



Department for

**Social  
Development**

[www.dsdni.gov.uk](http://www.dsdni.gov.uk)

# Pensions Bill

## Completed Equality Impact Assessment

October 2007



INVESTOR IN PEOPLE

## **INDEX**

	<b>Page</b>
<b>1. Section 75 of the Northern Ireland Act 1998</b>	1
<b>2. Executive Summary</b>	3
<b>3. Consultation</b>	6
<b>4. Aims of the Policy</b>	6
<b>5. State Pension Reforms</b>	8
Single Contribution Condition	8
Category B Retirement Pension – removal of restriction on entitlement	9
Parent’s and Carer’s Credit	9
Uprating State Pension in line with earnings	11
State Second Pension	11
Abolition of Adult Dependency Increases	12
Increasing State Pension Age in line with life expectancy	13
<b>6. Occupational and Personal Pension Schemes</b>	14
<b>7. Personal Accounts Delivery Authority</b>	15
<b>8. Responsibility for Developing and Delivering Policy</b>	16
<b>9. Consideration of Available Data and Research</b>	16
<b>10. Assessment of Impacts - State Pension Reforms</b>	17
Religious Belief and Political Opinion	17
Racial Group	18
Age.	18
Marital Status	19
Sexual Orientation	19

Men and Women	20
Persons with a disability and persons without	24
Persons with dependants and persons without	24
<b>11. Assessment of Impacts – Occupational and Personal Pension Schemes</b>	<b>25</b>
Defined Contribution Schemes	25
Defined Benefit Schemes	26
<b>12. Mitigation</b>	<b>27</b>
Reduced contribution conditions and the parent's and carer's credit	28
Increase in State Pension Age	28
Persons with dependants and persons without	31
<b>13. Responses to consultation</b>	<b>32</b>
<b>14. Consideration of responses</b>	<b>33</b>
<b>15. Monitoring for adverse impacts in the future</b>	<b>34</b>
<b>Appendix: List of consultees</b>	<b>35</b>

## 1. **SECTION 75 OF THE NORTHERN IRELAND ACT 1998**

1.1 Section 75 of the Northern Ireland Act 1998 (“the 1998 Act”) requires public authorities, in carrying out their functions relating to Northern Ireland, to have due regard to the need to promote equality of opportunity between:

- persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- men and women generally;
- persons with a disability and persons without; and
- persons with dependants and persons without.

1.2 Section 75 also requires public authorities to have regard to the desirability of promoting good relations between persons of different religious belief, political opinion or racial group.

1.3 The primary function of an Equality Impact Assessment is to assess the extent of differential impact of policy on section 75 categories, and groups within those categories, and to determine whether that impact is adverse, i.e. whether the policy negatively affects people within one or more of the equality groups.

1.4 In accordance with Schedule 9 to the 1998 Act, the Department for Social Development has produced an Equality Scheme which explains how it will implement its obligations under section 75. A copy of the Scheme, which was approved by the Equality Commission on 15 March 2001, is available on the Department’s website at [www.dsdni.gov.uk](http://www.dsdni.gov.uk). Copies are also available in printed form and, on request, in alternative formats such as Braille, large print, disc, audio

cassette and in minority languages to meet the needs of those who are not fluent in English from Departmental headquarters through a request to:

The Office of the Permanent Secretary  
5<sup>th</sup> Floor  
Lighthouse Building  
1 Cromac Place  
Gasworks Business Park  
Ormeau Road  
Belfast BT7 2JB

## 2. **EXECUTIVE SUMMARY**

2.1 In November 2005 the Pensions Commission published its second report explaining the background and context to pensions issues for future pensioners and making recommendations on how the system could be reformed to better meet future needs.

2.2 Average pensioner incomes today compare well with those of previous generations and changes since 1997 have been targeted in particular at tackling pensioner poverty. But, as the Pensions Commission found, demographic and social trends create challenges for the future:

- life expectancy is increasing. This, along with lower birth rates, is resulting in older age groups becoming an increasingly large proportion of the population;
- family structures are changing, with cohabitation and divorce now more common;
- the trend of women's growing participation in the labour market is continuing;
- as a result of the accumulation of 60 years of pensions legislation, the current pensions system is complex and difficult to understand;
- problems with savings incentives could develop if, in the long term, a pensions system evolved in which a significant majority of pensioners were entitled to Pension Credit;
- around 7 million people across the United Kingdom are estimated to be under-saving for their retirement <sup>(1)</sup>.

