in the immediate and longer-term, it would be wrong to delay implementing the change to 66 until 2020.

8.3. Overall, we conclude that based on the available evidence, the proposed change to the current timetable will not have a disproportionate impact on any group compared to another. (We note, however, that due to lack of data we have been unable to form a view in relation to those sharing the protected characteristics of religion or belief or sexual orientation and have provided only a very limited assessment of the impact in relation to gender reassignment).

8.4. We recognise however that bringing forward the increase to 66 to 2020 will entail an increase in State Pension age of more than a year (at the most extreme case for women born between 6 March and 5 April 1954, two years) because they would otherwise have had a lower State Pension age than men under the current timetable for equalising the State Pension ages. This will also affect men in the same age group who would have qualified for Pension Credit, because the minimum qualifying age is aligned to women’s State Pension age. As a consequence of this increase in Pension Credit qualifying age, the proposed change will have a stronger impact than the legislated timetable on certain ethnic groups and disabled people who are more likely than those who do not share those characteristics to be unemployed prior to State Pension age and reliant on Pension Credit at the earliest point it becomes available.

8.5. Taken in the wider context of improvements in longevity and State Pension provision, however, we do not consider this impact, although adverse, to be disproportionate.

8.6. The proposal, however, contributes to gender equality, by phasing out inequality in the State Pension age more quickly than planned. While women’s State Pension entitlements have historically been below men’s, as a result of a number of changes over time, including those introduced from April this year, that gap is narrowing. By November 2018, when the State Pension age will be equalised under this proposal, the proportion of women and men reaching State Pension age with a full basic State Pension will be around 90 per cent.
Appendix - Tables

**Figure 1 data**
Life expectancy at legislated and proposed State Pension age, by year of birth

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Men - current</td>
<td>22.25</td>
<td>22.34</td>
<td>22.43</td>
<td>22.52</td>
<td>22.61</td>
<td>22.7</td>
<td>22.8</td>
<td>22.12</td>
</tr>
<tr>
<td>Women - current</td>
<td>26.45</td>
<td>25.7</td>
<td>24.98</td>
<td>25.07</td>
<td>25.16</td>
<td>25.25</td>
<td>25.34</td>
<td>24.93</td>
</tr>
<tr>
<td>Women - proposed</td>
<td>25.62</td>
<td>24.06</td>
<td>24.15</td>
<td>24.2</td>
<td>24.3</td>
<td>24.4</td>
<td>24.5</td>
<td>24.6</td>
</tr>
</tbody>
</table>

Source: ONS 2008-based principal projections, mean cohort measure (UK)

**Figure 4 data**
Additional impact on numbers in employment, compared to baseline (legislated timetable); men and women aged 55 to 65

<table>
<thead>
<tr>
<th>Year</th>
<th>Men number increase</th>
<th>Men percentage increase</th>
<th>Women number increase</th>
<th>Women percentage increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>6,693</td>
<td>0.27</td>
<td>41,400</td>
<td>2.11</td>
</tr>
<tr>
<td>2014</td>
<td>19,023</td>
<td>0.77</td>
<td>74,624</td>
<td>3.57</td>
</tr>
<tr>
<td>2016</td>
<td>36,743</td>
<td>1.45</td>
<td>109,648</td>
<td>4.84</td>
</tr>
<tr>
<td>2018</td>
<td>78,742</td>
<td>2.99</td>
<td>120,013</td>
<td>4.89</td>
</tr>
<tr>
<td>2020</td>
<td>114,246</td>
<td>4.14</td>
<td>132,115</td>
<td>5.04</td>
</tr>
<tr>
<td>2021</td>
<td>117,217</td>
<td>4.16</td>
<td>125,305</td>
<td>4.65</td>
</tr>
<tr>
<td>2022</td>
<td>113,384</td>
<td>3.94</td>
<td>113,936</td>
<td>4.13</td>
</tr>
<tr>
<td>2023</td>
<td>94,657</td>
<td>3.23</td>
<td>91,992</td>
<td>3.26</td>
</tr>
<tr>
<td>2024</td>
<td>73,404</td>
<td>2.47</td>
<td>71,736</td>
<td>2.50</td>
</tr>
<tr>
<td>2025</td>
<td>49,556</td>
<td>1.64</td>
<td>48,713</td>
<td>1.67</td>
</tr>
<tr>
<td>2026</td>
<td>24,007</td>
<td>0.79</td>
<td>23,932</td>
<td>0.81</td>
</tr>
</tbody>
</table>

Source: HMT employment model
### Summary: Intervention and Options

**What is the problem under consideration? Why is government intervention necessary?**

Millions of people in the UK are not saving enough for retirement. There are a number of barriers which prevent individuals from starting saving, which particularly affect low to moderate earners. Many people have low financial literacy and poor understanding of pensions and the benefits of saving. Where people understand the need to save, ‘inertia’ often means the decision is delayed because current spending pressures seem more important than the future. At the same time, employer provision of pensions is becoming less generous and although significant elements of the pension market work very well, there is a lack of suitable pension products for people on low to moderate incomes, or working for small firms.

**What are the policy objectives and the intended effects?**

The overarching objective of the reforms to workplace pensions, legislated for in the Pensions Act 2008, is to enable low to moderate earners to save more for retirement. The specific proposals that are discussed in this Impact Assessment are designed to ease the burdens that employers will face in complying with that legislation. The changes that the Pensions Bill will bring into being are designed to ease the burden on employers and industry, whilst maintaining the key aim of ensuring individuals are able to save for their retirement.

**What policy options have been considered? Please justify preferred option (further details in Evidence Base)**

The Pensions Act 2007 enabled the introduction of a simpler, fairer and more generous State Pension system, funded by a gradual increase in the State Pension Age.

The Pensions Act 2008 then introduced a series of measures to increase private pension saving. This centred on the use of automatic enrolment, so that individuals would be put into a workplace pension scheme and have to take an active decision to opt out. Combined with a minimum employer contribution and the creation of a pension scheme which could be used by any employer, this is expected to lead to a step change in the level of participation in pension saving.

This particular Impact Assessment considers a range of options designed to make the automatic enrolment process work better and to reduce the burden that business will face. These options stem from an independent review of the programme that was carried out during summer 2010. That review incorporated a series of workshops and discussions with employers and their representatives, industry representatives and consumer groups as well as a call for written evidence. A fuller assessment of all the options and impacts is contained in the "Making automatic enrolment work" review report [http://www.dwp.gov.uk/docs/cp-oct10-full-document.pdf].

**When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?**

It will be reviewed in 2017

**Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?**

Yes

---

**Ministerial Sign-off**

For final proposal stage Impact Assessments:

_I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs._

Signed by the responsible Minister: ............................................................... Date: 10 November 2010
### Summary: Analysis and Evidence

**Policy Option 1**

**Description:** Making automatic enrolment work

<table>
<thead>
<tr>
<th>Price Base Year 2011</th>
<th>PV Base Year 2011</th>
<th>Time Period Years</th>
<th>Net Benefit (Present Value (PV)) (£m)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>39</td>
<td>Low: Optional</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Best Estimate:</td>
</tr>
</tbody>
</table>

#### COSTS (£m)

<table>
<thead>
<tr>
<th></th>
<th>Total Transition (Constant Price) Years</th>
<th>Average Annual (excl. Transition) (Constant Price)</th>
<th>Total Cost (Present Value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Optional</td>
<td>Optional</td>
<td>Optional</td>
</tr>
<tr>
<td>High</td>
<td>Optional</td>
<td>Optional</td>
<td>Optional</td>
</tr>
<tr>
<td>Best Estimate</td>
<td>0</td>
<td>1</td>
<td>610</td>
</tr>
</tbody>
</table>

- **Low**
  - Optional
  - Optional
  - Optional
- **High**
  - Optional
  - Optional
  - Optional
- **Best Estimate**
  - 0
  - 1
  - 610
  - 11,020

#### Description and scale of key monetised costs by ‘main affected groups’

The costs shown here are the average annual costs between 2012 and 2050 in present (2011/2012) prices. (costs shown include increases in earnings over and above the rate of inflation)

Transfers (Annual averages presented in Table 0.1)
- Average reduction in individuals’ savings into private pensions: £590m per year
- Increase in Government expenditure on income-related benefits: £20m

#### Other key non-monetised costs by ‘main affected groups’

The reduction in the amount saved changes the value of consumption smoothing. This amount does not represent a financial transfer but represents the perceived value to individuals from transferring income from more affluent times to retirement. The present value of this impact falls between a loss of £2 billion (4 per cent) and a gain of £1 billion (2 per cent), so a small loss of around 1 per cent on average

#### BENEFITS (£m)

<table>
<thead>
<tr>
<th></th>
<th>Total Transition (Constant Price) Years</th>
<th>Average Annual (excl. Transition) (Constant Price)</th>
<th>Total Benefit (Present Value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Optional</td>
<td>Optional</td>
<td>Optional</td>
</tr>
<tr>
<td>High</td>
<td>Optional</td>
<td>Optional</td>
<td>Optional</td>
</tr>
<tr>
<td>Best Estimate</td>
<td>0</td>
<td>1</td>
<td>620</td>
</tr>
</tbody>
</table>

- **Low**
  - Optional
  - Optional
  - Optional
- **High**
  - Optional
  - Optional
  - Optional
- **Best Estimate**
  - 0
  - 1
  - 620
  - 11,180

#### Description and scale of key monetised benefits by ‘main affected groups’

The benefits shown here are the average annual benefits between 2012 and 2050 in present (2011/2012) prices. (benefits shown include increases in earnings over and above the rate of inflation)

Transfers (Annual averages presented in Table 0.1):
- Reduction in employer contribution costs: £220m.
- Reduction in individual contribution costs: £280m.
- Increase in individual receipts of income-related benefits: £20m.
- Decrease in Government tax relief on pension contributions: £90m.

Resource costs (Annual average presented in Table 0.2):
- Reduction in employer administrative costs: £10m.

#### Other key non-monetised benefits by ‘main affected groups’

#### Key assumptions/sensitivities/risks

Discount rate (%): 3.5

The success of these reforms is sensitive to the behaviour of individuals and employers. The key assumptions are: individual participation rates, employer choice of qualifying scheme and employer pension contributions following reform, and mechanism for dealing with costs of reforms. The outcomes of pension saving for individuals are dependent on returns to investment.

#### Impact on admin burden (AB) (£m) 2005/6 terms:

| New AB: | AB savings: 3 | Net: -3 |

#### Impact on policy cost savings (£m): In Scope

| Policy cost savings: N/A | Yes |
## Enforcement, Implementation and Wider Impacts

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the geographic coverage of the policy/option?</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>From what date will the policy be implemented?</td>
<td>October 2012</td>
</tr>
<tr>
<td>Which organisation(s) will enforce the policy?</td>
<td>Department for Work and Pensions, The Pensions Regulator</td>
</tr>
<tr>
<td>What is the annual change in enforcement cost (£m)?</td>
<td>Commercial (contracted)</td>
</tr>
<tr>
<td>Does enforcement comply with Hampton principles?</td>
<td>Yes</td>
</tr>
<tr>
<td>Does implementation go beyond minimum EU requirements?</td>
<td>N/A</td>
</tr>
<tr>
<td>What is the CO₂ equivalent change in greenhouse gas emissions?</td>
<td>Traded: N/A</td>
</tr>
<tr>
<td></td>
<td>Non-traded: N/A</td>
</tr>
<tr>
<td>Does the proposal have an impact on competition?</td>
<td>No</td>
</tr>
<tr>
<td>What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?</td>
<td>Costs: 100  Benefits: 100</td>
</tr>
<tr>
<td>Annual cost (£) per organisation (excl. Transition) (Constant Price)</td>
<td>Micro: £50  &lt; 20 / Small: £150  Medium: £790  Large: £9,290</td>
</tr>
<tr>
<td>Are any of these organisations exempt?</td>
<td>No No No No No</td>
</tr>
</tbody>
</table>

## Specific Impact Tests: Checklist

<table>
<thead>
<tr>
<th>Test</th>
<th>Impact</th>
<th>Page ref within IA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory equality duties¹</td>
<td>Yes</td>
<td>Annexes D - F</td>
</tr>
<tr>
<td>Economic impacts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td>Yes</td>
<td>Annex C</td>
</tr>
<tr>
<td>Small firms</td>
<td>Yes</td>
<td>Annex B</td>
</tr>
<tr>
<td>Environmental impacts</td>
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<td></td>
</tr>
<tr>
<td>Greenhouse gas assessment</td>
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<td></td>
</tr>
<tr>
<td>Wider environmental issues</td>
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<td></td>
</tr>
<tr>
<td>Social impacts</td>
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<td></td>
</tr>
<tr>
<td>Health and well-being</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Human rights</td>
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<td></td>
</tr>
<tr>
<td>Justice system</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Rural proofing</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Sustainable development</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

¹ Race, disability and gender Impact Assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded in 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to Great Britain only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.
Evidence Base (for summary sheets) – Notes

References
Include the links to relevant legislation and publications, such as public Impact Assessment of earlier stages (e.g. Consultation, Final, Enactment).

<table>
<thead>
<tr>
<th>No.</th>
<th>Legislation or publication</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pensions Bill Impact Assessment – April 2008</td>
</tr>
<tr>
<td></td>
<td>Impact Assessment: (Automatic Enrolment) Regulations – March 2009</td>
</tr>
<tr>
<td></td>
<td>Impact Assessment: consultation stage – Workplace Pension Reform (Completing the Picture) Regulations 2009</td>
</tr>
<tr>
<td></td>
<td>Workplace Pension Reform Regulations: Impact Assessment – January 2010</td>
</tr>
</tbody>
</table>
Annex 1: Post Implementation Review (PIR) Plan

Basis of the review:
The Department has made a commitment to fully evaluate the effects of the reforms and how they are delivered. In addition, the Pensions Act 2008 specifies that there will be a review of the National Employment Savings Trust (NEST), including those features that are designed to focus it on the target market, including the annual contribution limit and the prohibition of pension fund transfers to and from the scheme. The evaluation of the reforms will feed into this review, as appropriate.

Review objective:
The evaluation will be a proportionate check that the regulations are operating as expected and to ensure that there are no unintended consequences for individuals, employers or industry as a result of the reforms. Longer term evaluation will be against the policy objective of getting more people to save more for their retirement.

Review approach and rationale:
There will be an ongoing evaluation using a range of data such as management information from NEST and The Pensions Regulator (TPR), stakeholder discussions, existing continuous surveys of individuals and employers and where appropriate, research commissioned by the Department. Where possible, key statistics to be drawn from ongoing large surveys such as the Office for National Statistics Annual Survey of Hours and Earnings to ensure continuity of data availability.

Baseline:
Pre-reform (2011 or early 2012 depending on the data source being considered).

Success criteria:
Success will be measured against the policy objective of getting more people to save more for their retirement. This objective should be achieved in a way that represents value for money for the taxpayer and puts minimal burden on employers whilst maintaining current good pension provision.

Monitoring information arrangements:
Plans for ongoing monitoring form part of the governance structures across the Department, NEST and The Pensions Regulator. The evaluation will be carried out on an ongoing basis to gauge progress through implementation of the reform and beyond.
Evidence Base (for summary sheets)

The following tables show the costs and benefits of the changes to the workplace pension reforms contained in the Pensions Bill, when compared to the eligibility criteria set out in the Pensions Act 2008. The baseline costs and benefits from which these changes are measured can be found in Annex A.

The tables present average annual changes over the 39 years to 2050, followed by the one off transitional cost and then the ongoing cost in 2012 (which, due to phasing and staging of the auto-enrolment policy, is small). Finally, changes every ten years are shown, with an increased effect in later years due to population and earnings growth.

Tables in this section present net benefits: an additional cost is a negative number, an additional benefit is a positive number.

Therefore:

- A decrease from the baseline in individual contribution costs is shown as a positive number.
- An increase from the baseline in income related benefits paid to individuals is shown as a positive number.
- A decrease from the baseline in overall savings into private pensions is shown as a negative number.
- An increase from the baseline in government expenditure on income-related benefits is shown as a negative number.

### Table 0.1: Estimated transfer costs and benefits arising from changes to workplace pension reform measures (£ million)

<table>
<thead>
<tr>
<th></th>
<th>Annual average</th>
<th>One-off cost (present value)</th>
<th>2012</th>
<th>2020</th>
<th>2030</th>
<th>2040</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individuals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Contribution costs</td>
<td>280</td>
<td>0</td>
<td>*</td>
<td>240</td>
<td>300</td>
<td>360</td>
<td>440</td>
</tr>
<tr>
<td>b) Receipt of income related benefits</td>
<td>20</td>
<td>0</td>
<td>*</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>c) Savings into private pensions</td>
<td>-590</td>
<td>0</td>
<td>*</td>
<td>-500</td>
<td>-610</td>
<td>-750</td>
<td>-910</td>
</tr>
<tr>
<td><strong>Net benefit</strong></td>
<td>-280</td>
<td>0</td>
<td>*</td>
<td>-250</td>
<td>-290</td>
<td>-350</td>
<td>-420</td>
</tr>
<tr>
<td><strong>Employers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Contribution costs</td>
<td>220</td>
<td>0</td>
<td>*</td>
<td>190</td>
<td>230</td>
<td>280</td>
<td>340</td>
</tr>
<tr>
<td><strong>Net benefit</strong></td>
<td>220</td>
<td>0</td>
<td>*</td>
<td>190</td>
<td>230</td>
<td>280</td>
<td>340</td>
</tr>
<tr>
<td><strong>Government</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Contribution costs (income tax relief)</td>
<td>90</td>
<td>0</td>
<td>*</td>
<td>70</td>
<td>90</td>
<td>110</td>
<td>130</td>
</tr>
<tr>
<td>f) Income related benefit expenditure</td>
<td>-20</td>
<td>0</td>
<td>*</td>
<td>-10</td>
<td>-20</td>
<td>-30</td>
<td>-40</td>
</tr>
<tr>
<td><strong>Net benefit</strong></td>
<td>60</td>
<td>0</td>
<td>*</td>
<td>70</td>
<td>70</td>
<td>80</td>
<td>90</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Benefit</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Notes:**
- Costs cover the UK.
- Figures are expressed in 2011/2012 price terms; present values are 2011/2012-based.
- Costs shown include increases in earnings over and above the rate of inflation
- Figures are rounded to the nearest £10 million.
- The employer costs presented here are the sum of employer contributions and tax relief on those contributions. The distribution of these costs will depend on how employers manage costs.
- Costs are presented as negative numbers, benefits as positive numbers.
- * means that small costs or benefits arise but are under £5 million. In 2012, costs are frequently small because relatively few individuals are automatically enrolled due to the implementation design.
- Higher savings into private pension is the sum of tax relief, employer contribution and individual contribution costs.

### Income Transfers

The reforms outlined in this Impact Assessment give rise to transfers of income between different economic agents, such as employers, individuals and the Government, as well as transfers of income across people’s lives. Table 0.1 shows the impact of the changes as set out in the Pensions Bill on income transfers for specific points in time through to 2050.

A three month waiting period and raising the earnings threshold from £5,035 (2006/07 terms) to £7,475 (2011/12 terms) result in some employees being excluded from automatic-enrolment, which leads to reduced overall contributions from employees and employers, reduced costs to the exchequer in the form of tax relief, and an increase in the cost of income related benefit expenditure.
a) **Individual Contribution costs** are the cash contributions made from individuals, i.e. not including tax relief.

b) **Receipt of income-related benefits** reflects the change in entitlement to income-related benefits in retirement caused by the fall in private pension saving.

c) **Savings into private pensions** are the sum of individual and employer contributions plus government tax relief. These estimates relate to the additional contributions made into pensions and not the private pension incomes individuals will receive as a result of this saving.

d) **Employer contribution costs** are the cash contributions made by employers if employers were to make the minimum employer contribution of 3 per cent for all eligible jobholders who do not opt-out.

e) **Government contribution costs (tax relief)** reflect changes to the costs to the Exchequer of tax relief on individuals’ pension contributions.

f) **Income-related benefit expenditure** reflects the change in expenditure in income-related benefits described above.

**Resource Costs**

In addition to decreasing the costs of contributions from the employer, employers also benefit from reduced resource and administration costs. This is partly due to employers having fewer employees to automatically enrol and partly due to the greater flexibility employers have to undertake processes at a time that works best for them.

| Table 0.2: Estimated resource costs arising from changes to workplace pension reform (£ million) |
|---------------------------------|---|---|---|---|---|---|
|                                | Annual average | One-off cost (present value) | 2012 | 2020 | 2030 | 2040 | 2050 |
| g) Employer administrative costs | 10 | 0 | * | 10 | 10 | 10 | 10 |
| h) Cost of changing scheme rules | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Benefit                    | 10 | 0 | * | 10 | 10 | 10 | 10 |

**Notes:**
- Costs cover the UK.
- Figures are expressed in 2011/12 price terms; present values are 2011/12-based.
- Costs shown include increases in earnings over and above the rate of inflation.
- All figures rounded to the nearest £10 million.
- Costs are presented as negative numbers, benefits as positive numbers.
- * indicates that small costs/benefits arise but are under £5 million.

**g) Employer administrative costs** reflect the change in the costs employers incur in administering participation in pension schemes.

The administrative burden is a subset of the administrative costs, and only includes those parts of the process which impose an information obligation on business. An information obligation is a regulation that requires a business to provide and submit information to Government or to third parties such as employees and pension schemes. We previously estimated the ongoing annual administrative burden of the Pensions Act 2008 and associated regulations to be £99 million. As a result of the changes to the workplace pension reforms contained in the Pensions Bill, the summary sheet shows a reduction in this burden of £3 million².

**h) Cost of changing scheme rules** relates to the cost of reviewing the rules and making required changes to all open workplace pension schemes in the run up to the reform.

**Resource benefit**

**Non-monetised resource benefits:** The increase in pension saving will be associated with millions of people enjoying increased well-being over their lifetime as a result of transferring income from a period when their income is relatively high (when they are working) to a period in which their income would otherwise be lower (after they retire). This results in a substantial welfare gain to society as a result of greater consumption-smoothing. This non-

² Administrative burdens are expressed in 2005/6 terms.
monetised benefit takes into account distributional impacts, with the weighting taking account the relative prosperity of those receiving the benefit.

Currently, we estimate a social welfare benefit of £40 to £60 billion up to 2050. The changes outlined in this Impact Assessment have a small impact on the value of consumption smoothing. The present value of this impact falls between a loss of £2 billion (4 per cent) and a gain of £1 billion (2 per cent), so a small loss of around 1 per cent on average. *This amount does not represent a financial transfer*, but represents the perceived value to individuals.

Excluding some lower earning individuals from automatic enrolment is estimated to increase the social welfare benefit slightly if you assume they have constant earnings throughout their lifetime. This is because lower earners receive high replacement rates from state provision alone, so contributing into a private pension during their working life could have a negative impact on consumption smoothing.

A waiting period affects all individuals across the income spectrum and has a greater effect on reducing the value of consumption smoothing.

- At one end of the spectrum, we assume all individuals earning below £7,475 either opt into pension saving or become eligible for automatic enrolment (due to income movements over the year). This would generate no change from the baseline estimate of social welfare benefit. We also assume all employers operate a three month waiting period, and all individuals eligible for automatic enrolment do not opt in during these three months. This generates a social welfare “loss”, equivalent to around £2 billion (4 per cent).
- At the other end, we assume no employers use the waiting period. This would generate no change from the baseline estimate of social welfare benefit. We also assume no individuals earning below £7,475 become eligible for automatic enrolment or opt in to pension saving during their working life. This generates a social welfare “gain”, equivalent to around £1 billion (2 per cent).

Our best estimate is that the real outcome will be somewhere in between these two scenarios. We know that around half of employers who currently provide a pension operate a waiting period. We also know that, while individuals earning less than £7,475 are unlikely to opt in, evidence suggests that lower earners are likely to move around the income scale throughout the year, and therefore could be automatically enrolled.

| Table 0.3: Estimated resource benefits arising from changes to workplace pension reforms (£ billion) |
|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Total cost (present value) | Total benefit (present value) | Net benefit (present value) |
| Social welfare benefits (units of consumption, in billions) | 0 | Between a loss of £2 and a gain of £1 | Between a loss of £2 and a gain of £1 |
| Net Benefit | 0 | Between a loss of £2 and a gain of £1 | Between a loss of £2 and a gain of £1 |

Notes:
- The social welfare benefits should not be added to the other costs and benefits which are monetary values.
- Costs cover the UK.
- Present values are for the period 2012-2050, and are presented in 2011/12 prices.
- Costs are rounded to the nearest billion.

Figures presented in this evidence base are consistent with the Better Regulation Executive guidelines. Costs are in 2011/12 prices terms which means that future price inflation has been taken into account. Present values are discounted to take into account the social discount rate (3.5 per cent falling to 3 per cent after 30 years) as set out in HM Treasury’s Green Book.

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Section 1: Overview and summary of costs and benefits

Background and objectives for reform

1.1 The legislative changes set out in the Pensions Act 2008 and Workplace Pension Reform Regulations 2010 aim to increase private pension saving in the UK. They form part of a wider pensions reform package designed to ensure that the UK has a pension system that enables individuals to save towards achieving the lifestyle they aspire to in retirement.

1.2 This Impact Assessment accompanies the Pensions Bill 2011, which will focus on a number of changes to the pension system. This includes a number of policies that are intended both to finalise details of the workplace pension reform policy, and also to implement the policy recommendations made by the independent “Making automatic enrolment work” review in 20105.

The need for reform

1.3 The Pensions Commission was set up in 2002 to assess how the pension system was developing over time and to make recommendations on whether the pension system should move beyond a purely voluntary approach.

1.4 The Commission concluded that whilst pensioner income levels are on average high by historical standards, the existing system of private funded pensions combined with the current state system will deliver increasingly inadequate and unequal results. The report concluded that millions of people are not saving enough to meet their retirement aspirations, with DWP analysis putting this figure at around seven million.

1.5 There are a number of barriers to saving, even where people recognise that it is in their best interests to do so. Specifically:

- A limited understanding, amongst many people, of pensions and the benefits of saving for retirement.
- A tendency to procrastinate. Evidence shows that even where people make commitments to saving, they put off acting on that decision, suggesting hyperbolic (rather than even) discounting of consumption.
- The power of inertia. People often accept the situation as it is, or choose the course of action which requires least decision-making. People who start saving usually keep saving, often at the same contribution rate. People who are not saving usually continue not saving. Pension schemes in which the default option is for new employees to join produce much higher pension participation than if an active decision to join has to be registered.
- Difficulty in accessing pension provision. There is an ongoing decline in the provision of pension schemes offered by employers and relatively poor market provision for many on moderate to low incomes and those who work for small firms.

1.6 The Commission explored three solutions to the problem of undersaving, namely: a major revitalisation of the voluntary system and/or; significant changes to the state system; and/or an increased level of compulsory private pension saving beyond that already implicit within the UK system.

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1.7 They concluded that the problems are not solvable through changes to the state system alone, nor by incremental measures to encourage voluntary saving. At the same time, compulsion with respect to private pension saving presents risks of forcing some people to over-save, and does not accommodate diversity in people’s preferences for different ways to save (e.g. through housing assets).

1.8 The Commission recommended a solution whereby the state strongly encourages people to achieve a minimum level of private pension provision, whilst enabling them to save more in a cost-efficient way. The suggestion was for a minimum replacement-rate of 45 per cent for the average median earner. Overall, this means increasing both the number of people saving in pensions and the amounts saved.

To achieve this objective, the Commission recommended:

- The creation of a National Pension Savings Scheme (NPSS).
- All employees not already covered by a good quality pension scheme should be automatically enrolled into this NPSS.
- Individual contributions should be matched by modest compulsory employer contributions, to ensure that the scheme offers attractive returns, and to level the playing field between employers who do and do not already offer pension provision.

1.9 These recommendations were broadly accepted by the Government of the time and commanded a widespread political consensus. Since 2006 the DWP has been working to develop the detail of this policy, to put in place the legislative framework to prepare for implementing the proposals in 2012.

The policy set out in the Pensions Act 2008 and associated regulations broadly followed the Pensions Commission’s recommendations, as follows:

- Employers will be required to automatically enrol their eligible jobholders into a pension scheme meeting minimum quality requirements.
- Minimum contributions of eight per cent on a band of earnings must be paid in respect of the member, of which at least three per cent must come from the employer.
- NEST, a trust-based occupational pension scheme will be set up with a public service obligation to accept any employer (and qualifying worker) that wishes to use the scheme.

1.10 The Pensions Act 2008 gives the Secretary of State the power to make regulations to require employers to automatically enrol eligible jobholders into qualifying workplace pension scheme. Regulations were consulted on in 2009, and a set of regulations were laid in Parliament in January 2010, with an accompanying Impact Assessment.

1.11 This Impact Assessment, accompanies the Pensions Bill, and builds on the analysis presented in the previous Impact Assessments. The estimates presented will be different to those presented in earlier Impact Assessments to reflect the latest evidence and research where available.

**Building consensus around the policy**

1.12 It is essential that there is a stable and long-lasting system of pension saving in the UK, so that decisions taken by savers today are not undermined by changes to the system tomorrow. The Government has therefore worked hard to build a broad-based consensus

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6 A replacement-rate measures income in retirement as a percentage of income before retirement.
among the public, businesses, the pensions industry and across political parties, to ensure that the private pension reforms stand the test of time.

1.13 Following Royal Assent for the Pensions Act 2008, in March 2009 the Government consulted on draft regulations covering the automatic enrolment process. In April 2009 they further consulted on the draft scheme order and rules for NEST (then called the “personal accounts scheme”). In September 2009 the Government consulted on a second batch of draft regulations, to implement and enforce the reforms. Alongside this written consultation, DWP held a number of seminars to discuss the regulations with a range of stakeholders, and also conducted formal research into employers’ views on the policy details.

1.14 As a result of the March 2009 consultation on draft regulations, significant changes were made to the automatic enrolment process, including: extending the joining window; simplifying timescales and information requirements; amending the 19 day rule in order to minimise burdens associated with refunds. These changes are discussed in detail in the Government response to that consultation. No significant changes were made to the Scheme order and rules for NEST, since respondents broadly agreed to the proposals.

1.15 A number of relatively minor changes were made in response to the consultation on the second batch of regulations in September 2009. The most significant amendment was removing certification from the regulations, in response to strongly held stakeholder views that DWP needed to return to the drawing board on this policy.

1.16 In autumn 2009 the DWP reconsidered the implementation plans for automatic enrolment, in light of changing economic circumstances. The Government’s key objective is to get the infrastructure in place as quickly as possible, whilst ensuring that the reforms are implemented in an operationally achievable way that is also manageable and sustainable for employers and individuals. DWP therefore adjusted the implementation plan to allow small employers and new businesses more time before being staged into the duties.

1.17 In 2010 an external review team was commissioned to re-examine the policy behind automatic enrolment, and as part of this process undertook an in-depth consultation on the scope of the reforms and potential options for amending the policy. The external review team received 73 written responses to their formal call for evidence, along side gathering views at a number of seminars and one to one meetings. All this evidence was carefully considered, and the recommendations of the review broadly reflect stakeholders’ views.

Figure 1.1 summarises the consultations and documents surrounding the private pension reforms that have been published since the introduction of the Pensions Act 2008.

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Figure 1.1: Sequence and coverage of workplace pension reform legislation and consultation
The "Making automatic enrolment work" review

1.18 In June 2010 the new Coalition Government commissioned an independent review into the best way to support the introduction of automatic enrolment into private pension saving. The review was intended to build on the work of the Pensions Commission by examining the policy in light of certain changes that had taken place since the original recommendations, namely:

- The credit crunch in financial markets, the economic downturn and the fiscal deficit.
- A greater understanding of likely costs and the proposed charging structure for NEST.
- The proposed approach and profile for introducing the new employer duties and phasing in of minimum levels of mandatory contributions.
- The proposed review of state pension age.
- Other changes such as the further increases in life expectancy and further decline in private sector pension coverage.

1.19 The review team were asked to consider whether the proposed scope for automatic enrolment strikes an appropriate balance between the costs and benefits to both individuals and employers, or whether the underlying policy objective of increasing private pension savings would be better delivered by a different scope for automatic enrolment. The team were keenly focused on options for reducing unnecessary burdens on business, and examining the impacts for key groups, particularly women.

1.20 The team were also asked to assess the capacity of the existing pensions market to meet the demand created by automatic enrolment, and thus whether the policy of establishing NEST is the most effective way to guarantee universal access to workplace pension saving and income security in retirement.

1.21 In examining the evidence and formulating potential options for change the review team sought to consult with as many interested parties as possible, through meetings with key individuals and three wider seminars with representatives of consumers, employers and industry. The review also issued a formal call for evidence.
Appendix 1: Summary of impacts and burdens

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Introduction of a waiting period of up to three months, with opt in during that three months</td>
<td>Reduces the number of individuals automatically enrolled by up to 0.5 million. Reduces accumulated savings by up to three years on average - if all employers operate the maximum waiting period.</td>
<td>Reduces costs for employers. Annual saving on administration of at least £3 million, and an estimated saving of £150 million in contribution costs. Relatively larger impact for small and micro employers.</td>
<td>Reduces costs for providers. Fewer small pots to administer and improved persistency of pensions saving.</td>
<td>Reduces Exchequer costs. Saves an estimated £60 million in tax relief, and £40 million in foregone tax revenue, annually.</td>
<td>Reduces burden for employers and industry.</td>
</tr>
<tr>
<td>Increase Earnings Thresholds</td>
<td>Reduces the number of individuals automatically enrolled by up to 0.6 million. Persistent low earners will already get high replacement-rates from the state pension system.</td>
<td>Reduces costs for employers. Employers will need to enrol slightly fewer individuals. Avoids employers having to process very small pensions contributions. Estimated savings on employer contributions are £30 million. Estimated savings on administration costs are £3 million. Relatively larger impact on savings for</td>
<td>Reduces costs for providers. Providers administer fewer small pots of pensions than under the previously planned reforms.</td>
<td>Reduces Exchequer costs. Saving of £10 million each on tax relief and tax revenues foregone.</td>
<td>Reduces burden for employers and industry.</td>
</tr>
<tr>
<td>-------------------------------</td>
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</tr>
<tr>
<td>Introduce greater flexibility around re-enrolment</td>
<td>Negligible. Whilst certain individuals could be re-enrolled slightly more or less frequently, the average impact should be minimal.</td>
<td>Reduces costs for employers. Greater flexibility will allow employers to undertake re-enrolment at a time that works best for them.</td>
<td>Negligible impact.</td>
<td>Negligible impact.</td>
<td>Reduces burdens for employers.</td>
</tr>
<tr>
<td>Certification - simplified 3-stage test</td>
<td>Minimal impact. Slight risk that some individuals could receive less than the level of contributions currently set out in legislation.</td>
<td>Reduces costs for employers. Allows employers to easily use existing good quality schemes. A simplified test makes it easier for employers to ensure they are compliant with the minimum contribution requirements.</td>
<td>Beneficial. It will be easier for employers to continue using existing pension scheme arrangements.</td>
<td>Negligible impact.</td>
<td>Provides an easement for employers which should also benefit the pensions industry.</td>
</tr>
<tr>
<td>Flagging: TPR will ensure that micro employers know that NEST has been designed to meet their needs</td>
<td>Beneficial. Making the process more straightforward for the smallest employers should improve compliance levels. That will improve the number of individuals who are automatically enrolled into a pension</td>
<td>Reduces costs, particularly for micro employers. Flagging will help micro employers in making a choice about which qualifying scheme to use. It should therefore reduce the burdens of making that</td>
<td>Negligible impact. The industry currently does not serve the segment of the market which will benefit from flagging.</td>
<td>Negligible impact.</td>
<td>Reduces the burden that micro employers face in choosing a qualifying pension scheme.</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-----------------------</td>
<td>---------------------</td>
<td>--------------------</td>
<td>-------------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>scheme choice.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Negligible.</td>
</tr>
</tbody>
</table>

Overall

The package of changes which the Pensions Bill proposes in relation to the Workplace Pension Reforms is deregulatory in nature. They reduce costs for employers by £170 million a year in contributions, and £6 million* a year in ongoing administrative costs.

Exchequer costs will also fall: average annual tax relief will fall by around £70 million and foregone tax revenue will fall by £40 million.

Note: Unless otherwise stated, the figures presented in this table are provided as steady state levels in 2011/12 earnings terms.
Section 2: Impacts of specific changes to the legislation

2.1 This section sets out changes to the legislation proposed within the Pensions Bill and considers the impacts for the key groups of interest. In assessing the impact of these changes, we have assumed that employers make full use of the flexibility offered.

Changes to the earnings threshold for eligibility for automatic enrolment and the qualifying earnings band

2.2 Under the Pensions Act 2008, employers will be required to automatically enrol certain jobholders who earn more than £5,035 a year (in 2006/07 terms) into qualifying pension arrangements. If the individual chooses not to opt out of pension saving, the employer must pay contributions based on a band of earnings between £5,035 and £33,540. The qualifying earnings threshold acts both as a trigger for automatic enrolment and as the threshold for contributions to start accruing.

Why consider change?

2.3 The primary reason for considering changes to the earnings threshold for automatic enrolment is that there may be individuals who are consistently lower earners and find that the State, through pensions and benefits, provides them with a sufficiently high replacement rate without additional saving. For these individuals it may not be beneficial to redirect income during working life into pension saving. The Pensions Commission used the concept of the replacement rate to measure the proportion of working-age income that is ‘replaced’ by income in retirement.

2.4 The second reason for change is to re-align thresholds with other current earnings triggers – such as the National Insurance and tax thresholds.

Stakeholder views

2.5 As already discussed, as part of the “Making Automatic Enrolment Work” review stakeholders were consulted on the current shape of the legislation. There were mixed views on the earnings level at which individuals should be automatically enrolled. Industry, employer and consumer groups all expressed concern that the current policy included some low earners for whom it might not be worthwhile saving. Many thought there was a case for increasing the threshold at which an individual would be automatically enrolled, though there were different views on what level it should be.

2.6 Stakeholders were clear, however, that while it may be appropriate to raise the threshold for automatic enrolment, the levels of earnings from which contributions are calculated once an individual is enrolled should not be increased.

2.7 Consumer representatives generally supported as broad a scope for automatic enrolment as possible and wanted to ensure that key groups (especially women) were included. However, they had some concerns about the affordability of pension saving for lower earners, and that the interaction with income-related benefits may reduce returns for some groups. There were different views on the policy implications of this dilemma – some felt it justified a small increase in the earnings threshold, whilst others believed there was no case for change because individuals are already able to opt out of pension saving.

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8 £5,841 in 2011/12 earnings
2.8 Employers supported a slight increase in the earnings threshold. This was predominantly driven by concerns about what they perceived as an unnecessary administrative burden, which they felt could be removed if the pension thresholds matched thresholds in the National Insurance system.

2.9 The strongest support for increasing the earnings threshold came from industry representatives, with many suggesting that £10,000 was an appropriate threshold. Others suggested that the earnings threshold(s) could be linked to National Insurance thresholds; tax thresholds; or National Minimum Wage levels.

Which options were considered?

2.10 Options examined by the review team for the threshold at which an individual becomes eligible for automatic enrolment were:

- The National Insurance primary threshold – a small change, realigning the automatic enrolment threshold with the National Insurance primary threshold of £5,824 in 2011/12 earnings terms (£5,715 in 2010/11);
- Raising the threshold slightly, aligning it with the threshold for income tax, removing some of the lowest earners from the scope of automatic enrolment. The Government has announced a real increase in this threshold to £7,475 in 2011/12 earnings terms (£7,336 in 2010/11);
- Move toward the Government aspiration for future income tax thresholds – removing a more significant proportion of lower earners from automatic enrolment - £10,190 in 2011/12 earnings terms (£10,000 in 2010/11);
- Setting a level above full-time work at the National Minimum Wage – to test the impact of removing a significant proportion of lower earners from automatic enrolment £14,266 in 2011/12 earnings terms (£14,000 in 2010/11).

Option chosen

2.11 The earnings threshold should be increased to £7,475, in 2011/12 earnings terms so that it is aligned with the threshold for income tax. Individual contributions should be deducted from the National Insurance primary threshold of £5,824 (in 2011/12 earnings terms). This ensures that individuals who are automatically enrolled have their pension contributions calculated on a significant portion of their income. Those individuals who are no longer automatically enrolled will still have the right to opt in if they wish.

Impact on individuals

2.12 A low earnings threshold creates a risk that individuals are automatically enrolled into pension savings when they are unlikely to benefit from that saving (they already get a high replacement rate from the State). A high earnings threshold creates a risk that individuals are not automatically enrolled when they are likely to benefit from saving.

2.13 Table 2.1 shows that increasing the earnings threshold to £7,475 will reduce the number of individuals who are automatically enrolled by up to 0.6 million. Women would then make up 38 per cent of the group eligible to be automatically enrolled, compared with 40 per cent under the current policy. All of the individuals no longer automatically enrolled as a result of the increase in the automatic enrolment earnings trigger may, however, still opt in to pension saving and receive an employer contribution. See Gender Impacts at Annex D for further detail.
Table 2.1: Impact on individuals of different qualifying earnings

<table>
<thead>
<tr>
<th>Eligibility for Automatic Enrolment 2010/11 (2011/2012)</th>
<th>Total coverage</th>
<th>% female</th>
<th>Other characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current target group</td>
<td>10-11m</td>
<td>40%</td>
<td>12% BME</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>12% disabled</td>
</tr>
<tr>
<td>£7,336 (£7,475)</td>
<td>-0.6m</td>
<td>78% (of the 0.6m)</td>
<td>38% in revised overall target group</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>No particular impacts by ethnicity, disability or age group. No disadvantage as individuals retain the right to opt in</td>
</tr>
<tr>
<td>£10,000 (£10,190)</td>
<td>-1.4m</td>
<td>76% (of the 1.4m)</td>
<td>36% in revised overall target group</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£14,000 (£14,266)</td>
<td>-2.9m</td>
<td>68% (of the 2.9m)</td>
<td>32% in revised overall target group</td>
</tr>
</tbody>
</table>

Source: Department for Work and Pensions modelling
Annual Survey of Hours and Earnings, Great Britain 2009, Office for National Statistics

2.14 As already discussed, persistent low earners see a high replacement rate from the existing state pension system. Whilst this might lead us to conclude that there is a justification for a significantly higher threshold for automatic enrolment than is set out in the Pensions Act 2008, there are several considerations which militate against such a conclusion.

2.15 Firstly, receipt of benefits or tax credits provides a big incentive for many low earners to save in pensions; all of an individual’s contribution to a private pension scheme is disregarded from their income when calculating entitlement to tax credits, and half is disregarded when calculating entitlement for other income-related benefits.

In addition, most low earners go on to earn more, and only through saving year on year can they accumulate a pot of reasonable value. More importantly, in the real world it makes little sense to look at individual replacement rates. Most individuals live in households with others and many very low earners are women living with men who earn rather more. It may well be desirable for them to be accumulating a pension pot of their own.

2.17 The separation of the eligibility threshold from the contribution threshold creates a small de minimis amount of contributions, avoiding the situation whereby individuals make tiny pension contributions. This should result in a reduction in the number of very small pots which are proportionately more expensive for providers to administer and therefore could help to keep charges lower and therefore improve outcomes for individuals. However, it also creates a potential “cliff edge”, where small increases in earnings (such as through a pay rise) could tip individuals over into making significant pension contributions, reducing their take home pay. Analysis suggests that this impact should be minimal.9

Impact on employers

2.18 The administrative and contribution cost savings with each alternative earnings threshold is presented in Table 2.2.

2.19 Reducing the number of individuals automatically enrolled as a result of increasing the automatic enrolment threshold leads to both administrative and contribution cost savings. Separating the earnings threshold from the lower earnings limit reduces the administrative costs associated with those individuals who repeatedly start and then stop making contributions because of fluctuating earnings.

2.20 The changes specified in the Pensions Bill result in an annual reduction in contribution costs of £30 million and ongoing administrative costs of £3 million.