(1) *Security in retirement: towards a new pensions system (Command Paper 6841); Annex A, paragraph A.7.*

2.3 In May 2006, building on the analysis and recommendations made by the Pensions Commission, proposals for pension reform and the rationale for change were published in the White Paper *Security in Retirement: towards a new pensions system*.

2.4 The White Paper explained the challenges facing the United Kingdom pensions system and presented proposals for a long-term, sustainable solution. Five key tests, against which pension reform outcomes would be measured, were set out:

- Personal responsibility: individuals should be responsible for their own plans for retirement.
- Fairness: policies should protect the poorest and establish a new contributory principle with a system that rewards “something for something”.
- Simplicity: changes must make the pension system simpler and ensure the decision to save for retirement is more straightforward.
- Affordability: the financial needs of the future pensioner population must be balanced with the financial capabilities of the taxpayer to fund those needs in a stable fiscal environment.
- Sustainability: the roles and responsibilities of individuals, employers and the State must be clear; reforms must provide trust and confidence in a sustainable deal for the long term.

2.5 A number of regional road shows were held during the development of the proposals. A consultation event held in Belfast’s Waterfront Hall on 18 March 2006 was attended by Department for Work and Pensions

Minister Lord Hunt of Kings Heath. A formal consultation ran from 25 May 2006 to 11 September 2006.

2.6 Responses to the consultation informed the policy we now seek to implement. A full summary and analysis of the consultation responses was published in *Security in Retirement: towards a new pensions system – Summary of responses to the consultation (Command Paper 6960)*.

2.7 The Westminster Pensions Bill, which received Royal Assent on 26 July 2007, sets out a package of reforms on:

- state pensions;
- simplification measures in private pensions; and
- the establishment of the Personal Accounts Delivery Authority to carry out preparatory work for the introduction of a system of personal retirement saving accounts. It is expected that the detail of the personal accounts scheme will be contained in a separate Bill.

2.8 In accordance with the long-standing principle of parity between Northern Ireland and Great Britain in social security and pensions matters, it is anticipated that a Northern Ireland Pensions Bill will make corresponding provision for Northern Ireland. It is expected that the Bill will be introduced in the Assembly later in the autumn.

### **3. CONSULTATION**

3.1 In August of this year the Department consulted on an Equality Impact Assessment in which it examined the implications of the proposed reforms in relation to the promotion of equality of opportunity and good relations. The consultation ran for eight weeks ending on 28 September 2007. This Completed Equality Impact Assessment sets out the Department's final analysis of the equality implications of the reforms having taken account of the response received. An outline of the points raised and the Department's consideration of each is given in sections 14 and 15 below. The document is available on the Department's website - [www.dsdni.gov.uk](http://www.dsdni.gov.uk).

### **4. AIMS OF THE POLICY**

4.1 The key components of the Pensions Bill are:

- improving the coverage, generosity and sustainability of the State Pension by:
  - improving the entitlement to basic State Pension for women and carers by reducing the number of qualifying years for a full basic State Pension;
  - revising and modernising credits for caring that will apply to both the basic State Pension and the State Second Pension;
  - enabling a married person or civil partner to draw a pension based on the National Insurance record of a spouse or civil partner over pensionable age who has chosen not to retire;
  - the abolition of adult dependency increases;

- flat-rating and simplifying the State Second Pension;
  - linking the uprating of the Pension Credit guarantee and the basic State Pension to earnings; and
  - gradually raising State Pension Age, including consequential changes for other social security benefits;
- enacting simplification measures in private pensions by:
    - permitting the trustees of defined benefit contracted-out occupational pension schemes to simplify their scheme structure by converting a member's Guaranteed Minimum Pension into ordinary scheme benefits which are of at least equal actuarial value;
    - abolishing contracting out in defined-contribution schemes, to remove complexity from pension savings decisions that currently arises from the difficult judgement about whether a person would be better off contracted-out or contracted-in to the State Second Pension;
    - enabling occupational pension schemes to operate simpler internal dispute resolution procedures; and
    - removing the requirement for the Department for Social Development to approve actuarial Guidance Notes.
  - Personal Accounts Delivery Authority:
    - the Personal Accounts Delivery Authority established by the Westminster Pensions Bill will operate on a United

Kingdom-wide basis. The Northern Ireland Bill will provide for its initial functions in relation to Northern Ireland.