Table 2.2: Impact on employers of different qualifying earnings

<table>
<thead>
<tr>
<th>Eligibility for Automatic Enrolment 2010/11 (2011/2012)</th>
<th>Employer savings</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contribution costs (m)</td>
<td>Administration costs (m)</td>
<td></td>
</tr>
<tr>
<td>Current target group</td>
<td>£3,510m</td>
<td>£458m year 1</td>
<td>£132m ongoing</td>
</tr>
<tr>
<td>NICs Primary Threshold</td>
<td>No change</td>
<td>No change</td>
<td></td>
</tr>
<tr>
<td>£7,336 (£7,475)</td>
<td>-£30m</td>
<td>-£5m in year one</td>
<td>-£3m in ongoing years</td>
</tr>
<tr>
<td>£10,000 (£10,190)</td>
<td>-£70m</td>
<td>-£9m in Year 1</td>
<td>-£6m in ongoing years</td>
</tr>
<tr>
<td>£14,000 (£14,266)</td>
<td>-£280m</td>
<td>-£18m in Year 1</td>
<td>-£13m in ongoing years</td>
</tr>
</tbody>
</table>

Source: Department for Work and Pensions modelling
Notes:
- Values are steady-state costs in 2011/12 earnings terms
- Contribution costs are rounded to the nearest £10 million, administrative costs are rounded to the nearest £1 million.

2.21 Table 2.3 shows that micro firms tend to benefit most from reduced administrative and contribution costs as they are more likely to employ low earners - around two thirds of individuals who work for micro firms earn less than £15,000, compared with around a third of individuals who work for employers with at least 20 workers. Annex B provides detail of the impacts of the reform for smaller employers.

Table 2.3: Impact on employers’ contribution costs by number of employees

<table>
<thead>
<tr>
<th></th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline</td>
<td>£420m</td>
<td>£1,120m</td>
<td>£650m</td>
<td>£1,310m</td>
</tr>
<tr>
<td>Earnings threshold</td>
<td>-£20m</td>
<td>-£10m</td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

Source: Department for Work and Pensions Modelling
Notes:
- Contribution costs are rounded to the nearest £10m, * indicates absolute values below £5 million
- Values are steady-state costs in 2011/12 earnings terms
- A micro employer is one with fewer than 5 employees, small with between 5 and 49 employees, medium with between 50 and 249 employees, and large with 250 employees or more.
**Impact on the pensions industry**

2.22 Separating the earnings threshold and the band on which contributions are paid will help reduce the number of small pots of pension savings which are disproportionately costly for the pensions industry to administer. In 2010/11 earnings terms, the smallest contribution going into a pension pot would be £130 per year with a threshold of £7,336, £343 at £10,000 and £663 at £14,000. However the size of the pension pot accumulated will also depend on the persistency of the individual’s saving.

2.23 The reduction in the number of savers in any given workplace pension scheme as a result of increasing the earnings threshold will reduce the total volume saved in that scheme and subsequently the total revenues generated from fund charges. However, on average, the impact of restricting the pool of eligible employees to those with higher salaries is sufficient to more than offset the impact of reducing the numbers sharing fixed costs: the average employer becomes ‘more profitable’ under higher earnings thresholds. This in turn increases the proportion of employers who can profitably be covered by the private pensions market.

2.24 This effect can be seen in Figure 2.1, which shows the proportion of employers that are ‘profitable’ to pension providers under a 0.5 per cent Annual Management Charge combined with a three per cent Contribution Charge for each of the options considered. Changing the earnings threshold to £7,336 in 2010/11 earnings terms (7,475 in 2011/12) increases the proportion of employers that are ‘profitable’ for all firm sizes, but has most impact on employers with 250 employees or more.

**Figure 2.1 Profitability of pension provision under different earnings thresholds (2010/11 earnings terms)**

Source: Department for Work and Pensions modelling

**Impact on the Exchequer**

2.25 The options to increase the earnings threshold have a minimal impact on savings for the Exchequer. This is because overall savings levels do not change significantly. Those who are enrolled still make contributions back to the lower earnings band (which hardly changes) and those who are no longer automatically enrolled would have been making small amounts of contributions in any case.
Waiting Periods

2.26 Under the existing arrangements in the Pensions Act 2008 employers are required to automatically enrol jobholders with effect from the automatic enrolment date. The only exception to this is where the employer offers a higher quality scheme (meeting certain requirements) and may therefore postpone automatic enrolment by three months.

Why consider change?

2.27 Many employers expressed concern that the existing policy could lead to costs associated with enrolling large numbers of employees working for short periods. A waiting period could alleviate this problem as well as easing the administrative burden by allowing employers more time to complete all the processes involved in automatic enrolment.

2.28 It may also increase the opportunity for the individuals to return the opt out form prior to deductions being taken from their salary, reducing the risk that refunds will have to be paid later.

Stakeholder views

2.29 Consumer groups were generally opposed to individuals having a waiting period before being automatically enrolled, as this could reduce the total amount of individuals saving, especially for those who have many jobs throughout their working life. They also argued that this change risked increasing the likelihood that individuals will opt out of pension saving.

2.30 Employer groups supported the introduction of waiting periods because they reduce the administrative cost and burden of enrolling people who are only with the employer for a short period of time and also allow probationary periods to pass before automatically enrolling individuals. They believe that waiting periods will: help employers to adjust to the additional cost of the duties; minimise the need for refunds; help reduce the risk of levelling down. It was also suggested that a waiting period could align with the Agency Workers Regulations 2010 and hence could ease agency burdens. Most stakeholders had a waiting period of at least 12 weeks in mind.

2.31 Many pension industry members and representatives supported waiting periods for similar reasons – partly to reduce the administrative costs associated with short-term workers and partly to reduce the need to administer small pots of pension saving.

Which options were considered?

2.32 The review team considered three options:

- Leave the policy as it is, with no waiting period;
- Introducing a waiting period of up to three months for all employees – suggested as an appropriate length by the majority of stakeholders who recommended a waiting period;
- Introducing a waiting period of up to six months for all employees.

Option chosen

2.33 A waiting period of up to three months was chosen to provide an easement to employers. The waiting period will replace the existing postponement option. In order to balance this easement against the risk to individuals’ savings, jobholders will have the opportunity to opt in to a qualifying scheme at any point during the waiting period.
**Impact on individuals**

2.34 An optional waiting period of up to three months will reduce the number of individuals who are automatically enrolled on any particular day by up to 0.5 million individuals. It will particularly affect young people, who are likely to move jobs relatively frequently.

<table>
<thead>
<tr>
<th>Waiting period</th>
<th>Individuals</th>
<th>Other characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 months (baseline)</td>
<td>10-11m</td>
<td>38%</td>
</tr>
<tr>
<td>3 months</td>
<td>-0.5m</td>
<td>37% (of 0.5m)</td>
</tr>
<tr>
<td>No change to existing target group</td>
<td>Tend to be younger. No particular effect on people with disabilities. Slight adverse effect on ethnic minorities (see Annex E). No disadvantage overall, as individuals retain right to opt in during the waiting period.</td>
<td></td>
</tr>
<tr>
<td>6 months</td>
<td>-0.9m</td>
<td>39% (of 0.9 m)</td>
</tr>
<tr>
<td>No change to existing target group</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


2.35 The impact of a waiting period of up to three months will depend on how many labour market interactions (the number of different employers an individual has) during their lifetime.

2.36 On average, our analysis suggests that individuals have 11 different labour market interactions during their lifetime. On that basis, a waiting period of up to three months could reduce an individual’s accumulated saving by up to three years, which is equivalent to a seven per cent reduction in pension funds (if all employers operate the maximum waiting period).

2.37 For some individuals, such as those who remain on short-term contracts throughout their lives, the impact could be more significant. For individuals with full working histories, around two per cent have 20 or more labour market transactions (which is an average job length of two years).

2.38 Mindful of this potentially significant impact on individuals, the review team recommended that this be mitigated by allowing individuals to opt in to pension saving during the waiting period. This will enable all individuals, including those who move jobs more frequently, to benefit from the same levels of pension saving as defined in the existing rules should they wish to do so.

2.39 It is possible that waiting periods will increase opt-out rates. Individuals subject to a waiting period will receive a ‘full’ wage for some period, and will therefore be more acutely aware of the cost of contributing to a pension when they are eventually enrolled. While the behavioural economic theory of ‘loss aversion’ suggests this may discourage some individuals from remaining in a pension scheme, behavioural economics also predicts that ‘inertia’ will prevent the majority from opting out. What little evidence there is on this comes from the US,

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10 In our analysis, a three month waiting period is assumed to be used by all employers, therefore our figures show the maximum effect
where schemes operating waiting periods of up to 12 months exhibit no adverse impact on participation.

**Impact on employers**

2.40 Employers will need to enrol fewer employees. It is estimated that of around two million enrolments per year in steady state, 190,000 enrolments are for employees who leave within three months.\(^\text{11}\)

2.41 Allowing employers to operate a waiting period of up to three months will therefore reduce the regulatory and administrative costs associated with having to enrol then un-enrol significant numbers of short-term workers.

2.42 The waiting period will lessen the regulatory and administrative burden for all employers, but particularly those with high staff turnover. The most significant benefit will be for employers in the construction, distribution, hotel and restaurant industries who employ a greater proportion of short-term workers. For example, six per cent of employees in the construction, distribution and hotel industries were with their current employer for less than three months compared to four per cent of employees overall\(^\text{12}\). Employment agencies will also benefit from a waiting period, as 11 per cent of their workers are employed for less than two months and a further 21 per cent temp for between two and six months\(^\text{13}\).

2.43 Table 2.1 shows that we can estimate the impact of a waiting period on the contribution and administrative costs that employers are likely to incur.

2.44 On contribution costs, we estimate that at any point in time, four per cent of the employed population have been employed for less than three months (with eight per cent of the employed population being employed for less than six months). This proportion is stable when measured across several time periods, meaning that even though individuals move in and out of work, the proportion of the employed population in work for less than three months remains at around four per cent. This forms the basis for the contribution costs modelling. As the waiting period will reduce the overall automatically enrolled population by four per cent, it follows that contributions will also fall by four per cent. Therefore, the contribution costs modelling works on the basis that the total number of individuals able to make contributions throughout the year is reduced, with a direct relationship between the fall in contributions and the fall in the number of individuals automatically enrolled.

2.45 On administrative costs, we estimate that, overall, employers will make ongoing annual savings of at least £3m with a three month waiting period (total administration costs are currently £132m) and an estimated £150m saving in contribution costs (total contribution costs are currently £3,510m)\(^\text{14}\). Table 2.5 sets out the impacts of this and the impacts of a waiting period of up to six months.

<table>
<thead>
<tr>
<th>Waiting period</th>
<th>Employer savings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contribution costs</td>
</tr>
<tr>
<td>0 months (baseline)</td>
<td>£3,510m</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>3 months</td>
<td>-£150m</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

\(^{11}\) Labour Force Survey 2007  
\(^{12}\) Labour Force Survey 2007  
\(^{13}\) REC: Key Recruitment Trends 2007  
6 months -£290m -£10m in year 1 -£6m in ongoing years

Notes:
• Values are steady-state costs in 2011/12 earnings terms
• Contribution costs are rounded to the nearest £10 million, administrative costs are rounded to the nearest £1 million.

2.46 Small and micro firms in particular will benefit from the waiting period because they have the highest levels of employee churn – 17 per cent of employees have less than one year’s tenure compared to 14 per cent across all firms\textsuperscript{15}. Annex B sets out the impacts for small employers in further detail.

Table 2.6 Impact on employers’ contribution costs by firm size

<table>
<thead>
<tr>
<th></th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline</td>
<td>£420m</td>
<td>£1,120m</td>
<td>£650m</td>
<td>£1,310m</td>
</tr>
<tr>
<td>Waiting period</td>
<td>-£20m</td>
<td>-£40m</td>
<td>-£20m</td>
<td>-£60m</td>
</tr>
</tbody>
</table>

Notes:
• Values are steady-state costs in 2011/12 earnings terms
• Contribution costs are rounded to the nearest £10m
• A micro employer is one with fewer than 5 employees, small with between 5 and 49 employees, medium with between 50 and 249 employees, and large with 250 employees or more.

2.47 Allowing employers the flexibility to select any automatic enrolment date within the three month waiting period also enables employers to align the automatic enrolment date with their existing payroll cycles. The overall administrative savings from this flexibility are relatively small since employers still have to meet the fixed costs associated with the duties, such as setting up a scheme.

Impacts on industry

2.48 The introduction of a waiting period effectively removes the highest ‘churn’ individuals (i.e. those who move jobs most frequently) from the ranks of new savers affected by automatic enrolment. That means that there are likely to be fewer small pension pots for the industry to administer, improved persistency of pension saving and also a reduction in the administrative costs associated with refunds where an individual opts out soon after being enrolled. That will reduce the costs providers incur, increasing profitability or leading to a reduction in charges for members. This reduction in charges could help to offset the overall reduction in pension saving that a waiting period may create for individuals, though we are not able to quantify this impact.

2.49 However, the waiting period also introduces a ‘cost’ to pension scheme providers, in that each stream of contributions becomes three or six months shorter. So an employee who remains with an employer for five years would end up making 57 monthly contributions with a three month waiting period (and 54 monthly contributions with a six month waiting period) to the pension scheme instead of 60.

2.50 Overall, the introduction of a waiting period has a significant effect on industry profitability, which is more pronounced for larger than smaller firms. The cost of extending the waiting period from three months to six months almost exactly outweighs the benefit of a longer waiting period; hence there is no difference in profitability between the two scenarios.

2.51 Our assessment of the impact on provider profitability is set out in Figure 2.2.

\textsuperscript{15} ibid.
Figure 2.2: Profitability of pension provision under different waiting periods

Impact on the Exchequer

2.52 There will be Exchequer savings because at any point in time there will be slightly fewer individuals saving. That saving is estimated to be £100 million with a three month waiting period and £190m with a six month waiting period. As in the contribution costs modelling, we assume that exchequer costs on tax relief are directly related to the number of individuals automatically enrolled, with a change in the number of these individuals leading to a similar change in Exchequer costs.

Flexibility around re-enrolment

2.53 Under the terms of the Pensions Act 2008 and associated regulations, employers will be required to re-enrol eligible jobholders who had previously opted out or cancelled their membership. Employers must re-enrol such jobholders back into a workplace pension arrangement every three years, with a month’s flexibility around the specific re-enrolment date. This provision reminds individuals to re-evaluate their circumstances and savings arrangements, and also prompts employers to ensure they continue to comply with the duties.

Why consider change?

2.54 To give employers greater freedom to undertake the re-enrolment process at a time that works for them.
Stakeholder views

2.55 Some employers have expressed concern that re-enrolment follows their initial staging date too precisely. That in turn creates a requirement for them to undertake activity at a time that may not be convenient for their business. They have suggested that employers should have more flexibility in choosing a re-enrolment date, provided it broadly comes three years after the staging date.

Which options were considered?

- Keep to the current system as prescribed: re-enrol eligible jobholders on the third anniversary of their staging date, and every three years thereafter, with a month’s flexibility around the specific re-enrolment date.
- Allow employers a window of three months either side of the anniversary of their staging date, in which to complete re-enrolment.

Option chosen

2.56 The review recommended that employers be given greater flexibility around the date of re-enrolment, to allow them to align the timing with business needs. The intention is therefore that employers be allowed a window of three months either side of the anniversary or their staging date, in which to complete re-enrolment.

2.57 The details of this timing will be set out in secondary legislation. The only change to primary legislation via the Pensions Bill will be to the stipulation that employers may not complete re-enrolment more often than every three years. This will be amended to state that re-enrolment may be no more frequent than once in every two years and nine months.

Impact on individuals

2.58 The first time someone is automatically enrolled should not be the only time a jobholder is encouraged to save for a pension. This underlying rationale for re-enrolment remains unchanged: individuals who opt out or cancel their membership will be nudged to start or resume saving. A timely reminder through re-enrolment when their financial circumstances may have changed could make all the difference to the standard of living a jobholder is eventually able to afford in retirement. This re-enrolment nudge will still happen, broadly as originally envisaged, around every three years from the employer’s staging date. It is unlikely that the change will have a significant impact on savings levels with three months gained (or lost) after a three-year hiatus.

Impact on employers

2.59 This is a matter of employer choice. If an employer wants to move the company’s re-enrolment exercise to better suit their business, the employer is best placed to make that decision. Whilst there should be an administrative easement from this flexibility, it is likely that the overall impact on administrative costs will be minimal. The employer is still required to undertake a re-enrolment exercise broadly every three years. The obligation to carry out the exercise and the automatic-re-enrolment processes themselves remain the same.

Impact on the pensions industry

2.60 An employer’s obligation to automatically re-enrol those workers who are not in a workplace pension remains, and the timetable is still, broadly, the same at every three years. It is therefore unlikely that the proposed change will have a significant impact on the pensions industry.

Impact on the Exchequer

2.61 As above, workers who are not in a workplace pension will continue to be re-enrolled, on average, every three years. The proposed change is thus unlikely to have a significant impact on overall exchequer costs.
A simple certification process

2.62 Under the Pensions Act 2008, employers will be required to pay contributions based on a band of qualifying earnings. It is the total earnings (including pay components such as overtime, bonuses, commission and shift allowances) that count in making this assessment.

Why consider change?

2.63 The definition of pensionable pay in the majority of existing money purchase schemes is not the same as qualifying earnings. Therefore it is difficult for employers to calculate whether their schemes meet the quality standard required for automatic enrolment.

2.64 A certification process allows an employer to ‘certify’ that overall their scheme satisfies the relevant quality criteria for money-purchase schemes. This avoids the need for a detailed calculation to demonstrate that contributions in respect of every individual in that scheme meet the minimum contribution requirement.

Stakeholder views

2.65 Employers have consistently said that, if they are required to make substantial changes to their systems, it may be simpler just to reduce their contribution rates to the statutory minimum.

2.66 Instead, they are keen to retain their existing schemes as these have been developed over time to reflect their business model and work force profile. Employers said they are keen to:

- do the right thing by their workers by complying with the legislation;
- continue to calculate their contributions on basic pay because large scale system changes are costly;
- have a simple process that does not require checking every single contribution record, as this can impose a huge administrative burden especially in the larger schemes; and
- have a process whereby, if changes in their pay structure mean that they become unable to re-certify, they are required to improve matters going forwards but are not required to make retrospective changes to pension contributions already made.

2.67 The pensions industry has consistently reinforced these arguments.

Which options were considered?

- Continuing with previous legislation by requiring employers to calculate their contributions using qualifying earnings or equivalent.

- Designing a simple model to allow employers with good money purchase schemes to certify that their pension arrangements meet the minimum requirements required by the Pensions Act 2008.

Option chosen

2.68 After collaborating closely with employers and other stakeholders, DWP has developed a simple certification process that balances the need for a straightforward process without diluting the core intent of the Act.

2.69 This proposal has been endorsed by the “Making Automatic Enrolment Work” review.

2.70 The certification process involves a simple three-stage test that allows employers to self-certify a scheme as qualifying if pensionable pay starts from the first pound of pay, and the scheme requires as a minimum for each member:
• a minimum nine per cent contribution of pensionable pay (including a minimum four per cent contribution from the employer);
• a minimum eight per cent contribution of pensionable pay (with a minimum three per cent contribution from the employer), providing that pensionable pay constitutes at least 85 per cent of total pay;
• a minimum seven per cent contribution of pensionable pay (with a minimum three per cent contribution from the employer) assuming that all pay is pensionable.

2.71 The detail of the simple certification process will be set out in secondary legislation. However, changes to the powers in primary legislation must be made via the Pensions Bill to deliver this easement for business.

**Impact on individuals**

2.72 Overall, individuals should benefit from this proposal because it will make it easier for employers to continue to provide current, often high quality, pension provision. There is a risk that some individuals could receive less than the minimum legislated for in the Pensions Act 2008. This risk is strongly mitigated by the minimum level of contributions required under the model. The model aims to strike the right balance between regulatory burden and protection for individuals. The potential for levelling down as a response to a more precise, but more onerous, certification model would introduce a more significant risk of detriment for individuals. The impact of the reforms on individuals will be monitored as part of the ongoing evaluation of the programme through implementation and beyond.

**Impact on employers**

2.73 This approach addresses the concerns of employers by allowing employers to continue to use basic pay to calculate pension contributions. The new model also recognises where an employer has an existing good quality scheme in place. Various certification models have been tested with employers and the version as set out above has their broad support. This easement will mean that these employers will not need to make expensive system changes, or unnecessarily overhaul their pension arrangements, to implement automatic enrolment.

**Impact on the pensions industry**

2.74 The simplified certification process is intended to minimise the burden associated with verifying that a workplace pension delivers at least equivalent benefits to those specified under automatic enrolment. The concern this addresses is that employers with “good” schemes would find it more economical to start a new scheme with potentially lower benefits than to go through complex validation processes with an existing scheme.

2.75 If employers replace an existing scheme with a new one, the pensions industry as a whole would essentially have borne the cost of setting up two schemes but would only accrue the benefits of revenues from one. We therefore expect the pensions industry to benefit from this proposal.

**Impact on the Exchequer**

2.76 The proposed change is unlikely to have a significant impact on overall Exchequer costs.

**Impacts of legislative corrections**

2.77 These are a series of minor changes to enhance existing legislation as set out in the Pensions Act 2008. The changes are intended to make minor corrections and amendments to the legislation as it is currently set out, and therefore there are no impacts to costs or benefits of the changes. The changes cover:
Transitional arrangements for defined benefit (DB) and hybrid schemes

2.78 Section 30 of the 2008 Pensions Act is intended to enable employers offering DB and hybrid schemes to delay automatic enrolment of relevant jobholders into such a scheme until the end of a transitional period, as long as certain conditions are met. This is intended to be a choice for the employer. However, as currently drafted in the Act the legislation makes it compulsory for employers to use these transitional arrangements if they meet certain conditions. Legislation will therefore be included in the Pensions Bill to amend S30 to restore the policy intent of making the use of DB and hybrid transitional arrangements optional.

2.79 Defined benefit (DB) and hybrid scheme test
A minor amendment will be made for consistency to ensure that the test scheme can be expressed as a lump-sum accrual. This will allow the test scheme to apply to certain types of hybrid schemes, in particular Cash Balance and Final Salary Lump schemes.