## **5. STATE PENSION REFORMS**

### **5.1 Single Contribution Condition**

5.1.1 The Pensions Bill sets out provisions introducing a single contribution condition for qualification for a full basic State Pension. At present, two contribution conditions must be satisfied:

- an individual must have paid Class 1 National Insurance contributions on earnings of at least 52 times the weekly lower earnings limit for one tax year, or an equivalent number of Class 2 or Class 3 contributions; and
- for a full-rate basic State Pension a man requires 44 qualifying years, a woman requires 39. To qualify for the minimum basic State Pension a man requires 11 qualifying years, a woman requires 10.

5.1.2 For people reaching State Pension age from 6 April 2010, the two contribution conditions will be replaced by a new, single contribution condition. The number of qualifying years required for a full Category A or B (currently based on a husband's National Insurance record) basic State Pension will be reduced to 30 years for men and women alike. A person who has fewer than 30 qualifying years will be entitled to a pro-rated proportion of the full basic State Pension for each qualifying year they have built up. They will not, as at present, be required to have at least 25% of the number of qualifying years required for a full basic State Pension (the 25% de minimis rule).

5.1.3 These measures will increase the number of people reaching pension age with a full basic State Pension whilst retaining a contributory system. A person will no longer need at least one year of paid contributions; a record may be composed solely of credited contributions. This means that someone with a lifetime of care will be treated in the same way as someone who has had a lifetime of work.

## 5.2 **Category B Retirement Pension – removal of restriction on entitlement**

5.2.1 Under current provisions a married woman can become entitled to a Category B pension based on her husband's National Insurance record when he claims his own basic State Pension. Category B pensions will be available to married men and civil partners from 2010.

5.2.2 Entitlement to a Category B retirement pension will cease to be conditional upon a spouse claiming his/her pension. This measure will simplify deferral arrangements to enable an individual to make an independent decision on when, and whether, to claim retirement pension.

5.2.3 The new provision will extend to people who attain State Pension age before 6 April 2010 as well as to those who attain Pension age on or after that date. Consequently, people who are at present subject to the less advantageous conditions of the present scheme will benefit from the reforms.

## 5.3 **Parent's and Carer's Credit**

5.3.1 Home Responsibilities Protection, which reduces the number of years needed to qualify for a full basic State Pension, will be transformed into a system of positive weekly credits for:

- parents who are awarded Child Benefit for children up to the age of 12; and
- approved foster parents.

5.3.2 Carers who provide 20 or more hours of care a week for one or more persons receiving Attendance Allowance, Constant Attendance Allowance or the middle or higher rate of the care component of Disability Living Allowance will be entitled to a weekly carer's credit.

5.3.3 Home Responsibilities Protection is awarded for full tax years only and cannot, therefore, be combined with credits or earnings. The new parent's and carer's credit will help build entitlement to the basic State Pension and certain Bereavement Benefits (Widowed Parent's Allowance and Bereavement Allowance). For those people reaching pensionable age, or who die, on or after 6 April 2010, each complete year of Home Responsibilities Protection will be converted into a qualifying year.

5.3.4 Home Responsibilities Protection is available to a parent for a youngest child up to age 16. The new system will provide weekly credits for parents awarded Child Benefit for children up to the age of 12. The reduction in qualifying years for a full basic State Pension outweighs this reduction in eligibility and the system of weekly credits makes the system simpler and easier.

5.3.5 The reforms also provide new qualifying conditions for, and more generous access to, the State Second Pension. Parents will also be credited into the State Second Pension until their youngest child reaches age 12 as opposed to age 6 under current rules. For the first time foster parents will be able to accrue State Second Pension.

5.3.6 At present, people in receipt of Carer's Allowance are credited with a weekly contribution while in receipt of the allowance. Carer's Allowance is awarded to people who care for a severely disabled person for 35 hours or more a week.

5.3.7 The new carer's credit targets people caring for 20 hours or more a week for one or more severely disabled persons.

#### **5.4 Uprating State Pensions in line with Earnings**

5.4.1 The objective, subject to affordability and the fiscal position, is to uprate the basic State Pension in line with earnings growth from 2012, but in any event by the end of the next Parliament at the latest. The standard minimum guarantee in Pension Credit will continue to increase in line with earnings in the longer term and provide a safety net for the poorest pensioners unable to build up pension provision.