Continuity of scheme membership

2.80 Minor amendments will be made to the arrangements for continuity of scheme membership under the 2008 Pensions Act, to prescribe an employer duty to re-enrol a jobholder into a replacement qualifying scheme if the individual either loses active membership of their original scheme or the original scheme ceases to be a qualifying scheme. As drafted the re-enrolment duty is missing from the 2008 Pensions Act.

No indemnification for penalties and fines

2.81 A minor amendment will be made to ensure that trustees or managers of pension schemes cannot take money out of scheme funds to pay for any 2008 Pensions Act penalties and fines issued to them by TPR. It also prohibits trustees or managers from being reimbursed from the scheme for payment and this includes indemnity insurance.

Service rules

2.82 A minor amendment will set out the rules governing the service of compliance notices and documents sent by the Pensions Regulator. These will provide clarity and certainty on whether or not, when and how such notices and documents will be treated as having been delivered.
Annex A: Baseline figures for changes

A1. The following tables show the baseline costs and benefits of the reform under the current legislation, that is, earn more than £5,035 a year (in 2006/07 terms) and no waiting period. In later tables, the impacts of the waiting period and the change to the earnings threshold are separated out, so that the effects of each element of the reform can be identified. In all tables, costs are expressed in 2011/12 price terms.

A2. Presented here are average annual changes over 39 years, followed by the one off cost and then the change in 2012 (which, due to phasing and staging of the automatic enrolment policy, is small). Finally, changes every ten years are shown, with an increased effect in later years due to population and earnings growth. Aggregate private pension incomes in 2050 are currently estimated to increase by around £12 to 17 billion a year (in 2011/12 prices), or £6 to 8 billion a year in 2011/12 earnings terms.16

Tables in this section present net benefits: an additional cost is a negative number, an additional benefit is a positive number.

Reform baseline – income transfers

A3. Table A1.1 shows the impact of the changes as set out in the Pensions Bill on income transfers between different agents at specific points in time through to 2050.

Table A1.1: Estimated transfer costs and benefits arising from workplace pension reform measures (£ million)

<table>
<thead>
<tr>
<th></th>
<th>Annual average</th>
<th>One-off cost (present value)</th>
<th>2012</th>
<th>2020</th>
<th>2030</th>
<th>2040</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individuals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Contribution costs</td>
<td>-5,940</td>
<td>0</td>
<td>-20</td>
<td>-5,070</td>
<td>-6,180</td>
<td>-7,530</td>
<td>-9,180</td>
</tr>
<tr>
<td>b) Receipt of income related benefits</td>
<td>-340</td>
<td>0</td>
<td>0</td>
<td>-10</td>
<td>-250</td>
<td>-550</td>
<td>-960</td>
</tr>
<tr>
<td>c) Savings into private pension</td>
<td>12,200</td>
<td>0</td>
<td>50</td>
<td>10,380</td>
<td>12,650</td>
<td>15,430</td>
<td>18,810</td>
</tr>
<tr>
<td><strong>Net benefit</strong></td>
<td>5,920</td>
<td>0</td>
<td>30</td>
<td>5,300</td>
<td>6,230</td>
<td>7,350</td>
<td>8,660</td>
</tr>
</tbody>
</table>

16 These figures have been revised since the last Impact Assessment.
### Table A1.1 contd: Estimated transfer costs and benefits arising from workplace pension reform measures (£ million)

<table>
<thead>
<tr>
<th>Employers</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>d) Contribution costs</td>
<td>-4,570</td>
<td>0</td>
<td>-20</td>
<td>-3,870</td>
<td>-4,720</td>
<td>-5,750</td>
</tr>
<tr>
<td>Net benefit</td>
<td>-4,570</td>
<td>0</td>
<td>-20</td>
<td>-3,870</td>
<td>-4,720</td>
<td>-5,750</td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Contribution costs (tax relief)</td>
<td>-1,690</td>
<td>0</td>
<td>-10</td>
<td>-1,440</td>
<td>-1,760</td>
<td>-2,140</td>
</tr>
<tr>
<td>f) Income related benefit expenditure</td>
<td>340</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>250</td>
<td>550</td>
</tr>
<tr>
<td>Net benefit</td>
<td>-1,350</td>
<td>0</td>
<td>-10</td>
<td>-1,430</td>
<td>-1,510</td>
<td>-1,590</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Benefit</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Notes:**
- The annual average reduction in income-related benefit (IRB) expenditure is small because most of the reduction in IRB expenditure takes place at the end of the period up to 2050. When looking at the final ten years (2040 to 2050) the annual average reduction in IRB expenditure increases to £800 million per year (11/12 prices). The benefits of the reform will continue to accrue beyond this time as those automatically enrolled and newly saving throughout this period gradually reach retirement. This assumes that the benefit system will not change in any way. The housing benefit cap has not been included in this analysis and therefore the figures may be slightly over estimated; however the cap will affect only a minority of pensioners and therefore will not have a significant impact on the results.
- Costs and benefits are in 2011/12 price terms; present values are 2011/12-based.
- Figures are rounded to the nearest £10m.

### Reform baseline – resource costs/benefits

A4. The resource costs of auto-enrolment under the baseline are displayed in Table A1.2.

### Table A1.2: Estimated resource costs arising from workplace pension reform measures (£ million)

<table>
<thead>
<tr>
<th></th>
<th>Annual average</th>
<th>One-off cost (present value)</th>
<th>2012</th>
<th>2020</th>
<th>2030</th>
<th>2040</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>g) Employer administrative costs</td>
<td>-170</td>
<td>-170</td>
<td>-10</td>
<td>-150</td>
<td>-170</td>
<td>-210</td>
<td>-250</td>
</tr>
<tr>
<td>h) Cost of changing scheme rules</td>
<td>0</td>
<td>-70</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net Benefit</td>
<td>-170</td>
<td>-250</td>
<td>-10</td>
<td>-150</td>
<td>-170</td>
<td>-210</td>
<td>-250</td>
</tr>
</tbody>
</table>

**Notes:**
- Costs and benefits are in 2011/12 price terms; present values are 2011/12-based.
- Figures are rounded to the nearest £10m.
A5. Table A1.3 compares the contribution costs of the baseline, and each element of the review recommendation. Changes to the earnings threshold are separated out from the impact of introducing the waiting period, but the combined impact is also presented. Figures presented here represent an average over 39 years following the reform. Changes are presented both in terms of absolute cost, and a percentage change. Although the earnings threshold has a greater impact on volumes (see Table 1.6), its impact is concentrated at the lower end of the income distribution, so the effect on contributions is minor. However, the waiting period is expected to have an effect distributed fairly evenly across incomes, so the impact on contributions is greater. Aggregate private pension incomes in 2050 are currently estimated to be reduced from around £12 to £17 billion, to £10 to 16 billion (11/12 prices), or from £6 to 8 billion to £5 to 8 billion (11/12 earnings).

<table>
<thead>
<tr>
<th>Table A1.3: Estimated transfer costs and benefits arising from workplace pension reform measures, 39-year averages in 2011/12 price terms (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individuals</strong></td>
</tr>
<tr>
<td>a) Contribution costs</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>b) Receipt of income related benefits</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>c) Savings into private pension</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Net benefit</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Employers</strong></td>
</tr>
<tr>
<td>d) Contribution costs</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Net benefit</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Government</strong></td>
</tr>
<tr>
<td>e) Contribution costs (tax relief)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>f) Income related benefit expenditure</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Net benefit</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Net Benefit</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Note: Figures are rounded to the nearest £10m.

A6. The effects of the new earnings threshold and waiting period on resource costs when compared to the baseline are displayed in Table A1.4. The figures here represent a 39 year average, converted to 2011/12 price terms.
Table A1.4: Estimated resource costs arising from workplace pension reform measures, averages in 2011/12 price terms (£ million)

<table>
<thead>
<tr>
<th></th>
<th>Baseline</th>
<th>Earnings threshold</th>
<th>Waiting period</th>
<th>Both</th>
</tr>
</thead>
<tbody>
<tr>
<td>g) Employer admin. costs</td>
<td>-170</td>
<td>-170</td>
<td>10</td>
<td>-3%</td>
</tr>
<tr>
<td></td>
<td>-170</td>
<td>10</td>
<td>-3%</td>
<td>-170</td>
</tr>
<tr>
<td>h) Cost of changing scheme rules</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net Benefit</td>
<td>-170</td>
<td>-170</td>
<td>10</td>
<td>-3%</td>
</tr>
<tr>
<td></td>
<td>-170</td>
<td>10</td>
<td>-3%</td>
<td>-170</td>
</tr>
</tbody>
</table>

Note: Figures are rounded to the nearest £10m.

A7. In addition to the direct financial impacts of the introduction of auto-enrolment, we have also assessed the impacts to resource and social welfare of the amendments. These are displayed in Table A1.5.

Table A1.5: Estimated resource benefits arising from workplace pension reform measures (£ billion)

<table>
<thead>
<tr>
<th></th>
<th>Baseline</th>
<th>Earnings threshold and Waiting Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Welfare Benefits</td>
<td>40 – 60</td>
<td>40 – 60</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+1 to -2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>+2 to -4%</td>
</tr>
</tbody>
</table>

Note: Figures are rounded to the nearest £10 billion.

- The social welfare benefits should not be added to the other costs and benefits which are monetary values.
- Costs cover the UK.
- Present values are for the period 2012-2050, and are presented in 2011/12 prices.

A8. Impacts on the overall volumes eligible for automatic enrolment are shown in Table 1.6. Moving the earnings threshold to £7,475 has a slightly greater impact than introducing the waiting period, but both amendments combined will reduce volumes eligible for automatic enrolment by approximately 1m.
<table>
<thead>
<tr>
<th>a) Eligible for Automatic Enrolment</th>
<th>10m – 11m</th>
<th>9m – 10m</th>
<th>-0.6m (-6%)</th>
<th>9m – 10m</th>
<th>-0.5m (-4%)</th>
<th>9m – 10m</th>
<th>-1m (-10%)</th>
</tr>
</thead>
</table>

Note: Figures are rounded to the nearest million.
Annex B – Impact on small firms

What is a small firm?

B1. When referring to Small and Medium Sized Enterprises (SMEs) we refer to businesses with fewer than 250 employees. In our analysis we have broken down this definition further into:

- Micro firms are those who have between 1 and 4 workers;
- Small firms are those who have between 5 and 49 workers; and
- Medium firms are those who have between 50 and 249 workers.

Background

B2. Overall the majority of UK employers are small or micro, but employ a minority of the workforce: while micro employers represent 66 per cent of all employers, they employ only 12 per cent of the workforce. The majority (72 per cent) of workers are employed by firms with at least 20 employees. This means that strategies targeted at reducing burdens for micro employers would potentially have a more limited impact on workers.

B3. The duties set out in the 2008 Pensions Act will apply to all companies or individuals who employ one or more workers in Great Britain. Our previous Impact Assessment\(^\text{17}\) set out the full impacts of the reform legislation for small employers in detail.

B4. Complying with the reforms will entail new roles and processes for all employers, for example in carrying out automatic enrolment into a workplace pension and in registering with the Pensions Regulator. In addition, for many employers, and particularly small and micro employers, the process of providing a workplace pension in itself will be new. Employers with existing pension provision will have to go through new processes to ensure that their schemes comply with the requirements for scheme quality, and to take decisions regarding their contribution levels.

B5. Under these circumstances the review looked very carefully at the question of whether there was a case for excluding micro-employers from the scope of the policy (see Annex H). The review decided against this, but instead focussed on a suite of easements for employers, some of which would have larger benefits for smaller employers. This is because the characteristics of small and micro firms are very different to that of other employers, as explored in more detail below.

Characteristics of smaller employers

B6. A range of key characteristics of employers, broken down by employer size, is shown in Table B.1 below.

---

\(^{17}\) Workplace Pension Reform Regulations – Impact Assessment, Department for Work and Pensions, January 2010 – Annex A
Table B.1: Summary of key employer characteristics

<table>
<thead>
<tr>
<th>Employer size number of employees</th>
<th>1</th>
<th>2–4</th>
<th>5–9</th>
<th>10–19</th>
<th>20+</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers row percentages</td>
<td>16</td>
<td>50</td>
<td>18</td>
<td>9</td>
<td>6</td>
<td>100</td>
</tr>
<tr>
<td>Proportion of total UK workforce row percentages</td>
<td>2</td>
<td>10</td>
<td>8</td>
<td>8</td>
<td>72</td>
<td>100</td>
</tr>
</tbody>
</table>

Earnings of workers employed by firms within each size category column percentage

<table>
<thead>
<tr>
<th>Earnings category</th>
<th>£5,000 - £9,999</th>
<th>£10,000 - £14,999</th>
<th>£15,000 - £19,999</th>
<th>£20,000+</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;£5,000</td>
<td>13</td>
<td>28</td>
<td>15</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>£5,000 - £9,999</td>
<td>13</td>
<td>25</td>
<td>17</td>
<td>29</td>
<td>10</td>
</tr>
<tr>
<td>£10,000 - £14,999</td>
<td>17</td>
<td>19</td>
<td>18</td>
<td>37</td>
<td>24</td>
</tr>
<tr>
<td>£15,000 - £19,999</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>44</td>
<td>53</td>
</tr>
<tr>
<td>£20,000+</td>
<td>11</td>
<td>11</td>
<td>13</td>
<td>53</td>
<td>51</td>
</tr>
</tbody>
</table>

Proportion of workforce who are women percentage

| Proportion of workforce who are women | 44  | 48  | 46  | 44  | 50  | 50  |

Annual workforce churn percentage

| Annual workforce churn percentage | 17  | 12  | 14  |

Proportion of employers offering any pension provision percentage

| Proportion of employers offering any pension provision percentage | 8   | 5   | 24  | 33  | 52  | 15  |

Proportion of employers offering pension provision with a contribution percentage

| Proportion of employers offering pension provision with a contribution percentage | 8   | 3   | 20  | 24  | 44  | 12  |

Average proportion of employer’s workforce that are members overall (those with provision only) percentage

| Average proportion of employer’s workforce that are members overall (those with provision only) percentage | -   | 76  | 46  | 44  | 31  | 32  |

Average proportion of employer’s workforce that are members of a pension scheme AND receive employer contributions (those with provision only) percentage

| Average proportion of employer’s workforce that are members of a pension scheme AND receive employer contributions (those with provision only) percentage | -   | 53  | 41  | 36  | 29  | 30  |

Only including employers with at least one active member

Source: Small and Medium Enterprise Statistics, United Kingdom 2008, Department for Business, Innovation and Skills
Annual Survey of Hours and Earnings, Great Britain 2009, Office for National Statistics
Employers’ Pension Provision Survey, Great Britain 2009, Department for Work and Pensions

B7. This table shows that:

- Women are slightly more likely to work for smaller employers than larger employers.
- Smaller employers have a higher proportion of lower earners than their larger counterparts.
- Annual workforce churn is higher amongst smaller employers.
- Larger employers are much more likely to provide access to pension schemes, and to provide a contribution.
Research evidence on small employers

B8. DWP research with small firms in particular found that small employers had difficulty estimating the time and cost of the administrative processes that would be undertaken as a result of these reforms. 18 For many small firms, payroll and accounting systems are often outsourced and so it would be difficult to determine the exact cost of a system update to take account of adjustments.

Existing easements for employers

B9. There are a number of significant easements for employers within the current legislation:

- Whilst larger employers start to automatically enrol their workers from October 2012, micro employers aren’t required to automatically enrol their workers until at least August 2014 (though there is a small test group who will automatically enrol their workers in March 2014).

- The minimum contribution employers need to make increases gradually. So employers will be required to contribute one per cent until September 2016. They will then be required to contribute two per cent until September 2017. From October 2017 they will be required to contribute the full three per cent. That gives employers the time to adjust to the costs involved.

New easements

B10. There are also a number of new easements, recommended as part of the Making Automatic Enrolment Work review, and covered by this Impact assessment:

- Waiting periods. As we have already seen, smaller firms have higher staff turnover than larger firms, and so will benefit more than larger firms from a waiting period.

- Earnings thresholds. Since smaller employers tend to have a higher proportion of relatively low wage workers, they will benefit more from a higher earnings threshold than their larger counterparts.

- Flagging. Part of the rationale for the decision not to exclude small and micro firms was the conviction that NEST will provide a pension scheme that will be appropriate for most small employers and one which will be very easy for them to use. The review recommended that, in communicating with these employers, The Pensions Regulator should flag up in the clearest and strongest terms possible, that NEST has been designed to meet their needs. In addition there needs to be a well structured and concerted communications exercise to ensure that as many small employers as possible know and understand what is expected of them.

- Other easements. The review noted that, ideally, some way should also be found to assure smaller employers that they will not be held liable for their scheme choice should something subsequently go wrong. The Department for Work and Pensions will look into ways it can provide maximum possible comfort to employers in these circumstances, particularly if they opt for NEST or a stakeholder scheme to fulfil their new duties.

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Annex C: Competition impacts

C1. A full competition assessment of the impact of reforms on the pensions industry is set out in the previous impact assessment to the pension reforms. The introduction of automatic enrolment will create demand for workplace pensions where there was previously little, for example among smaller employers, but departmental analysis predicts a shortfall in supply in these same parts of the market. NEST has been designed to fill that gap, with minimal impact on other parts of the market. As such, practices like flagging that could otherwise be expected to place other pension providers at a competitive disadvantage to NEST should have minimal competition impacts. Nevertheless it is important to keep this under review: NEST is being introduced into a part of the pensions market where it faces no competition, but it is entirely possible that competitors may wish to enter the market in the future, at which point policies like flagging will need to be reviewed.

C2. Similarly, in stimulating demand for workplace pensions across the market, automatic enrolment affects all pension providers equally and so should increase the size of the market overall rather than distorting equilibria within it. Changes discussed in this Impact Assessment such as the introduction of waiting periods and increases to earnings thresholds will slightly reduce that demand. They will also remove some of the least profitable individuals from the reforms, slightly increasing profitability. Competition impacts of these changes, though, are negligible.

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19 Workplace Pension Reform Regulations – Impact Assessment, Department for Work and Pensions, January 2010
Annex D: Gender impact assessment

D1. As described in detail in the Workplace Pension Reform Regulations Impact Assessment[20], women’s pension provision is generally poorer than men’s. This is due to a number of reasons, including women receiving lower salaries compared with men, and lower levels of economic activity in women.

D2. These reforms will offer substantial opportunities for women to build up private pension savings in their own right. If women save earlier as a result of these reforms this will help to substantially increase their final pension entitlement at retirement.

D3. Under the new legislative changes set out in the Pensions Bill, Government estimates show that nine to ten million people will be eligible for automatic enrolment into a qualifying workplace pension scheme, of which three to four million are expected to be women.[21]

D4. It is expected that an increase to the earnings threshold will make women less likely to be part of the group that will be automatically enrolled. This is because women overall tend to earn less than men. Under the Pensions Act 2008, women comprised 40 per cent of the eligible group. As a result of raising the earnings threshold alone, women would comprise 38 per cent of those earning above the new earnings threshold of £7,475 (the 2011/12 PAYE threshold).[22] However, persistent low earners tend to find that the State, through pensions and benefits, provides them with a sufficiently high replacement rate without the need for additional saving. For these individuals, it may not be beneficial to redirect income during working life into pension saving. Furthermore, everyone who is not automatically enrolled because of the increase in the earnings threshold will retain the right to opt in, with an employer contribution, and employers will be required to provide information about this.

D5. It is anticipated that the introduction of a universal waiting period of up to three months will not particularly affect women. If all employers choose to operate a three month waiting period it is estimated that around two in five individuals affected will be women. Taking this recommendation alone, overall, 38 per cent of the eligible group are expected to be women, the same proportion as without any waiting period.[23]

D6. Taken as a whole, the new legislative changes set out in this Impact Assessment will mean that the proportion of women in the group eligible for automatic enrolment into a qualifying pension scheme will decrease from 38 per cent to 37 per cent.[24]

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[22] Annual Survey of Hours and Earnings, Great Britain 2009, Office for National Statistics
Annex E: Race impact assessment

E1. Minority ethnic groups are less likely to be saving for their retirement due to a combination of labour market patterns and the kinds of behavioural and informational barriers discussed in the Workplace Pension Reform Regulations Impact Assessment. Under the Pensions Act 2008, employees in these groups were affected proportionately more than all employees, as these groups are over-represented in the target group for automatic enrolment.

E2. Figure E.1 shows that employees from all ethnic groups are relatively equally represented in the group of moderate to low earners eligible for automatic enrolment. Under the introduction of an increased earnings threshold of £7,475 (the 2011/12 PAYE threshold), the composition of the eligible group remains at 12 per cent black and minority ethnic groups (BME).

Figure E.1 Distribution of eligible employees without a qualifying pension by earnings and ethnic group

<table>
<thead>
<tr>
<th>Row percentage</th>
<th>Individual gross earnings</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£5,824-£7,474</td>
<td>£7,475-£9,999</td>
<td>£10,000-£13,999</td>
<td>£14,000-£19,999</td>
<td>£20,000-£24,999</td>
<td>£25,000 and over</td>
</tr>
<tr>
<td>White</td>
<td>6</td>
<td>9</td>
<td>15</td>
<td>26</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>Mixed</td>
<td>5</td>
<td>9</td>
<td>14</td>
<td>26</td>
<td>18</td>
<td>28</td>
</tr>
<tr>
<td>Indian</td>
<td>6</td>
<td>6</td>
<td>17</td>
<td>24</td>
<td>17</td>
<td>30</td>
</tr>
<tr>
<td>Pakistani and Bangladeshi</td>
<td>9</td>
<td>12</td>
<td>25</td>
<td>25</td>
<td>11</td>
<td>18</td>
</tr>
<tr>
<td>Black or Black British</td>
<td>6</td>
<td>7</td>
<td>14</td>
<td>26</td>
<td>17</td>
<td>32</td>
</tr>
<tr>
<td>Other Ethnic Groups</td>
<td>6</td>
<td>8</td>
<td>18</td>
<td>21</td>
<td>14</td>
<td>33</td>
</tr>
<tr>
<td>All</td>
<td>6</td>
<td>9</td>
<td>16</td>
<td>26</td>
<td>16</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: UK Family Resources Survey, 2003/04, 2004/05, and 2005/06
Note. Analysis based on employees aged 22 to State Pension age, all pension provision is assumed to be qualifying

E3. Figure E.2 shows that all minority ethnic groups are more likely to be in their current employment for less than three months, than white individuals.