#### **5.5 State Second Pension**

5.5.1 The State Second Pension will be reformed and simplified. The flat rate element will become a fixed amount (£1.40 per week for each year of qualification in 2006/07 terms) at the same time as the earnings link for basic State Pension is restored. Accruals to the earnings-related element will be restricted to 10% from 2010 and phased out by around 2030, so that State Second Pension becomes fully flat rate.

5.5.2 Just as the new parent's and carer's credit will protect entitlement to basic State Pension with modernised crediting arrangements, similar reforms will modernise the qualifying year rules for State Second Pension. Currently contributions and credits can be mixed in a tax year for basic State Pension entitlement, but not for a State Second Pension qualifying year. This has meant that a parent or carer who combines paid work with caring responsibilities can miss out on entitlement to State Second Pension. This restriction will be removed.

5.5.3 The Pensions Bill provides for the abolition of the Labour Market Attachment test for long-term disabled people from 2010. This will mean that people no longer have to work and pay contributions for 10% of their working life for their credits to count towards the State Second Pension, thus benefiting those with a contribution history consisting largely of credits from incapacity benefits.

## 5.6 **Abolition of Adult Dependency Increases**

5.6.1 Currently, adult dependency increases to a basic State Pension are available for a spouse or a person having care of the beneficiary's children. Such persons are generally deemed to be dependent on the beneficiary if they have no earnings or earnings below a set limit. Where the dependant's weekly earnings are above the limit, no increase is payable for that week, or, if they have other benefits in their own right, entitlement to an adult dependency increase can be wiped out.

5.6.2 Adult dependency increases are payable at the same rate as the married woman's Category B pension. There is, therefore, no advantage in claiming an increase in respect of a dependant who has reached State Pension age. These increases are less necessary where both members of the couple are likely to be economically active and can also act as a disincentive for individuals to work up to State Pension age. Adult dependency increases will be abolished from 6 April 2010. However, all entitlements existing at 6 April 2010 will be protected up to 2020.

5.6.3 This issue is explored further in sections 10.8 and 12.4 below.

## 5.7 Increasing State Pension Age In Line With Life Expectancy

5.7.1 For men State Pension age is currently 65; for women it is 60. However, as a result of the Pensions (Northern Ireland) Order 1995 and the corresponding Pensions Act in Great Britain, State Pension age for women and men will be gradually equalised at age 65 between 2010 and 2020.

5.7.2 The population of the United Kingdom has changed considerably since State Pensions were introduced. There are now 9.6 million people aged 65 and over, a 75% increase since 1951. The latest Government Actuary projections show that the age structure of the United Kingdom population will continue to grow older <sup>(1)</sup>.

(1) Government Actuary's Department 2004-based national population principal projection (<http://www.gad.gov.uk>).

5.7.3 The table below shows some demographic changes in Northern Ireland during the periods from 2005 to 2006 and from 1996 to 2006:

	2005 to 2006	1996 to 2006
<b>Children</b>	- 0.3%	- 8.4%
<b>Working Age</b>	+ 1.3%	+ 8.5%
<b>Pensioners</b>	+ 1.6%	+ 12.1%

Source: Northern Ireland Statistics and Research Agency Mid-Year Population Estimates Northern Ireland (2006).

Children are defined as those in the population aged under 16.

Working age population is defined as men aged 16-64 and women aged 16-59.

Pensioners are defined as the female population aged 60 and over and the male population aged 65 and over.

5.7.4 The ageing population means there will be greater numbers of non-working pensioners, so that, in the future, the working population will have to support an increasing number of pensioners.

5.7.5 In order to ensure the long term sustainability of a reformed State Pension scheme in the context of a growing pensioner population resulting from increasing longevity and falling birth rates, State Pension age for men and women will increase from 65 to 68.

5.7.6 This will occur in three stages:

- the first increase, from 65 to 66, to be phased in over two years, starting in April 2024;
- the second increase, from 66 to 67, again phased in over two years, from April 2034; and
- the third increase, also to be phased in over two years, from April 2044.