E4. While employees in work for less than three months will not now be automatically enrolled into pension saving, they will be permitted to opt in with an employer contribution and their employer will be required to provide information about this.

E5. The waiting period will mean that some jobholders who would have opted out of pension saving anyway will not be automatically enrolled, short term workers may be more likely to opt out. It also allows potential for a probationary period to pass before an employer enrols an individual. Furthermore, allowing a waiting period reduces the risk of levelling down by employers.

E6. Taken as a whole, the new legislative changes set out in this Impact Assessment are not expected to have a particular effect on BME groups.
Figure E.2 Proportion of eligible group in work for less than three months, by ethnicity

Annex F: Disability impact assessment

F.1 People with disabilities are a diverse group, comprising people with a wide range of impairments with differing severity. Although the different definitions of disability used in research makes consistent analysis difficult, it is generally the case that disabled people are significantly less likely to be in employment than those who are not disabled; 48 per cent of disabled people are in employment compared to 77 per cent of non-disabled people.

F.2 Disabled people tend to have been in work for more time than non-disabled people. Only seven per cent of those employed and classified as disabled under the Disability Discrimination Act (2005) have been in work for less than six months, compared with nine per cent of the non-disabled population. Therefore a waiting period would be unlikely to particularly affect disabled people.

F.3 Table F.1 shows that employees who are disabled are equally represented in the group of moderate to low earners eligible for automatic enrolment. Therefore, increasing the earnings threshold to £7,475 (the 2011/12 PAYE threshold) does not particularly affect disabled employees.

Figure F.1 Distribution of eligible employees without a qualifying pension by earnings and disability

<table>
<thead>
<tr>
<th>Individual gross earnings</th>
<th>Row percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disability status</td>
<td>£5,824-£7,474</td>
</tr>
<tr>
<td>Disabled</td>
<td>8</td>
</tr>
<tr>
<td>Not disabled</td>
<td>5</td>
</tr>
<tr>
<td>All</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: UK Family Resources Survey 2005/06
Note. Analysis based on employees aged 22 to State Pension age, all pension provision is assumed to be qualifying.

F.4 Taken as a whole, the new legislative changes set out in this Impact Assessment are not expected to have a particular effect on disabled people.

26 Labour Force Survey, Quarter 2, 2009
Annex G: People saving due to private pension reform - explanation of participation estimates

Background

G1. The Pensions Act 2008 encourages and enables more people to save towards their retirement. This Annex presents analysis on the impact of the amendments to this legislation encompassed in the Pensions Bill on the number of people saving in a workplace pension scheme.

G2. Under the new legislative changes set out in the Pensions Bill and analysed in this Impact Assessment, from 2012, workers between the age of 22 and State Pension Age, with annual earnings in at least one job of more than £7,475 (the 2011/12 PAYE threshold) will be eligible for automatic enrolment into a qualifying pension scheme, unless they are already participating in such a scheme. In addition, employers may also operate a waiting period of up to three months before automatically enrolling employees into a qualifying scheme, with jobholders having the option to opt in to a qualifying scheme at any point during that period. It will be for the employer to choose the qualifying scheme into which they enrol their jobholders. The new NEST scheme will be one option open to employers and aims to complement existing workplace pension provision.

G3. This Annex sets out our current assumptions about what participation in workplace pension schemes will be after the reforms, particularly focusing on how our analysis and assumptions have changed since the previous participation estimates Annex, published in January 2010. An Annex was previously published alongside the Impact Assessment for the Pensions Act 2008 explaining how our participation estimates had changed since the 2007 Impact Assessment.

G4. There is inherent uncertainty around these figures; it is uncertain how the pension and economic landscape may change in the years leading up to the reforms. Although the assumptions set out here are informed by a programme of research, employers and individuals may change their behaviour in response to the reforms. This is why the analysis presented here includes low, principal and high scenarios for all our trend and behavioural assumptions, and why figures are presented as broad ranges. The analysis presented here also assumes that all employers meet the requirements of the reforms, both to provide a workplace pension scheme, and automatically enrol their eligible employees into it. The analysis also assumes that all employers will operate the maximum three month waiting period for all employees.

G5. DWP will continue to monitor trends within the pension landscape and the economic context into which these reforms will be introduced, and so continue to improve their understanding of how the reforms will affect employers, individuals and the financial services industry.

Headline Figures

G6. Under the new legislative changes set out in the Pensions Bill, around nine to ten million people are expected to be eligible for automatic enrolment into a workplace pension scheme. After accounting for people who opt out it is anticipated this will result in:

- 5 to 8 million people newly saving or saving more in all forms of workplace pension scheme, of these 2 to 3 million will be women;
- around 3 million people newly saving or saving more in existing forms of workplace pension scheme; and

27 Available here: http://www.dwp.gov.uk/docs/wpr-ia.pdf
29 In practice employers will have flexibility of up to three months.
• 2 to 5 million people saving in the NEST scheme, of these 1 to 2 million will be women. This includes some who were previously saving in existing forms of workplace pension scheme, and some who opt in.

G7. Figure G.1 sets out the range the estimates take for the number of people eligible for automatic enrolment, and the increase in number of people who are expected to be participating in the NEST scheme or in other forms of workplace pension scheme after the reforms are introduced.
Figure G.1: Estimates of number of people newly saving or saving more after the introduction of the reforms

- Private sector employees
  - 19-20m

- Saving in a workplace pension scheme
  - 6m

- Not saving in a workplace pension scheme
  - 13-14m

- Not eligible for automatic enrolment
  - Around 0.5m

- Saving in a qualifying* scheme
  - 5m

- Saving in a non-qualifying* pension scheme
  - Less than 0.5m

- Eligible for automatic enrolment
  - 9-10m

- Not eligible for automatic enrolment
  - 4-5m

- Moved to NEST from another qualifying scheme
  - Around 0.5m

- Eligible for automatic enrolment
  - 9-10m

- Opt out
  - 2-4m

- Increased contributions into an existing scheme^ less than 0.5m

- Newly participating: in an existing scheme^ Around 3m

- Benifiting from higher contributions in NEST Less than 0.1m

- Newly participating: in NEST 2-4m

- Newly saving or saving more in existing forms of workplace pension scheme
  - Around 3m

- Newly saving or saving more in all forms of workplace pension schemes
  - 5-8m

- Total individuals participating in NEST
  - 2-5m

Source: DWP modelling
Notes: Ranges are rounded to the nearest million, and therefore may not sum.
* Taking an employer contribution of at least 3 per cent into a current workplace pension scheme as a proxy for a defined contribution scheme that is likely to qualify under the Pensions Act 2008. It is assumed that all defined benefit schemes qualify in this analysis.
^ This is an existing or newly set up workplace pension scheme, other than the NEST scheme.
Assumptions underpinning participation estimates

G8. Our post-reform participation estimates are modelled in four key steps. Firstly, modelling the current pension landscape in terms of employer provision of pension schemes and participation by employees. Second, this landscape is projected forward to when the reforms will be implemented. Third, using evidence from research with employers assumptions are made about whether employers will use the new NEST scheme, their existing schemes, or other provision to fulfil their duty to provide a qualifying pension scheme to their workers. Fourth, using evidence from research with eligible individuals assumptions are made about how many people will opt out of a scheme upon being automatically enrolled by their employer. This section gives further information about each of these steps.

Current pension landscape

G9. The estimate of the current pension landscape is derived from the Employers' Pension Provision (EPP) survey30, weighted to the Inter-Departmental Business Register (IDBR) statistics. This has changed since the last time participation estimates were published, so that the EPP data are now weighted to the IDBR rather than the Small and Medium Enterprise statistics as were previously used. Based on analysis of the 2007 EPP survey, it is estimated that in 2012, 13 per cent of employers will offer a pension scheme with an employer contribution of three per cent of pay. This means that around 87 per cent will not offer a qualifying31 pension scheme.

G10. New data from the 2009 Annual Survey of Hours and Earnings (ASHE) has also been incorporated, to identify the group of people who would be eligible for automatic enrolment based on the new eligibility criteria, as defined by the amendments to the Pensions Act 2008. This identifies those aged between 22 and State Pension age, who earn over the new earnings threshold of at least £7,475 (the 2011/12 PAYE threshold).

G11. It is impossible to predict which employers will operate a waiting period. Therefore, for the purposes of participation estimates it is assumed that all employers do so for the maximum period of three months. We estimate the size of the cohort of high churn workers who will be removed from the auto enrolment process using the 2007 Labour Force Survey. We identify employees who have been in their current employment for less than three months and reduce the eligible group by this proportion. As a result, it is estimated that 14 to 15 million employees will meet the eligibility criteria, and that around 5 million of these will be members of a qualifying pension scheme.

Projecting forward the 2007 landscape

G12. To understand the number of employers and employees that the pension reforms will affect when they are introduced, the 2007 pension landscape is projected forward to 2012. These estimates now take account of the impact on employment of the recent recession.

Employment and employer projections

G13. The analysis takes account of expected changes in the number of employers and the number of individuals in employment. Economic indicators have been used to develop assumptions about the number of employers in 2012, by firm size. It is anticipated that there will be around 1.3 million employers in 2012.

G14. Our projections of the overall population employed in the private sector are projected forward using Labour Market Statistics and the average of independent forecasts published by HM Treasury. The principal assumption is that employment will fall until 2012. We therefore estimate that there will be 19 to 20 million private sector employees in

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31 Taking an employer contribution of at least 3 per cent into a current workplace pension scheme as a proxy for a scheme that is likely to qualify under the Pensions Act 2008.
2012. It is further estimated that 14 to 15 million of these will be within the eligible group as defined by the amendments to the Pensions Act 2008.

Pension projections

G15. To project forward our 2007 estimates of the pension landscape it is assumed that trends in pension provision observed between 2003 and 2007 continue and that these trends are reflected in membership, with employers turning away from trust-based occupational schemes in favour of less expensive workplace personal pension schemes. This analysis estimates that around five million employees will be saving in a qualifying scheme when the reforms are implemented in 2012.

G16. Using these projections, the assumption here is that between nine and ten million workers will be eligible for automatic enrolment when the reforms are introduced. This compares with the previous estimate that between ten and eleven million workers would be eligible for automatic enrolment; the reduction in the eligible group being due to the effect of increasing the earnings threshold, and the introduction of a three month waiting period. These totals include around half a million people who are expected to be receiving an employer contribution of less than three per cent.

Employers’ choice of pension scheme

G17. Some firms who do not currently offer a qualifying pension scheme may be deemed unprofitable by pension providers, and will therefore have no choice over the pension scheme. Based on DWP modelling, two to three million employees are expected to be enrolled into NEST because their employer is deemed unprofitable by any other pension provider.

G18. For those employers who can choose what sort of scheme they use to fulfil their new duties, the current assumption uses results from NEST’s 2009 Employer Decision Making Survey (EDMS), and takes account of the impact that intermediary advice will have on employers’ decisions. It is estimated that around one million employers will use the NEST scheme for at least some of their employees. Analysis indicates that two to three million employees will be enrolled into NEST (by employers who are not deemed unprofitable), and nine to ten million employees will be enrolled into other qualifying schemes.

Opt-out by individuals

G19. Although all eligible employees will be automatically enrolled into a qualifying pension scheme, participation is not compulsory and employees will have the opportunity to opt out. To estimate the number of individuals who will opt out the analysis uses evidence from the DWP’s 2009 Individuals Attitudes Survey (IAS). Using the responses to this survey, and taking account of the age and earnings distribution of those in the group eligible for automatic enrolment, it is estimated that one to two million employees will opt out of NEST, and one to two million employees will opt out of other qualifying schemes. This leaves two to five million employees participating in NEST, and around eight million employees participating in other qualifying schemes.
Annex H: Options that were considered by the review but not recommended

Excluding micro employers

H1. The review team explored the option of excluding different sizes of employers (focusing mostly on micro employers with fewer than five employees) from the scope of the automatic enrolment reforms, considering the cost savings to employers against the lost benefits to employees.

H2. The rationale for excluding micro employers is primarily around the burdens faced by these firms in complying with the employer duties, since they have the least experience and confidence in setting up and running pension schemes. Further, the smallest employers employ a relatively small fraction of the workforce and thus their administrative costs generate proportionately less pension incomes.

H3. The review team was also particularly concerned about single-person employers, such as those individuals hiring nannies and carers, who may be poorly placed to comply with the reforms.

H4. On balance the review team decided against excluding any size of employer on the following grounds:

- Excluding micro employers would result in 1.5 million people being excluded from pension saving for no reason relating to the value to them of saving
- There would be significant equality impact, with 71 per cent of those excluded being men
- Including all employers ensures a level competitive playing field and guards against any disincentives for business growth that might arise from excluding particular sizes of employer
- Operationally it would be very difficult to implement a size cut-off, particularly in relation to circumstances where employers shrink in size from above the cut-off to below

Changes to the age thresholds for automatic enrolment

H5. The review considered whether to reduce the upper age limit for eligibility for automatic enrolment. Their chief concern was that older workers could end up saving for short periods for relatively little benefit, particularly during implementation whilst contributions are phased in.

H6. However, many older workers will still benefit from saving, including those with existing savings which will be topped up by automatic enrolment contributions. Even for those without prior pension savings, many will be able to trivially commute their pension pots at retirement and benefit from saving that way. Thus the review decided against changes to the upper age threshold for automatic enrolment. This was supported by employer and employee representative groups, who opposed any reduction in the upper age limit.

H7. The review also briefly considered whether to reduce the lower age limit for eligibility for automatic enrolment, in line with some stakeholder calls for alignment with the age limits for National Minimum Wage. The review concluded that the lower threshold is a balance between establishing patterns of saving earlier and avoiding automatically enrolling very young people with high labour market churn (e.g. those working in temporary jobs whilst in tertiary education), and that the current threshold of 22 strikes the right balance between these aims.
Flexibility around staging

H8. Responding to strongly-held views from employer representatives, the review team considered a number of ways to increase flexibility for employers around their staging dates, or to minimise competition impacts, including: total flexibility during implementation; allowing employers to select any day within a specified month; and staging agencies in together.

H9. The primary arguments against these approaches are operational, based on the capacity of TPR and NEST to process a certain volume of employers in any particular month. Total flexibility is likely to lead in practise to a ‘big bang’ approach or common commencement dates, with 1.3 million employers choosing to come under the duties on a handful of dates. Similarly, staging agencies together would involve 1.3 million individuals being automatically enrolled within a single month.

H10. The review concluded that the risks to successful implementation were too high to recommend either of these approaches. They felt that the option to allow a month’s staging window would be unnecessary in light of the flexibility provided by the proposed waiting period, to allow employers to select any date for automatic enrolment within a three month window.

Opt-out before auto enrolment

H11. Under the arrangements within the 2008 Pensions Act, individuals have a month in which to opt out of pension saving. Industry and employer representatives responding to the review consultation expressed concerns about the administrative burden imposed by processing opt-outs and refunds. The review team therefore considered allowing employees to opt out of pension saving prior to automatic enrolment – and thus avoid being automatically enrolled.

H12. This option would represent an administrative easement for employers, who would avoid some of the burden in enrolling and then un-enrolling eligible jobholders and processing refunds. Pension providers would also avoid some administration, since they would not have any dealings with individuals who opted out prior to auto enrolment.

H13. However, the review team decided against recommending this option because:

- Automatic enrolment is the cornerstone of the private pension reforms and to unpick this risks undermining the desired behavioural outcomes of automatic enrolment.

- It would require significant amendments to the 2008 Pensions Act, which would jeopardise the planned timing for implementation.

Calculating contributions from £1

H14. Under the 2008 Pensions Act, qualifying earnings are defined as a band of gross earnings between £5,035 and £33,540 (in 2006/07 terms) and include a number of variable pay items such as overtime, bonuses, commission and shift allowances. However, this will be an unfamiliar and potentially burdensome calculation for most employers, who typically base pension contributions on basic pay, calculated from the first pound of earnings.

H15. Based on concerns expressed by employer and industry representatives, the review therefore considered amending the Act to move away from the current definition of qualifying earnings and allow contributions to be calculated on basic pay and from the first pound of earnings. This would potentially reduce burdens on employers with existing pension arrangements, who would not have to change the way in which they calculate contributions.
H16. However, if contribution levels were kept at eight per cent, this would represent an increase in contributions (depending on the ratios of pensionable pay to total pay) that would be unaffordable for all parties:

- Individual contributions would increase by around £1.2 to £5.5 billion per annum. Where contributions increase, these are likely to be felt most keenly by lower earners, and the proposal would create a cliff-edge in contributions for those earning just above the eligibility threshold.

- Employer contributions would increase by around £940 million to £4.2 billion per annum, including an increase of £440 million per annum in costs to small and micro employers.

- Tax relief costs would increase by around £370 million to £1.6 billion per annum, with overall exchequer costs increasing by £610 million to £2 billion per annum.

H17. For this reason the review team decided not to recommend this option. They further felt that the simple certification would do much to provide an administrative easement to employers with existing pension arrangements.

Removing the NEST contribution cap

H18. The 2008 Pensions Act sets out that an order made under the Act must prescribe a maximum amount of contributions paid with respect to a member of NEST; presently this amount is set at an annual limit of £3,600 (in 2005/06 earnings terms).

H19. Following some calls from employer and consumer representatives, the review considered whether to increase or remove this cap. This would have the benefit of increasing flexibility and simplicity for employers and individuals, and would help to avoid a possibly misleading (if unintended) message that saving £3,600 per year is enough.

H20. However, the pensions industry remain concerned that removing the contribution cap would risk shifting the focus of NEST away from its target market of low to median earners who would otherwise struggle to find low cost pension provision.

H21. The review team have therefore recommended that the cap remain in place throughout implementation of the reforms, whilst NEST “beds in”, but that it should be removed in 2017.
Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?
The Bill makes a number of mainly minor amendments to legislation that governs the operation of the Pension Protection Fund (PPF) and the Pensions Regulator (tPR). The one substantive measure is the change of basis for indexation of pension compensation. The Government is intervening to amend legislation in the light of live running of PPF and tPR since these bodies commenced operations in April 2005, and to complement wider changes to indexation of pensions.

What are the policy objectives and the intended effects?
The objectives: (1) to change certain operational requirements on the PPF with the intention of learning from live running and improving the overall operational activities; (2) to change rules on pension compensation so that people may defer the date from which their compensation starts to be paid, and so that certain rights due as a result of a pension sharing arrangement following a divorce etc are revalued before compensation is paid; (3) to bring the indexation of pension compensation into line with the Government's wider changes to the indexation of pensions; (4) to ensure the time periods for representations relating to the Pensions Regulator's anti-avoidance measures work fairly for business in cases with inherent complexity, such as large multi-national or

What policy options have been considered? Please justify preferred option (further details in Evidence Base)
For all the amendments except the one to complement the change from RPI to CPI, the other option considered was to leave the legislation as now.
PPF measures: the preferred option was chosen as live running of the PPF since April 2005 has shown that the amendments would improve operational effectiveness and enhance the pension compensation paid.
Indexation of pension compensation: the other option was to continue to index pension compensation in line with RPI. The preferred option was chosen as to index pension compensation in line with RPI would, once the Government's other changes have been implemented, be inconsistent with the indexation of pensions.
Time periods relating to anti-avoidance measures: it was considered whether to extend the current

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?
It will be reviewed on an ongoing basis as part of the DWP's oversite of the PPF's and tPR's operations.

Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?
No
I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:................................................................. Date: 10 November 2010 ....
**Summary: Analysis and Evidence**

**Policy Option 1**

**Description:**
Changes relating to the Pension Protection Fund and the Pensions Regulator resulting from live running, and a change to the basis for indexation of pension compensation.

<table>
<thead>
<tr>
<th>Description:</th>
</tr>
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<tbody>
<tr>
<td>Changes relating to the Pension Protection Fund and the Pensions Regulator resulting from live running, and a change to the basis for indexation of pension compensation.</td>
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<th>Total Cost (Present Value)</th>
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<tr>
<td>Best Estimate</td>
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**Description and scale of key monetised costs by ‘main affected groups’**

CPI indexation change - PPF estimate a 4.8% reduction (NPV £500m) in current liabilities resulting from the change, based on an estimate of 0.5% for the RPI-CPI gap. The reduction in PPF liabilities represents a transfer of £500m NPV from current members of the PPF to employers sponsoring defined benefit pension schemes who fund the PPF through a compulsory levy. No financial costs resulting from the other pension protection measures.

**Other key non-monetised costs by ‘main affected groups’**

None

<table>
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<tr>
<th>BENEFITS (£m)</th>
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<tr>
<td>Best Estimate</td>
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<td>60</td>
<td>£0.5m</td>
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**Description and scale of key monetised benefits by ‘main affected groups’**

CPI indexation - the reduction in PPF liabilities represents a transfer of £500m NPV from current members of the PPF to employer sponsors; this will be factored into the PPF’s considerations on the rate of the Pension Protection Levy. Changes to PPF measures deliver relatively minor savings (less than £500,000 p.a) in administrative costs to schemes in an assessment period and the PPF. Changes relating to tPR will not affect the majority of businesses, but delivers non-quantifiable

**Other key non-monetised benefits by ‘main affected groups’**

None

**Key assumptions/sensitivities/risks**

<table>
<thead>
<tr>
<th>Discount rate</th>
<th>3.5%</th>
</tr>
</thead>
</table>

For the operational improvement measures, the changes to pension compensation and amendments and to the time periods relating to the anti-avoidance measures are based on live running of the PPF and tPR.
PENSIONS BILL 2011 – IMPACTS – ANNEX D: PENSION PROTECTION MEASURES

New AB: Nil  AB savings: 0.5m  Net: -0.5m  Policy cost savings: Nil  Yes

Enforcement, Implementation and Wider Impacts

| What is the geographic coverage of the policy/option? | Great Britain |
| From what date will the policy be implemented? | 01/04/2012 |
| Which organisation(s) will enforce the policy? | N/A |
| What is the annual change in enforcement cost (£m)? | N/A |
| Does enforcement comply with Hampton principles? | Yes |
| Does implementation go beyond minimum EU requirements? | N/A |
| What is the CO₂ equivalent change in greenhouse gas emissions? (Million tonnes CO₂ equivalent) | Traded: | Non-traded: |
| Does the proposal have an impact on competition? | No |
| What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable? | Costs: | Benefits: |
| Annual cost (£m) per organisation (excl. Transition) (Constant Price) | Micro | < 20 | Small | Medium | Large |
| Are any of these organisations exempt? | Yes/No | Yes/No | Yes/No | Yes/No | Yes/No |

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

<table>
<thead>
<tr>
<th>Does your policy option/proposal have an impact on…?</th>
<th>Impact</th>
<th>Page ref within IA</th>
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<tbody>
<tr>
<td>Statutory equality duties</td>
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<td>Statutory Equality Duties Impact Test guidance</td>
</tr>
<tr>
<td>Economic impacts</td>
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<td>Competition Assessment Impact Test guidance</td>
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<td>Environmental impacts</td>
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<td>Social impacts</td>
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<tr>
<td>Sustainable development</td>
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1 Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.
Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in References section.

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

<table>
<thead>
<tr>
<th>No.</th>
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<tr>
<td>1</td>
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<tr>
<td>2</td>
<td>The Pensions Act 2008</td>
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<td>3</td>
<td>The Pensions Schemes Act 1993</td>
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<tr>
<td>4</td>
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</table>

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages).

Complete the Annual profile of monetised costs and benefits (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

<table>
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</tbody>
</table>

* For non-monetised benefits please see summary pages and main evidence base section

NB: * The table relates to changes in pension liabilities as a result of the policy, the timing of the actual cash flows will differ from those shown here.
1. BACKGROUND: PENSION PROTECTION FUND AND PENSIONS REGULATOR

Pension Protection Measures for Pensions Bill
The Bill makes a number of changes to legislation that governs the operation of the Pension Protection Fund (PPF) created under Part 2 of the Pensions Act 2004 and the Pensions Regulator created under Part 1 of that Act.

The Pension Protection Fund
The PPF provides pension compensation to people who were members of eligible pension schemes where the amount of pension is usually based on a person’s salary at, or around, the date of retirement. Such schemes are usually referred to as “defined benefit schemes” or “final salary schemes”. Pension compensation is paid where the employer that sponsors an eligible defined benefit scheme has experienced a qualifying insolvency event and where there are insufficient assets in the scheme to pay pensions at the same level as the pension compensation. The PPF is managed by the Board of the Pension Protection Fund (the PPF Board), which is a statutory corporation.

The Pensions Regulator
The Pensions Regulator is the UK regulator of work-based pension schemes. It was established under the Pensions Act 2004 as an executive non-departmental public body and is accountable to the Secretary of State for Work and Pensions. The Regulator’s main statutory objectives under the 2004 Act are to:

- protect the benefits of members of work-based pensions schemes
- reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund (PPF)
- promote, and improve understanding of, good administration of work-based pension schemes

An additional objective, established under the Pensions Act 2008, is:

- to maximise employer compliance with the employer duties (including the requirement to automatically enrol eligible employees into a qualifying pension provision with a minimum contribution) and with certain employment safeguards
2. THE SPECIFIC LEGISLATIVE PROPOSALS


The Bill amends legislation around the PPF in the light of live running since April 2005.

The intention behind the changes is to:

- reduce unnecessary bureaucracy – four of the amendments remove requirements:
  - on when certain valuations must be carried out;
  - on the evidence a scheme must provide if it applies for reconsideration when it has not transferred into the PPF;
  - to make regulations on the form and content of certain determination notices made by the PPF Board; and
  - the minimum length of an assessment period;
- reduce the time and resources used on an activity by removing the requirement to take three statutory instruments through the affirmative procedures in Parliament;
- clarify how certain pension benefits flow through to pension compensation; and
- enhance the rules on pension compensation by allowing people defer the date from which their pension compensation starts to be paid and including revaluation in the calculation of pension compensation for certain pension credit members.

Savings

The I.A. shows that savings of about £500,000 per year will be achieved from the changes. This figure has been arrived at following feedback from the Pension Protection Fund. This figure is primarily made up of estimated savings of £15-20k per S143 test (the test that establishes whether a scheme's funding level means it is drawn into the PPF) for very poorly funded schemes/overfunded schemes. In addition, shortening the minimum assessment period would reduce the period over which fees are incurred, and the deferral measures would bring some savings.

Whilst there is no specific end-date for these savings which can be applied, it is not reasonable to suggest they will apply over extended time-frames. For example, savings on administration made due to changes in the 1980s are unlikely to influence the level of administrative expenditure today. So whilst it could be argued that the savings should be calculated over a different time period as the current choice is somewhat arbitrary, we believe 10 years is a reasonable period to examine and quantify the cost savings over.

On this basis the Net Present Value (NPV) of the £500,000 saving for 10 years is £4m (rounded to nearest million).
A. Scheme valuations completed before transfer into the PPF

**Background**

Section 143 of the Pensions Act 2004 requires a valuation of a scheme’s assets and protected liabilities to be carried out before the PPF Board may determine whether or not a scheme should transfer into the PPF. A scheme’s protected liabilities are basically the cost of providing benefits equivalent to pension compensation, any non-pension liabilities of the scheme and the estimated cost of winding up the scheme.

**Why consider change?**

The PPF Board has asked that the requirement to undertake a valuation in all cases is removed, as experience has shown that in a high proportion of cases it is clear from existing information – for example other valuations provided to the PPF in order for it to calculate a scheme’s pension protection levy - whether or not a scheme would transfer into the PPF.

**Options considered**

Other than to leave the legislation as now, no other options were considered.

**Chosen option**

The Bill removes the requirement in section 143 of the Pensions Act 2004 for a valuation of a pension scheme’s assets and protected liabilities to be carried out before the PPF Board may determine whether or not a scheme should transfer into the PPF.

The amendments provide the PPF Board with the power to determine in some cases that a valuation is not required because it can use other information it has (for example, a valuation undertaken for the purposes of calculating a scheme’s pension protection levy) in order to determine whether or not the scheme would transfer into the PPF. The amendments also add a requirement to Schedule 9 to the Pensions Act 2004 so that the new determinations made by the PPF Board are reviewable matters (decisions that the PPF Board is required to review if requested to do so by an interested party such as the trustees of a scheme).

Ministers chose this option because it would reduce unnecessary bureaucracy for the PPF Board.

**Impacts**

The change in legislation is not intended to change the outcome of an assessment period for schemes or members. The change is intended to reduce unnecessary bureaucracy and provide the PPF Board with the ability to provide for a faster flow of schemes through an assessment period. Which in turn would provide increased certainty and comfort for members (i.e. because the decision on whether to transfer a scheme into the PPF could be made earlier) and reduce costs. Whilst in assessment, schemes incur investment, advisory, administration and actuarial fees. Once schemes transfer to the PPF, many of these activities will entirely cease whilst others (e.g. administration and investment) can be carried out at a reduced rate, as they benefit from economies of scale.

The change contributes to some relatively minor savings – PPF estimate less than £500,000 a year in total from all the PPF technical measures – in administration costs for both schemes in an assessment period and the PPF.

B. Reconsideration of schemes that have not transferred into the PPF

**Background**

If a scheme does not transfer into the PPF the scheme’s trustees or managers may apply for reconsideration if they think that since the point at which a scheme’s assets and protected liabilities are valued (the start of the assessment period) the scheme has become further underfunded. Under section 151 of the Pensions Act 2004 the application must include a “protected benefits quotation”.

**Why consider change?**
The PPF Board has advised that many schemes especially small ones find it impossible to obtain a quote. The PPF Board has asked for the requirement for a “protected benefits quotation” to be removed.

**Options considered**

Other than to leave the legislation as now, no other options were considered.

**Chosen option**

The Bill removes the requirement in section 151 of the Pensions Act 2004 that an application for reconsideration must include a “protected benefits quotation”. The trustees or managers of a scheme that has not transferred into the PPF may apply for reconsideration by the PPF Board if they think that their scheme has become further underfunded.

The amendments provide the PPF Board with a power to determine whether or not a scheme should transfer into the PPF, after an application for reconsideration, using any information the PPF Board has available and any additional information it may request.

Ministers chose this option because it would reduce unnecessary bureaucracy for the PPF Board.

**Impacts**

The change is intended to reduce unnecessary bureaucracy as the inability to get a protected benefits quotation at all and/or in the prescribed format hinders the assessment and reconsideration process for schemes and therefore creates uncertainty, costs and administrative issues for the PPF Board, schemes and their members. The change in legislation is intended to remove those uncertainties, costs and administrative issues.

The change contributes to some relatively minor savings – PPF estimate less than £500,000 a year in total from all the PPF technical measures – in administration costs for both schemes in an assessment period and the PPF.

**C. The content of certain determination notices made by the PPF**

**Background**

Section 152 of the Pensions Act 2004 deals with reconsideration of schemes; it includes a requirement for regulations to be made to prescribe the form and content of notices to be provided by the PPF Board. To date regulations have not been made under the power.

**Why consider change?**

Regulations have not been made under section 152. The lack of Regulations has not, however, prevented the PPF Board from making the small number of determinations it has needed to.

**Options considered**

Other than to leave the legislation as now, no other options were considered.
Chosen option

The Bill removes the requirement in section 152 of the Pensions Act 2004 that notices about reconsideration issued by the PPF Board must be in a prescribed form and contain such information as may be prescribed. The amendments enable the PPF Board to issue a notice which is in a form and contains such information as may be decided by the PPF Board.

Ministers chose this option because it would reduce unnecessary bureaucracy for the PPF Board.

Impacts

The change is intended to reduce unnecessary bureaucracy. The change in legislation has no impact other than to remove an unnecessary regulation-making power.

D. The minimum length of a PPF assessment period

Background

Subsection 172(1) of the Pensions Act 2004 stipulates that an assessment period for the PPF must last for a minimum of 12 months. When a sponsoring employer experiences a qualifying insolvency an eligible scheme will go through an assessment period before the PPF Board decides whether or not the scheme will transfer into the PPF. We understand that the intention behind subsection 172(1) was to ensure that any applications for fraud compensation payments under Chapter 4 of Part 2 of the Pensions Act 2004 would have been made before a scheme transferred into the PPF.

Why consider change?

The PPF Board has asked for the period to be removed so that smaller less complicated cases could transfer into the PPF more quickly. There are few instances of fraud and to hold up the transfer of all schemes appears to be unreasonable. If a fraud were to be discovered after a scheme has transferred into the PPF the PPF Board has the power to transfer funds from the Fraud Compensation Fund into the PPF.

Options considered

Other than to leave the legislation as now, no other options were considered.

Chosen option

The Bill removes the requirement in section 172 of the Pensions Act 2004 that an assessment period for the PPF must last for a minimum of 12 months.

Ministers chose this option because it would reduce unnecessary bureaucracy for the PPF Board.

Impacts

The change is intended to reduce unnecessary bureaucracy and as with the change to section 143 of the Pensions Act 2004, this change is intended to provide the PPF Board with the ability to provide for a faster flow of schemes through an assessment period.

The change contributes to some relatively minor savings – PPF estimate less than £500,000 a year in total from all the PPF technical measures – in administration costs for both schemes in an assessment period and the PPF.
E. Statutory instruments on the PPF administration levy, the pension protection levy ceiling and the pension compensation cap

Background
Section 316 of the Pensions Act 2004 requires certain statutory instruments to go through the affirmative procedures in Parliament. The statutory instruments affected are: (a) regulations on the PPF administration levy, which is collected on behalf of the Secretary of State to recoup any money paid by the Secretary of State out of money provided by Parliament to meet the administrative expenses of the PPF Board (section 117 of the Pensions Act 2004); (b) orders to increase annually the levy ceiling that limits the amount that the PPF Board may estimate it will collect through the pension protection levy (section 178 of the Pensions Act 2004); and (c) orders to increase annually the pension compensation cap that is applied to compensation paid to people who are below their scheme’s normal pension age at the start of an assessment period (paragraph 27 of Schedule 7 to the Pensions Act 2004). The levy ceiling and the pension compensation cap are increased annually in line with increases in the general level of earnings. The Secretary of State may make an order to increase the levy ceiling above the annual increase in line with increases in the general level of earnings.

Why consider change?
The PPF administration levy is similar in nature to the general levy made under the Pensions Schemes Act 1993, which goes through the negative resolution procedures. The primary legislation on the pension protection levy ceiling and the pension compensation cap sets out how both should be uprated each year and the affirmative debates in Parliament cannot change the figures in the orders.

Options considered
Other than to leave the legislation as now, no other options were considered.

Chosen option
The Bill removes the requirements in section 316 of the Pensions Act 2004 that the statutory instruments listed above must not be made unless a draft of the instrument has been laid before Parliament and approved by a resolution of each House of Parliament. The amendment does not change the requirement that an order to increase the levy ceiling above the annual increase in line with increases in the general level of earnings must not be made unless a draft of the instrument has been laid before Parliament and approved by a resolution of each House of Parliament.

Ministers chose this option because it would reduce the time and resources used on routine activities.

Impacts
The change in legislation is intended to reduce the time and resources expended by officials and Ministers to routinely uprate the PPF administration levy, the levy ceiling and the pension compensation cap.

F. Pension compensation – admissible rules

Background
Schedule 7 to the Pensions Act 2004 provides the rules on pension compensation. Paragraph 35 stipulates what “admissible rules” are considered when calculating pension compensation. Paragraph 35 stipulates that certain changes made to scheme rules or discretionary increases in the three-year period before the start of an assessment period are disregarded.

Why consider change?
PENSIONS BILL 2011 – IMPACTS – ANNEX D: PENSION PROTECTION MEASURES

The PPF Board has alerted us to a concern that if an employer has powers to augment scheme benefits those changes would not be captured. This provides the potential for abuse – i.e. someone could augment scheme benefits for individuals or groups of people shortly before an insolvency event with the result that pension compensation would be paid at a higher rate. In addition, paragraph 35 is ambiguous because it does not make it clear that it applies to changes made to scheme rules or discretionary increases or a combination of the two.

Options considered

Other than to leave the legislation as now, no other options were considered.

Chosen option

The Bill amend paragraph 35 of Schedule 7 to the Pensions Act 2004 to clarify that the “admissible rules” that are considered when calculating pension compensation do not include rule changes, discretionary increases, augmentations or any combination of the three made in the three-year period before the start of an assessment period.

Ministers chose this option to clarify how certain pension benefits flow through to pension compensation.

Impacts

The change in legislation is intended to clarify how certain pension benefits flow through to pension compensation and to lessen the potential for abuse by the augmentation of scheme benefits for individuals or groups of people shortly before an insolvency event with the result that pension compensation would be paid at a higher rate. Any increase in pension compensation has the potential to flow through to an increase in the pension protection levy paid by schemes.

G. Pension compensation - deferral past normal pension age

Background

Schedule 8 to the Pensions Act 2008 amends Schedule 7 to the Pensions Act 2004 to allow pension compensation to be deferred past normal pension age (NPA). The amendments in the Pensions Act 2008 were made following a request from the PPF Board. The intention behind the proposal was that people who have different tranches of pension compensation due at different NPA’s would be able to defer payment so that all tranches could come into payment at the same time. That would reduce an administrative burden – the PPF currently has to administer each tranche of pension compensation separately.

Why consider change?

The provisions in the Pensions Act 2008 do not work as intended. For example – the way and the in which revaluation is applied (revaluation is the process by which the annual value of compensation is increased in line with the increases in prices to the date when a person not in receipt of compensation reaches NPA). The amendments in Schedule 8 to the Pensions Act 2008 have not been commenced.

Options considered

Other than to leave the legislation as now, no other options were considered.

Chosen option

The Bill amends the rules on pension compensation in Schedule 7 to the Pensions Act 2004 so that people may defer payment of their pension compensation past their normal pension age (NPA) – and, if they do so: (a) the pension compensation cap would apply at the time the person first becomes entitled to pension compensation (their NPA); (b) revaluation only applies until a member’s NPA; and an actuarial increase is paid to take account of lost indexation (the process by which pension compensation in payment is increased each year in line with prices) and the fact that the compensation has not been paid for a period of time. Where there is entitlement to a survivor’s benefit, survivors would receive half of any pension compensation that has been deferred including any actuarial increase.
Ministers chose this option to enhance the rules on pension compensation.

**Impacts**

The change in legislation is intended to enhance the rules on pension compensation by allowing people defer the date from which their pension compensation starts to be paid. This would provide people with the flexibility to take small tranches of pension compensation, which in some circumstances can become payable at different dates, all together.

The change contributes to some relatively minor savings – PPF estimate less than £500,000 a year in total from all the PPF technical measures – in administration costs for both schemes in an assessment period and the PPF.

**H. Pension compensation – revaluation of pension credit members**

**Background**

Schedule 8 to the Pensions Act 2008 amends Schedule 7 to the Pensions Act 2004 to allow pension compensation paid to pension credit members (PCMs) to be revalued. The intention was that pension compensation would be revalued only where revaluation applied in the PCMs scheme.

**Why consider change?**

The provisions in Schedule 8 to the Pensions Act 2008 do not work as intended as they allow revaluation even where none was provided by a PCMs scheme. The legislation has not been commenced.

**Options considered**

Other than to leave the legislation as now, no other options were considered.

**Chosen option**

The Bill amends the rules on pension compensation in Schedule 7 to the Pensions Act 2004 to allow pension compensation paid to pension credit members to be revalued if their scheme provided for revaluation.

Ministers chose this option to enhance the rules on pension compensation.

**Impacts**

The change in legislation is intended to enhance the rules on pension compensation by including revaluation in the calculation of pension compensation for certain pension credit members.

**Costs and benefits for all of the PPF measures**

None of the amendments impose a cost on business. Amendments A, B, D and G would, however, result in some relatively minor savings – PPF estimate less than £500,000 a year - in administration costs for both schemes in an assessment period and the PPF.

**Implementation**

The intention is that changes A, B, D, G and H above would be implemented as soon as possible after the Bill is enacted and any secondary legislation is brought into force. Changes C and E do not require implementation.
Background

The Bill makes a change to the legislation that governs the indexation of pension compensation paid by the Pension Protection Fund (PPF).

Pension compensation has some of its value protected against price inflation through a legal requirement to provide annual increases - “indexation”. Currently, this indexation is linked in statute to the retail prices index (RPI).

The Government announced on 8 July 2010 that it proposed to move to a different inflation measure - the consumer prices index (CPI) – as the basis for the indexation of pension compensation made by the PPF. This decision is part of a wider decision to use CPI as the Government’s general measure of inflation for social security benefits, Financial Assistance Scheme payments, State pensions, public sector pensions, statutory minimum revaluation of private sector pensions and pension compensation, which will all switch from RPI to CPI.

Although the Government’s intention is to use the CPI for increasing pension compensation, it does not want to be tied to using CPI by the legislation. The Government wants to be able to choose the best way to measure inflation and it might be that, in the future, CPI is no longer considered to be the best way to measure inflation. For example, the way CPI is determined may change, new measures of inflation may be introduced or the economy may change.

In order to provide this flexibility and avoid a proliferation of legislation should a change be required in the future, the Bill amends legislation to allow the Secretary of State (SoS) to choose the measure of inflation he or she thinks is appropriate. However, as the amended legislation will not set out a specific inflation measure for readers, the Bill requires the SoS to publish how the general level of prices has been determined – for example by reference to the CPI.

Why make the change

The Government believes that CPI is an appropriate measure of price changes. The CPI measure:

- provides consistency with the measure used as the Bank of England’s inflationary target;
- is a better reflection of actual inflation experiences because its methodology takes account of substitution behaviour;
- is the headline and most high profile measure of inflation; and
- excludes mortgage interest payments, which are not relevant to most benefit and pension recipients (a sharp drop in mortgage interest in 2009 was the chief cause of a fall in RPI, in turn causing many pensions to be frozen)

Which options were considered?

The Government believes that it would be inappropriate to use a different measure for the PPF - which is a protection scheme - than for the legislation governing pension schemes themselves.

Stakeholder views

Initial feedback suggests the following positions of key stakeholders:

- Members of affected schemes and their representatives oppose the change to CPI as it will lead to lower payments in the future
- Trade Unions. Opposed.
- Pensions Professionals. Neutral.
- Also, the Board of the Pension Protection Fund is neutral - the change is a matter of Government policy.
Impacts

Individuals

The PPF estimate a 4.8% reduction (NPV £500m) in current liabilities resulting from the proposal, based on an estimate of 0.5% for the RPI-CPI gap. This includes revaluation and indexation. The Bill only covers the indexation change for pension compensation. Changes in respect of revaluation are being taken forward by Regulations.

The £500m figure relates to all changed future cash-flows. Due to the features of PPF compensation such as recognising divorce, dependents and inheritance rules the changes to future cash-flows will last for many years in the future – potentially in excess of 100 years. However, the vast majority of the changed cash-flows will occur over the next 60 years. As such, whilst the £500m is calculated across all cash-flows, the impact is shown as applying over 60 years, as saying the changes lasted over 100 years would be misleading given only a very small number of individuals would be affected over such a time period.

Pension Schemes

The reduction in PPF liabilities represents a transfer of £500m NPV from current members of the PPF to employers sponsoring Defined Benefit Pension Schemes who fund the PPF through a compulsory levy. Once again, the transition period during which the vast majority of the cash flows are changed is expected to be approximately 60 years.

The PPF's Annual Report and accounts published in October 2010 note that the capital impact of the change would, at the best estimate, reduce its future liabilities by approximately £500m. These accounts were audited by the National Audit Office. As mentioned previously, this figure is based on an assumption of a 0.5% difference between CPI and RPI.

Business

For regulatory purposes it is helpful to convert the overall NPV of £504m to an annual equivalent and so it is useful to note that a figure of £44m for the next 20 years would have the same net present value as the benefit to scheme sponsors from these reforms. Twenty years is chosen as this is the duration over which the PPF has an ambition to become self-sustaining. Therefore the saving to firms from this reform has the same monetised value as annual savings of £44m over a period of 20 years. We consider £44m to be the value of the annual equivalent saving to business and is therefore appropriate to be scored as an "OUT". It should be noted however that this figure does not relate to the cash flows of firms or the pensions of PPF members and is provided purely and solely for One-in, One-out purposes.

The PPF

Implementation costs are not expected to be significant.

Implementation

It is hoped that the changes made by the Bill will take effect on 1 January 2012.

Amendments to time periods relating to the Pensions Regulator’s anti-avoidance powers in the Pensions Act 2004

Background

The Bill amends legislation around tPR in the light of live running since April 2005. The policy intention behind the changes is to ensure that the time periods relating to the Regulator’s anti-avoidance powers operate fairly for business particularly in cases with inherent complexity, such as large multi-national and multi-employer groups.

The Pensions Act 2004 gave the Regulator powers to address the risk of “moral hazard” or avoidance activity. This is the deliberate manipulation of the affairs of an employer responsible for sponsoring a defined benefit scheme in an attempt to walk away from their pension.
obligations or to off-load them onto the PPF. The Regulator has two main anti-avoidance powers:

- A contribution notice (CN) permits the Regulator to require a cash payment to the pension scheme up to the value of the section 75 debt under the Pensions Act 1995 (the section 75 debt established the sponsor employer’s debt to the scheme). There are certain grounds for the use of this power, this includes where an act or failure one of the main purposes of which is to avoid the employer’s section 75 debt to the scheme (actual or contingent). In order to impose liability on any person to pay the sum specified in a contribution notice, the Regulator must be of the opinion that it is reasonable to impose such liability on that person.

- A financial support direction (FSD) allows the Regulator to direct that that arrangements are put in place by the employer or a connected or associated person to ensure that financial support is put in place for the pension liabilities of the sponsoring employer. Financial support may include parental guarantees, joint and several liability or such other arrangements as are proposed by the recipient of the FSD (“the target”) and are approved by the Regulator. In order for an FSD to be issued, the sponsoring employer company must be either a “service company”, or be “insufficiently resourced”, as defined by section 44 of the Act. In the event of non compliance with an FSD, the Regulator is empowered by section 47 to issue a contribution notice to any person where it is of the opinion that it is reasonable to impose liability on that person to pay the sum specified in the notice having regard to a number of specified factors.

Why consider change?

The Regulator has found that in practice it can take many months from the time it begins to investigate a case to the time it has sufficient evidence to issue a CN or an FSD warning notice, and then there could be further months before the Determinations Panel could issue the decision (the determination notice). In complex cases, very often involving multi-national companies, the time required by the legislation for the whole process means that there can be a compressed timeframe within the FSD 2-year period (6 years for CNs) for the affected company to prepare its response to a warning notice of intended proceedings. The intervention is needed to ensure an adequate and appropriate time period for companies to make representations.

Stakeholder views

The current arrangement has led to criticism from directly affected parties, usually business and advisers, who have complained of having too little time for representations and if the proposed change is not introduced, there could be a significant risk that some directly affected parties could be placed at a disadvantage in having only a short time in which to make representations.

Which options were considered?

While it would be possible to again extend the prescribed period within Regulations, it would not entirely address the root cause of the problem, that is, ensuring there is a longer period of time, where appropriate, for recipients of a notice to prepare meaningful representations for the Determination Panel’s hearing.

Option chosen

It is proposed to amend the primary legislation so that the end point of the prescribed period is the issuing of the warning notice instead of a determination notice. This should provide for a sufficiently long period between the warning notice and the issuing of the determination notice to enable targets and other directly affected parties to have sufficient time to make representations in response to the warning notice, after which the Determinations Panel will have to decide whether it is justifiable to issue a determination notice.
It is also proposed that section 43 should then include a negative resolution regulation-making power to set out the maximum period between the issue of the warning notice and the issue of a determination notice by the Determinations Panel.

Impacts

The overwhelming majority of pension schemes and employers/businesses will not be affected by this proposals and the change would not therefore represent a burden on employers, business or the Regulator. Those very few employers, who are the subject of a Regulator warning notice, may well find their costs reduced as advisers and lawyers will have more time to prepare cases but it is not possible to quantify. It will not affect individuals, the pensions industry or the exchequer.

Costs and benefits

There are no financial costs resulting from this proposal, and the benefits are that the change will give companies adequate time to prepare within the fixed statutory time-scales.

Implementation

The intention is that this change can be effected in line with any “common” date specified for Pensions Bill measures.

SPECIFIC ITEMS CHECKLIST FOR ALL PENSION PROTECTION MEASURES

Equality and Fairness

Women may be impacted more by changes to indexation as they currently live longer than men, although the gap between male and female life expectancy is narrowing.

It is not believed that there will be an impact on the equality strands as a result of the proposed amendments.

Human Rights

There should not be any effects on human rights as a result of the proposed amendments

Small Firms Impact Test

The proposals will not have a negative effect on small firms. In general the effect on businesses should be neutral.

Competition Assessment

The provision of a defined benefit occupational pension scheme is currently voluntary. The impact of these changes on businesses will be very slight and there should therefore be no impact on competitiveness.

Legal Aid

There will no impact on Legal Aid.

Sustainable Development, Carbon Assessment, Other Environment

There will be any impacts on these areas. The initial tests have been looked at and do not apply.
Health Impact Assessment
No health impact issues were identified by the initial assessment.

Enforcement and Sanctions
The proposals would not involve any changes to enforcement and sanctions.

Rural Proofing
No impact on rural communities was identified by the initial rural proofing assessment.

GUIDANCE

There is discretion for departments and regulators as to how to set out the evidence base. However, it is desirable that the following points are covered:

- Problem under consideration;
- Rationale for intervention;
- Policy objective;
- Description of options considered (including do nothing);
- Costs and benefits of each option;
- Risks and assumptions;
- Administrative burden and policy savings calculations;
- Wider impacts;
- Summary and preferred option with description of implementation plan.

*Inserting text for this section:*
Select the notes here and either type section text, or use Paste Without Format toolbar button to paste in the standard EBBodyPara Style. Format text by applying EB styles from the toolbar.
Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<table>
<thead>
<tr>
<th>Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]</td>
</tr>
<tr>
<td>Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]</td>
</tr>
<tr>
<td>Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]</td>
</tr>
<tr>
<td>Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]</td>
</tr>
<tr>
<td>Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]</td>
</tr>
<tr>
<td>Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]</td>
</tr>
</tbody>
</table>

A formal PIR is not planned as the Department for Work and Pensions has continuous policy and stewardship oversight of the Pension Protection Fund and the Pensions Regulator.
Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?
The problem under consideration is how to ensure a fairer distribution of costs between taxpayers and judges, specifically in terms of contributions by the judiciary towards their own pensions. The Government is committed to reform the provision of public service pensions (including judicial pensions) to ensure that they are affordable and that there is a fair distribution of costs between taxpayers and members of such schemes. Government intervention is necessary because judicial pension schemes are constituted in accordance with primary legislation and any change regarding how they are paid for would have to be dealt with via primary legislation.

What are the policy objectives and the intended effects?
These clauses introduce a provision into judicial pension schemes (JPS) to allow, by 1 April 2012 pension contributions to be taken from judges towards the cost of providing personal pension benefits under such schemes. Contributions will only be taken during the period in which the individual judge accrues full pension benefits. This is part of a coherent policy of reducing the cost of public service pensions generally.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)
- Option 0: Leave judicial pensions unchanged. Judges will continue to accrue pension benefits without having to make any personal contributions.
- Option 1: Introduce personal contributions for members of the JPS. The introduction of the contributions will be staggered over a period of three years, so that from year three members will pay the full personal contribution. This is the preferred option because it will allow the implementation of the Government policy that members’ pension contributions should be increased for public service pension schemes and therefore lower the cost to the taxpayer of providing judicial pensions.

When will the policy be reviewed to establish the actual cost and benefits and the achievements of the policy objectives?
Reviewed in 2015.

Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?
Yes.

SELECT SIGNATORY Sign-off For consultation stage Impact Assessments:
I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: ........................................ Date: ......................................
### Policy Option 1

<table>
<thead>
<tr>
<th>Price Base Year</th>
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<th>Time Period Years</th>
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#### COSTS (£m)

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<th>Total Cost (Present Value)</th>
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<tr>
<td>Best Estimate</td>
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</tr>
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</table>

**Description and scale of key monetised costs by ‘main affected groups’**

None

**Other key non-monetised costs by ‘main affected groups’**

- Salaried judiciary will pay contributions towards their pension. Figures for some scenarios for illustrative purposes are contained in the evidence base. For example a contribution rate of 3.6% would be associated with around £10m of total contributions being made by around 2,000 salaried judges.
- Ministry of Justice (MoJ) – Administrative costs associated with implementing the changes including ongoing costs from collecting contributions.

#### BENEFITS (£m)

<table>
<thead>
<tr>
<th></th>
<th>Total Transition (Constant Price)</th>
<th>Average Annual (excl. Transition) (Constant Price)</th>
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</tr>
<tr>
<td>Best Estimate</td>
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<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**Description and scale of key monetised benefits by ‘main affected groups’**

None

**Other key non-monetised benefits by ‘main affected groups’**

- Taxpayers will contribute less, mirroring the cost of increased contributions to the salaried judiciary.
- Increased fairness is associated with reducing the taxpayer subsidy required to provide judicial pensions.

### Key assumptions/sensitivities/risks

**Key assumptions are:**

- that this measure will result in no behavioural response by the judiciary (e.g. no negative impacts on judicial recruitment, retention or performance).

**Key Risks are:**

- that the actual impacts of this measure are as yet unknown, as are the cumulative effects of existing and future policy decisions about judges’ pay and pensions - such as the current pay freeze for judges.
- that the assumed behavioural response might not apply and the measure may lead to negative impacts on judicial recruitment, retention and performance.

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<table>
<thead>
<tr>
<th>Impact on admin burden (£m):</th>
<th>Impact on policy costs (£m):</th>
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<tr>
<td>Costs:</td>
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<td>Net:</td>
</tr>
<tr>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
**What is the geographic coverage of the policy/option?**
United Kingdom

**From what date will the policy be implemented?**
01/04/2012

**Which organisation(s) will enforce the policy?**
MoJ

**What is the total annual cost (£m) of enforcement for these organisations?**
N/A

**Does enforcement comply with Hampton principles?**
N/A

**Does implementation go beyond minimum EU requirements?**
N/A

**What is the CO₂ equivalent change in greenhouse gas emissions?**
(Million tonnes CO₂ equivalent)

<table>
<thead>
<tr>
<th>Traded:</th>
<th>Non-traded:</th>
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</thead>
<tbody>
<tr>
<td>N/A</td>
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</table>

**Does the proposal have an impact on competition?**
No

**Annual cost (£m) per organisation (excl. Transition) (Constant Price)**

<table>
<thead>
<tr>
<th>Micro</th>
<th>&lt; 20</th>
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<th>Large</th>
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<td>N/Q</td>
<td>N/A</td>
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</tr>
</tbody>
</table>

**Are any of these organisations exempt?**
N/A

---

**Specific Impact Tests: Checklist**

Set out in the table below where information on any specific impact tests undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, click on the link for the guidance provided by the relevant department. (Double-click to open links in browser.)

<table>
<thead>
<tr>
<th>Statutory equality duties?</th>
<th>Impact</th>
<th>Page ref within IA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women Equality Unit: Gender Impact Assessment (PDF)</td>
<td>Yes</td>
<td>Annex A</td>
</tr>
<tr>
<td>Disability Rights Commission: Disability Equality Scheme</td>
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<td></td>
</tr>
</tbody>
</table>

**Economic impacts**

- Competition? [Competition Impact Assessment](#)
- No

- Small firms? [Small Firms Impact Test](#)
- No

**Environmental impacts**

- No

- Wider environmental issues? Guidance has been created on the Defra site
- No

**Social impacts**

- Health and well-being? [Health: Health Impact Assessment](#)
- No

- No

- No

- Rural proofing? [Commission for Rural Communities](#)
- No

**Sustainability?**

- Defra: Think sustainable
- No

---

1. Race, disability and gender impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2010, once the Equalities Bill comes into force.
Evidence Base (for summary sheets) – Notes

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains a saving emissions table that you will need to fill in if your measure has an impact on Carbon emissions.

### Annual profile of monetised costs and benefits* - (£m) constant prices

<table>
<thead>
<tr>
<th></th>
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<th>Y_1</th>
<th>Y_2</th>
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<tr>
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<td>N/Q</td>
<td>N/Q</td>
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<tr>
<td>Annual recurring cost</td>
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<td>N/Q</td>
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<tr>
<td>Transition benefits</td>
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<td>N/Q</td>
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<td>Annual recurring benefits</td>
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<tr>
<td>Total annual benefits</td>
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<td>N/Q</td>
<td>N/Q</td>
<td>N/Q</td>
</tr>
</tbody>
</table>

* For non-monetised benefits please see summary pages and main evidence base section

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### References

- **No.** Legislation or publication
  - 1 [IPSPC interim report](http://www.hm-treasury.gov.uk/d/hutton_pensionsinterim_071010.pdf)

+ Add another row
Evidence Base (for summary sheets)

1. Introduction

1. The Government is committed to reviewing the funding of public service pensions (which includes the provision of judicial pensions), and established the Independent Public Service Pension Commission (IPSPC). The IPSPC’s interim report published on 7 October 2010 recommends that the most effective way to make short-term savings on public sector pensions is to increase member contributions. This impacts on the Judicial Pension Schemes (JPS).

2. The proposed legislative clauses introduce a provision into the JPS to allow pension contributions to be taken from judges towards the cost of providing personal pension benefits. The JPS are unfunded schemes and members do not currently pay contributions towards their own pension benefits. However, they do pay contributions towards the provision of a contingent pension for a surviving spouse, civil partner, or dependant children, known as widows/ers pension scheme or WPS.

3. In relation to the WPS, for those in schemes under the Judicial Pensions Act 1981 the contribution rate is either 2.4% (although this now applies to very few judges) or 1.8% of gross salary depending on the particular scheme. Again in relation to the WPS, for those in the scheme under the Judicial Pensions and Retirement Act 1993 scheme the contribution rate is 1.8% of pension capped salary.

Main affected parties

4. This measure will affect salaried judges, of which there are around 2,200. Of these around 200 are estimated to have already accrued a full pension and they would not be making contributions. There will be a transitional administrative impact on MoJ and MoJ will have an ongoing responsibility in relation to collecting pension contributions and dealing with associated queries.

Rationale for intervention

5. The conventional economic approach to Government intervention to resolve a problem is based on efficiency or equity arguments. The Government may consider intervening if there are strong enough failures in the way markets operate (e.g. monopolies overcharging consumers) or if there are strong enough failures in existing Government interventions (e.g. waste generated by misdirected rules.) In both cases the proposed new intervention itself should avoid creating a further set of disproportionate costs and distortions. The Government may also intervene for equity (fairness) and redistributional reasons (e.g. to reallocate goods and services to the more needy groups in society. There is a clear rationale for increasing member contributions on equity grounds to ensure a fairer distribution of costs if the judicial pension schemes are to be fair to taxpayers and judges, and affordable to the tax payer.

6. In this instance the proposals are founded on distributional and equity reasons. In particular the Government considers that it is fair for judges to contribute to their pensions and for the taxpayer contribution to reduce. In effect this would redistribute wealth from the judiciary to taxpayers.

2. Cost and Benefits

7. This Impact Assessment identifies both monetised and non-monetised impacts on individuals, groups and businesses in the UK, with the aim of understanding what the overall impact to society might be from implementing these options. The costs and benefits of option 1 are compared to the do nothing option. Impact Assessments place a strong emphasis on valuing the costs and benefits in monetary terms (including estimating the value of goods and services that are not traded). However there are important aspects that cannot sensibly be monetised. These might include how the proposal impacts differently on particular groups of society or changes in equity and fairness, either positive or negative.
Base Case / Option 0

Do Nothing:

8. Choosing this option means the costs of Judicial Pension Schemes (JPS) would fall exclusively on the tax payer. Under the ‘do nothing’ option the costs of JPS are likely to rise in future, implying an increasing taxpayer contribution over time.

9. Under the ‘do nothing’ option the WPS would continue to be funded as now, as described earlier.

10. Under the ‘do nothing’ option the employer’s contribution (ASLC) would remain. Currently this is 32.15% of gross salary.

11. As the JPS are unfunded, they have no assets. The schemes’ liabilities are currently around £2.4bn.

12. Because the do-nothing option is compared against itself its costs and benefits are necessarily zero, as is its Net Present Value.

Option 1

13. Under this option salaried judiciary begin, upon appointment, to pay contributions towards their own pensions (as they do now towards the provision of a contingent pension for a surviving spouse, civil partner, or dependant children). Judges cannot opt not to contribute. The additional contributions will be introduced progressively over three years so the full additional contribution level will not apply until the third year. As a purely illustrative example, for a contribution of 3.6%, the contribution could be 40% of this in the first year (1.44%), 80% in the second year (2.88%) and 100% from the third year (3.6%).

14. The driver for this option is to allow the implementation of the Government policy that members' pension contributions should increase for public service pension schemes and, therefore, lower the cost to the taxpayer.

15. The IPSPC’s interim report of 7 October concludes that there is a clear rationale for public servants to make a greater contribution towards their pension costs if their pensions are to remain fair to taxpayers and employees, and affordable for the tax payer. The report recommends that the most effective way to make short-term savings on the cost of public service pensions is to increase member contributions, with it being for the Government to decide the manner and level of any increase. The Government accepts the conclusions of the interim report. JPS are within the scope of the report. We are, therefore, seeking to take contributions from members of JPS from April 2012. Contributions will only be taken during the period in which the individual judge accrues full pension benefits (15 or 20 years depending upon the applicable scheme) and in accordance with regulations. However, if the judge retires, resigns or is removed from office during such period contributions will stop being taken and pension benefits will stop accruing from the date they leave office.

16. Under Option 1 there would be no change to the contribution rates to the WPS and no change to the employer’s contribution (ASLC).

Costs of Option 1

Transition costs

17. We estimate there will be minimal administrative costs to MoJ in introducing the change because the work will be absorbed by the existing judicial pensions team.

Ongoing costs

18. Judges will have to make personal contributions towards their pension. It is not possible to monetise the cost of these contributions, as the level of the contributions has not yet been decided. However, for illustrative purposes, we have looked at three different scenarios for the contribution rates, namely 3.6%, 5.4% and 7.2%. The scenarios have been costed using 2010/11 salaries and on the basis of

\[\text{The Net Present Value (NPV) shows the total net value of a project over a specific time period. The value of the costs and benefits in an NPV are adjusted to account for inflation and the fact that we generally value benefits that are provided now more than we value the same benefits provided in the future}\]
all salaried judiciary (approximately 2,200) paying the new contributions. In reality we estimate this will not be the case, for example because some judges will already have accrued a full pension and so will not contribute. We expect that around 2,000 of the, approximately, 2,200 salaried judiciary will make contributions.

<table>
<thead>
<tr>
<th>Table 1: Annual cost of pension contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1</td>
</tr>
<tr>
<td>3.60%</td>
</tr>
<tr>
<td>E&amp;W</td>
</tr>
<tr>
<td>Scot</td>
</tr>
<tr>
<td>NI</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

19. In addition there may be additional ongoing costs from collecting contributions and from dealing with any related queries.

**Benefits of Option 1**

**Ongoing benefits**

20. The benefits to taxpayers will mirror the cost of contributions to the salaried judiciary. In addition, introducing personal contributions will reduce the taxpayer subsidy required to provide judicial pensions. If the Government believes it is fairer for those who benefit from the JPS to contribute towards its cost, then the policy generates ‘economic welfare’ improvements by making the system fairer.

21. There might be benefits in terms of fairness and wealth distribution as the requirement for judges to make personal contributions makes the pensions system fairer and less reliant on taxpayer funding.

**Net Impact of Option 1**

22. The salaried judiciary would be worse off as they would be required to make personal contributions towards their pension. Taxpayers would benefit, as the cost of the JPS would reduce. There would also be some administrative costs associated with the collecting the personal contributions. It is considered that the changes in financial transfers would be associated with increased equity and fairness and with distributional benefits.

**Key Assumptions**

23. We assume the courts system will not be adversely affected by this measure and the level of customer service will remain the same.

24. We assume judicial recruitment, retention and performance will be unaffected by the measure.

25. The illustrative figures for the estimated cost of contributions provided for the three scenarios are based on the current (2010/11) paybill, so assumes that the number of judges will remain stable.

26. We assume no changes to contributions to the WPS, and no change to employer contributions.

27. We assume that 200 of the 2,200 salaried judges would not make contributions.

**Key Risks**

28. Judges are drawn from a unique group of professionals who may, in general, be regarded as being very well paid. The judicial pension is valued by judges and potential judges as a vital part of the judicial remuneration package. The Judiciary maintains that any serious threat to the value of the pension could lead to legal action, resignations, retirements, and difficulties in recruiting.

29. The independence of the judiciary is at the heart of the United Kingdom’s constitutional arrangements. There are a number of ways in which this independence is maintained including through salary protection for judicial office holders (this protection is statutory for most courts-based salaried judiciary), meaning that judges’ pay cannot be reduced. This protection of judges'
pay is seen as integral to judicial independence by a number of international agreements and recommendations (UN, CoE, Commonwealth) - with the caveat that it can be reduced if the reduction is not specifically aimed at judges. Judges may argue that the introduction of a need for them to pay pension contributions amounts to a salary reduction. However, any action taken along these lines for them would be in line with that taken for the public sector more widely, except for the armed forces.

3. Specific Impact Tests

Equalities Impact Assessment (EIA)

30. See Annex A.

Human Rights

31. This policy is compliant with the Human Rights Act.

Justice Impact Test

32. The justice impacts flowing from this proposal have been examined in the main evidence base.

Competition Assessment

33. Following preliminary consideration of this impact test, it is not considered that this policy would have any effects on competition.

Small Firms Impact Test

34. Following preliminary consideration of this impact test, it is not considered that this policy would have any effects on small firms.

Carbon Assessment

35. Following preliminary consideration of this impact test, it is not considered that this policy would have any effects on carbon emissions.

Other Environment

36. Following preliminary consideration of this impact test, it is not considered that this policy would have any effects on carbon emissions.

Health Impact Assessment

37. Following preliminary consideration of this impact test, it is not considered that this policy would have any effects on human health.

Rural proofing

38. Following preliminary consideration of this impact test, it is not considered that this policy would have any disproportionately rural impacts.

Sustainable Development

39. Following preliminary consideration of this impact test, it is not considered that this policy would have any effects on sustainable development.
# Annex 1: Post Implementation Review (PIR) Plan

**Basis of the review:** [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];

Reviewing the impact of the policy change of increasing the costs to judges of their pension scheme.

**Review objective:** [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]

To ensure recruitment, retention and performance are not negatively impacted on by the measure.

**Review approach and rationale:** [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]

We will consider the evidence from a range of data, including that on recruitment and retention. This will help to show if there have been any tangible negative effects flowing from the measure.

**Baseline:** [The current (baseline) position against which the change introduced by the legislation can be measured]

Continuation of current situation - members’ pension contributions cannot currently be taken from salaried judges.

**Success criteria:** [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]

The policy will have been successful if leads to a fairer distribution of JPS costs between taxpayers and members and has no negative impact on services.

**Monitoring information arrangements:** [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review]

We will monitor the evidence from a range of data, including that on recruitment and retention, and will monitor the level of income generated from JPS members’ pension contributions..

**Reasons for not planning a PIR:** [If there is no plan to do a PIR please provide reasons here]

N/A
Equality Impact Assessment Initial Screening - Relevance to Equality Duties

Before you complete an Equality Impact Assessment you must read the guidance notes and unless you have a comprehensive knowledge of the equality legislation and duties, it is strongly recommended that you attend an EIA training course.

The EIA should be used to identify likely impacts on:
- disability
- race
- sex
- gender reassignment
- age
- religion or belief
- sexual orientation
- pregnancy and maternity
- caring responsibilities (usually only for HR polices and change management processes such as back offices)

1. Name of the proposed new or changed legislation, policy, strategy, project or service being assessed.

   Pension and Savings Bill: judicial pension scheme provisions

2. Individual Officer(s) & unit responsible for completing the Equality Impact Assessment.

   Duncan Rutty, Judicial Pay and Pensions, MoJ, ’phone 020 3334 3492, email duncan.rutty@justice.gsi.gov.uk

3. What is the main aim or purpose of the proposed new or changed legislation, policy, strategy, project or service and what are the intended outcomes?

<table>
<thead>
<tr>
<th>Aims/objectives</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>To introduce provisions into the judicial pension scheme (JPS) to allow pension contributions to be taken from judges towards the cost of providing personal pension benefits. The JPS is an unfunded scheme and members do not pay contributions towards their own pension benefits. There is a clear rationale for increasing member contributions to ensure a fairer distribution of costs between taxpayers and members.</td>
<td>Judges will pay pension contributions leading to a fairer distribution of costs between taxpayers and members, and the JPS remaining affordable for the tax payer</td>
</tr>
</tbody>
</table>
4. What existing sources of information will you use to help you identify the likely equality on different groups of people?

(For example statistics, survey results, complaints analysis, consultation documents, customer feedback, existing briefings, submissions or business reports, comparative policies from external sources and other Government Departments).

Statistics held by MoJ

5. Are there gaps in information that make it difficult or impossible to form an opinion on how your proposals might affect different groups of people. If so what are the gaps in the information and how and when do you plan to collect additional information?

Note this information will help you to identify potential equality stakeholders and specific issues that affect them - essential information if you are planning to consult as you can raise specific issues with particular groups as part of the consultation process. EIAs often pause at this stage while additional information is obtained.

No

6. Having analysed the initial and additional sources of information including feedback from consultation, is there any evidence that the proposed changes will have a positive impact on any of these different groups of people and/or promote equality of opportunity?

Please provide details of who benefits from the positive impacts and the evidence and analysis used to identify them.

No. There are currently around 2,200 salaried judges, all of whom would be affected by the measure until they have either accrued full pension benefits or have retired or resigned as a judge before accruing full pension benefits.

7. Is there any feedback or evidence that additional work could be done to promote equality of opportunity?

If the answer is yes, please provide details of whether or not you plan to undertake this work. If not, please say why.

No. The measure would impact on all members of the JPS until they have either accrued full pension benefits or have retired or resigned as a judge before accruing full pension benefits.
8. Is there any evidence that proposed changes will have an adverse equality impact on any of these different groups of people?

Please provide details of who the proposals affect, what the adverse impacts are and the evidence and analysis used to identify them.

No. The proposed change affects all salaried judges. All salaried judges become members of the JPS on appointment and are treated equally according to Scheme rules.

The Government is seeking to reduce the cost of public sector pensions as part of its drive to reduce the fiscal deficit. Savings on pension costs will make an important contribution to overall Spending Review economies and to deficit reduction.

Lord Hutton of Furness was commissioned by the Chancellor at the June 2010 Budget to carry out a review of public service pensions, and the Independent Public Service Pensions Commission (IPSPC), headed by Lord Hutton, was subsequently set up. The IPSPC’s interim report of 7 October, concludes that there is a clear rationale for public servants to make a greater contribution towards their pension costs if their pensions are to remain fair to taxpayers and employees, and affordable for the country. The report recommends that the most effective way to make short-term savings on the cost of public service pensions is to increase member contributions, with it being for the Government to decide the manner and level of any increase. The Government accepts the conclusions of the interim report. JPS are within the scope of the report. We are, therefore, seeking to take contributions from members of the JPS who have not accrued a full pension under the scheme concerned.

The legitimate aim of this policy is to reduce the cost to the taxpayer of providing judicial pensions as an important element of overall Spending Review economies and deficit reduction.

There are currently 2,234 salaried judiciary, 458 women and 1776 men. These figures may be broken down further as follows:

AGE AS AT 16/12/10

<table>
<thead>
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<th>Women</th>
<th>70's 2</th>
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<tbody>
<tr>
<td>60's 99</td>
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<tr>
<td>50's 270</td>
<td></td>
</tr>
<tr>
<td>40's 85</td>
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<tr>
<td>30's 2</td>
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</table>

<table>
<thead>
<tr>
<th>Male</th>
<th>70's 35</th>
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<tbody>
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<td>60's 907</td>
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<tr>
<td>50's 710</td>
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<tr>
<td>40's 121</td>
<td></td>
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<tr>
<td>30's 3</td>
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</table>

Our records show that the percentage of BAME judges is 2.8%. This figure does not include all judges, primarily because diversity data for tribunals judges is currently being updated. However, we would not expect a dramatic change to the figures once the full data is available.

The figures giving the age and gender split show that there are more male judges overall, with a more equal split of women and men among younger judges, who may be expected to pay any additional pension contributions for longer. However, these figures would not alter our aim that this measure is proportionate in pursuit of a legitimate aim.

9. Is there any evidence that the proposed changes have no equality impacts?

Please provide details of the evidence and analysis used to reach the conclusion that the proposed changes have no impact on any of these different groups of people.

No.
10. Is a full Equality Impact Assessment Required?  Yes ☐  No ☒

If you answered ‘No’, please explain below why not?

NOTE - You will need to complete a full EIA if:
• the proposals are likely to have equality impacts and you will need to provide details about how the impacts will be mitigated or justified
• there are likely to be equality impacts plus negative public opinion or media coverage about the proposed changes
• you have missed an opportunity to promote equality of opportunity and need to provide further details of action that can be taken to remedy this

If your proposed new or changed legislation, policy, strategy, project or service involves an Information and Communication Technology (ICT) system and you have identified equality impacts of that system, a focused full EIA for ICT specific impacts should be completed. The ICT Specific Impacts template is available from MoJ ICT or can be downloaded from the Intranet at: http://intranet.justice.gsi.gov.uk/justice/equdiv/equal-impact.htm, and should be referenced here.

The proposed change affects salaried judges. Although as identified in answer to Q8 the policy does have some disproportionate impacts, these are fully justified and are proportionate in meeting a legitimate aim. A full impact assessment is therefore not required.

11. Even if a full EIA is not required, you are legally required to monitor and review the proposed changes after implementation to check they work as planned and to screen for unexpected equality impacts. Please provide details of how you will monitor evaluate or review your proposals and when the review will take place.

A review will take place in 2015.

12. Name of Senior Manager and date approved

You should now complete a brief summary (if possible, in less than 50 words) setting out which policy, legislation or service the EIA relates to, how you assessed it, a summary of the results of consultation, a summary of the impacts (positive and negative) and, any decisions made, actions taken or improvements implemented as a result of the EIA. The summary will be published on the external MoJ website.

The Independent Public Service Pension Commission’s (IPSPC) interim report on the future of public service pensions, published on 7 October, recommends that the most effective way to make short-term savings on the cost of public service pensions is to increase member contributions, with it being for the Government to decide the manner and level of any increase. The judicial pension scheme (JPS) is within the scope of the IPSPC report. These clauses introduce provisions into the current judicial pension schemes to allow personal pension contributions to be taken towards the costs of providing pensions to members of judicial pension schemes. Although the policy does have some disproportionate impacts, these are fully justified and are proportionate in meeting a legitimate aim.

Name (must be grade 5 or above): Ian Gray

Department: Head, Judicial Appointments and HR Division

Date: 16/12/10

Note: The EIA should be sent by email to anthony.shepherd@justice.gsi.gov.uk of the Corporate Equality Division (CED), for publication.
Full Equality Impact Assessment

13. Which group(s) of people have been identified as being disadvantaged by your proposals. What are the equality impacts?

14. What changes are you planning to make to your original proposals to minimise or eliminate the adverse equality impacts? Please provide details of the proposed actions, timetable for making the changes and the person(s) responsible for making the changes.

15. Please provide details of whether or not you will consult on the proposed changes, particularly with disabled people and if you do not plan to consult, please provide the rationale behind that decision.

16. Can the adverse impacts you identified during the initial screening be justified and the original proposals implemented without making any adjustments to them? Please set out the basis on which you justify implementing the proposals without adjustments.

17. Do your proposals miss an opportunity to promote equality of opportunity? If so, do you plan to take action to remedy this and if so, when? Please provide details.

18. You are legally required to monitor and review the proposed changes after implementation to check they work as planned and to screen for unexpected equality impacts.
   Please provide details of how you will monitor/evaluate or review your proposals and when the review will take place.

19. Summary details, sign off by Senior Manager and date approved.

You should now complete a brief summary (if possible, in less than 50 words) setting out which policy, legislation or service the EIA relates to, how you assessed it, a summary of the results of consultation, a summary of the impacts (positive and negative) and, any decisions made, actions taken or improvements implemented as a result of the EIA. The summary will be published on the external MoJ website.

Name (must be grade 5 or above):

Department:

Date:

Note: The EIA should be sent by email to anthony.shepherd@justice.gsi.gov.uk of the Corporate Equality Division (CED), for publication.
Annex F - Other Pensions Bill measures

1. Further details of the measures contained in the Bill are available in the Bill Explanatory Notes. These can be obtained from http://services.parliament.uk/bills/

**Power to set date for commencement of additional pension consolidation by order**

2. With reference to Clause 3.

3. Following the measures to simplify State Pensions introduced in the Pensions Act 2007, the Pensions Act 2008 introduced measures to further simplify the state second pension scheme, with the aim of helping people to understand their entitlement.

4. The 2008 Act provides for earnings-related State Pensions built up before the flat rate introduction year to be combined into a single cash amount (a process known as consolidation). It also provides that only people reaching State Pension age from 6 April 2020 would have any earnings-related State Pension combined in this way. Based on the legislated timetable for increasing women’s State Pension age, 6 April 2020 is the date that State Pension age for men and women is equalised. The policy intention was that at State Pension age this cash amount would be added to flat rate additional State Pension (built up from the flat rate introduction year) and basic State Pension to form a person’s overall State Pension entitlement.

5. Clause 3 is a technical measure designed to provide flexibility as to the period covered by consolidation, and the group affected. The clause removes references to the start date as being the flat rate introduction year. It also removes the provision that only those reaching State Pension age from 6 April 2020 would be affected by consolidation. The clause also provides an order making power for the Secretary of State to set the date at which consolidation will occur and the group who will have any earnings-related State Pension combined in this way.

6. All other aspects of the existing policy would remain the same. As such, any earnings-related State Pension built up before the consolidation date would be combined into a single cash amount based on the rules in force at that time. The measure would have no impact on a person’s overall State Pension income over the course of their retirement.

7. As contracted-out pension rights are offset against additional State Pension entitlement built up before 1997 a number of people would only gain additional State Pension for that period at some time after State Pension age. Under consolidation actuarial factors would be applied to a person’s contracted-out pension rights in order to smooth
the disparities in entitlement that occur during retirement. This is likely to affect around 11 million people who built up contracted-out pension rights between 1978 and 1997.

8. Under consolidation the pattern of payments a person with pre-1997 contracted-out rights receives would change. Their entitlement would be flattened over their retirement resulting in a greater amount paid early in retirement and less paid later. The amount of any individual gain or loss is measured relative to average life expectancy. There would be no effect on the total retirement income of a person who lives to average life expectancy; however, a pensioner who dies earlier than average would gain with losses experienced by those who live longer than the average.

9. A full Impact Assessment was carried out for the original proposal, as legislated for in the Pensions Act 2008. The policy remains broadly unchanged so a further Impact Assessment is not necessary. Any proposal to bring forward the consolidation date would bring forward costs, but a start date for consolidation is yet to be decided. The measure would be broadly cost neutral over the long term.

Abolition of Payable Uprated Contracted-out Deduction Increments (PUCODIs)

10. With reference to Clause 2.

11. Where individuals contracted-out of the additional State Pension between 1978 and 1997 and delay taking their contracted-out benefits, they earn increments on these benefits. These benefits are payable by their pension scheme but, as the increments are not fully indexed by that pension scheme, the Government currently adds small amounts to the scheme member’s underlying state additional pension. The original policy intention was to ensure parity between those who were contracted out and those who were not. However, past policy changes to the State Pension and contracted-out benefits have eroded this policy intention.

12. Clause 2 removes the provision from the state for new awards of small “top-up” amounts to a person’s State Pension from 6 April 2012, where that person is a member of a Defined Benefit contracted-out scheme who has delayed taking their pension, or is the survivor of such a member. Awards which have been made and are in payment before this date will not be affected.

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1 The full Impact Assessment for the Pensions Bill 2007, which became the Pensions Act 2008, is available at: http://www.ialibrary.berr.gov.uk/ImpactAssessment/?IAID=6817a6a7312046c0b8b41968b15db2aa
See Chapter Seven for assessment of the impacts of this measure.
13. The amendment will create no impact on the private sector or civil society organisations.

14. The abolition of PUCODIs is expected to create Government savings of less than £1 million per year between 2011/12 and 2015/16.

15. Around 120,000 people (approximately less than 10 per cent of the total current pensioner population) currently receive this increment in their own right. Of these individuals, around 80 per cent receive less than £1 a week (although the maximum payment is £14). Where an increment is in payment, it represents 0.6 per cent, on average, of a person’s State Pension income. Around 9,000 people have inherited these additions, for whom the mean amount is 60 pence a week (the maximum payment is £6.30).

16. Around 6,000 of the 9,000 people in receipt of inherited PUCODIs are women. The average received by women is similar to men: around 30p. Like the State Additional Pension, all recipients of PUCODIs are likely to see a decrease in the increases they receive through the state on account of the fact that PUCODIs will be increased by the rate of CPI in future rather than RPI.

Financial Assistance Scheme – transfer of assets

17. With reference to Clause 7.

18. The Financial Assistance Scheme (FAS) was established through Regulations under the Pensions Act 2004 in 2005 to provide help to members of certain defined benefit occupational pension schemes which had begun to wind up under-funded and, as a consequence, the members lost some or all of their accrued pension.

19. Regulations made in 2010 provide for the transfer of FAS scheme assets to the Secretary of State. The Regulations achieve this by modifying various provisions of the Pensions Act 2004. During Parliamentary passage, the JCSI reported that this was an unusual use of the modification powers and expressed concern over whether assets could be transferred to the Secretary of State given the explicit reference to assets transferring to the Scheme Manager (who is the Pension Protection Fund) under s.286(3)(c).

20. Clause 7 intends to put this matter beyond doubt by amending 286(3)(c) to provide that assets can be transferred to a prescribed person, which will be the Secretary of State. This change will also allow FAS Regulations to be amended to make their meaning more obvious to the reader.

21. The change will have no significant impact on business, or civil society organisations; nor create any costs to the public sector. The change
will have no significant impact on individuals, nor will it create any equal treatment issues.

**FAS – amount of payments**


23. Primary legislation requires annual payments to be at least 80 per cent of the expected pension, initial payments at least 90 per cent and that survivors must get at least 50 per cent of their deceased partner’s expected pension. These provisions were inserted into the primary legislation when the FAS provided relatively limited and simple payments.

24. Since then, new provisions to allow for early payments where people are in ill health and to allow for payments to surviving spouses, where the member dies having been in a polygamous marriage have been introduced. The regulations providing for these payments are unnecessarily complex as a result of these restrictions in primary legislation.

25. Clause 8 allows for regulations to make exceptions to these minimum percentages, which should allow the regulations to be significantly shorter and more easily understood. There is no intention to use this provision to change the current levels of payment made by the FAS.

26. The change will have no significant impact on business, or civil society organisations; nor create any costs to the public sector.

27. The change will have no significant impact on individuals, nor will it create any equal treatment issues.

**Amendments to legislation concerning payments of surplus to employers, to some schemes and in some circumstances**


29. Section 251 of the Pensions Act 2004, which came into force from 6 April 2006, gave trustees a transitional power to confirm or amend powers in scheme rules to make payments to the employer. These transitional provisions accompanied the revision of section 37 of the Pensions Act 1995, which sets out conditions which must be satisfied before a payment can be made to a sponsoring employer from pension scheme funds (often referred to as the surplus rules).

30. Clause 20 amends section 251 to ensure it does not apply to schemes and payments in circumstances to which section 37 of the Pensions Act 2005 does not apply. The clause also extends the transitional
period during which section 251 will apply by five years (to 6 April 2016). The need for the amendment was identified following a number of queries from pensions industry professionals which indicated that section 251, as worded, could apply to payments which were not themselves subject to section 37.

31. The amendment is not expected to involve any costs to business, civil society organisations and the public sector; nor to individuals. Conversely, if the amendment is not introduced it is likely that there would be a small cost for some pension schemes.

Amendments to legislation concerning the requirement for Cash Balance scheme members to purchase an indexed annuity

32. With reference to Clause 16.

33. Cash Balance (CB) schemes are schemes where the member accrues benefits in the form of a lump sum or fund, the level of which can be determined in advance, is guaranteed to reach a particular minimum, or is determined by the application of a notional accrual rate or rate of interest. The fund is then used to buy an annuity or to provide a pension from scheme funds. Currently section 51 of Pensions Act 1995 requires that members buying or receiving an annuity or being paid a pension from a cash balance scheme must receive Limited Price Indexation.

34. Clause 16 amends section 51 to remove the requirement for cash balance benefits (either annuities or scheme pensions) to be indexed, and to allow members of CB schemes to purchase any type of annuity they want on the open market. It is limited in effect to giving people more choice about how they shape their income from cash balance schemes.

35. There is no change in the regulatory burden for sponsoring employers, for whom the annuity type chosen by their members is irrelevant.

36. This amendment will not affect scheme pensions/annuities already in payment, and there will be no reduction or increase to the value/amount of the Cash Equivalent Transfer Value.

37. It is envisaged that the measure will affect around 80,000² members of cash balance schemes in the UK, who will now have a greater choice over what type of annuity they can purchase. There might be a small change in the pattern of annuity purchases as a result. The measure does not have any differential impacts for different groups of individuals.

² An estimated figure based on Barclays scheme membership (around 60,000) plus members of other cash balance schemes (for example Diageo, RSPB, Provident Financial Services, House of Fraser)
Amendment to legislation concerning the governance framework of The Pensions Advisory Service

38. As referenced by Clause 25.

39. Section 174 of the Pension Schemes Act 1993 concerns payments of grants to bodies that provide advice or assistance to people in connection with occupational and personal pensions or carry out such other functions as may be specified in regulations.

40. Clause 25 amends section 174 to enable the Secretary of State to make payments of grant-in-aid to any person or body providing advice or assistance. This will allow payments to be made direct to The Pensions Advisory Service (TPAS) whereas currently it is necessary for these to be routed via the Pensions Regulator.

41. This is a minor and technical amendment only and will have no significant impact on business, civil society organisations, or the public sector.

42. It does not create any equal treatment issues.

Amendment to legislation concerning calculation of debt owing to a pension scheme

43. As referenced by Clause 22.

44. Schedule 4 of the Pension Schemes Act 1993 concerns the calculation of the amount of debt owed (with respect to the contributions), by employer or employee, to a contracted-out pension scheme in the event of bankruptcy.

45. An inaccurate consequential amendment made to Schedule 4 needs to be corrected. The amendment is consequential to section 15 Pensions Act 2007 (abolition of Defined Contribution contracting-out); and contained within paragraph 60 of Schedule 4 to the Pensions Act 2007 which is intended to be brought into force by 6 April 2015.

46. Clause 22 amends Schedule 4 to enable the calculation of the amount of debt (in respect of the contributions owed) to be made according to the correct rebate percentages.

47. This is a minor and technical amendment that corrects a previous incorrect amendment. It will have no significant impact on business, civil society organisations, or the public sector. It does not create any equal treatment issues.
48. Without this amendment to legislation, the amount of debt (in respect of the contributions owed) will continue to be calculated according to the old rebate percentages, with possible consequential cost to schemes.

Amendment to legislation concerning calculation of debt owing to a pension scheme

49. As referenced by Clause 23.

50. Schedule 4 of the Pension Schemes Act 1993 concerns the calculation of the amount of debt owed with respect to the contributions, by employer or employee, to a contracted-out pension scheme in the event of bankruptcy.

51. A missed consequential amendment means that the power in section 42(6), which previously allowed the percentages specified in Schedule 4 of the Act to be changed in line with changes to the rebate percentages, is now unclear.

52. Clause 23 will amend section 42(6) to make the power clear, by ensuring that section 42(6) cross-refers to the correct part of Schedule 4.

53. This is a minor and technical amendment that corrects a previous incorrect amendment. It will have no significant impact on business, civil society organisations, or the public sector. It does not create any equal treatment issues.

Without this amendment to legislation, the amount of debt (in respect of the contributions owed) will continue to be calculated according to the old rebate percentages, with possible consequential cost to schemes.