5.7.7 This issue is addressed at sections 10.3, 12.2 and 12.3 below.

## **6. OCCUPATIONAL AND PERSONAL PENSION SCHEMES**

6.1 In the field of private pensions, the primary aim is to encourage employers to continue to play a prominent role in pension provision by removing unnecessary legal or regulatory complexity. Contracting out in defined-contribution schemes will be abolished because it has become complicated and, as a consequence, it is difficult for an individual to decide whether they would be better off contracting-out of or into the State Second Pension scheme. This measure also extends to protected rights, except for those that make provision for spouses or surviving civil partners. Protected rights, which have accrued prior to abolition, will be preserved and treated in the same way as other rights in the scheme.

6.2 In the case of defined-benefit schemes, where decisions about funding and contributions are taken on a long-term basis and contracting out

matters are much more clear cut, the reform will allow, but not require, schemes to convert Guaranteed Minimum Pension rights built up between 1978 and 1997 into scheme benefits. This will allow for cheaper and simpler scheme administration, unhampered by the inflexible requirements attached to Guaranteed Minimum Pensions, and make it easier for scheme members to move their rights into other pension products. The actuarial value of each member's pension will be maintained post conversion.

- 6.3 Additional measures to simplify and strengthen the private pensions system include simpler internal dispute resolution procedures for occupational pension schemes and the removal of the requirement for the Department for Social Development to approve actuarial Guidance Notes relating to pension schemes.

## **7. PERSONAL ACCOUNTS DELIVERY AUTHORITY**

- 7.1 Personal Accounts will provide an opportunity to contribute to a low-cost savings vehicle. The Westminster Pensions Act establishes a Personal Accounts Delivery Authority with a limited remit to enable commencement of the commercial process for the infrastructure of personal accounts.

- 7.2 The Personal Accounts Delivery Authority will operate on a United Kingdom-wide basis to provide the necessary systems for the personal accounts scheme. The Northern Ireland Bill will provide for its initial functions in Northern Ireland. It is anticipated that the detail of the scheme will be taken forward in a future Bill.

## **8. RESPONSIBILITY FOR DEVELOPING AND DELIVERING POLICY**

- 8.1 Provision of social security and pensions in Northern Ireland is governed by the long established policy of the maintenance of parity with Great Britain, as provided for under section 87 of the 1998 Act. In

line with section 87 of the 1998 Act, there are, in effect, single systems of social security and pensions across the United Kingdom: social security and pensions policy is therefore developed on this basis. The Department for Social Development, in conjunction with the Department for Work and Pensions, is responsible for the delivery of policy.

- 8.2 Bodies involved in the implementation of the policy will include the Pensions Regulator, the Pensions Ombudsman and the Personal Accounts Delivery Authority. In the case of private pensions, the Pensions Industry, employers and scheme regulators will be major stakeholders.

## **9. CONSIDERATION OF AVAILABLE DATA AND RESEARCH**

- 9.1 In assessing the impacts of the policy under section 75 of the 1998 Act the Department has concluded that there is evidence of some differential impact in respect of the religious belief and political opinion, age, gender, persons with dependants, persons with disability and racial group categories. Those impacts have been considered in light of available data and policy intention to determine whether their effect is adverse. Where this is the case, consideration has been given to mitigating factors.
- 9.2 The data relied on derive from a number of sources: the White Paper *Security in Retirement: towards a new pensions system*; the Northern Ireland Census 2001; the Government Actuary's Department's 2004-based national population principle projection; the Department for Social Development's Retirement Pensions and Carer's Allowance Summary Statistics 2006; Northern Ireland Statistics and Research Agency Mid-Year Population Estimates Northern Ireland (2006); the Family Resources Survey 2005/06; the Pensions Bill Regulatory Impact Assessment and Projections from the Department for Work and Pensions Forecasting Division.

9.3 Northern Ireland specific figures have been used where available. Other figures reflect the position across the United Kingdom. Data in relation to some section 75 groups, such as sexual orientation are not available. The Department has, however, made an assessment of the impact of the Bill on those groups in light of the purpose of the reforms.

## **10. ASSESSMENT OF IMPACTS**

### **State Pension Reforms**

#### **10.1 Religious Belief and Political Opinion**

10.1.1 The reforms do not make any direct provision in relation to religious belief or political opinion. Data from the Northern Ireland Census 2001 show that a higher proportion of the population over the age of 30 is Protestant. The data also show that the differential between the Protestant and Catholic communities decreases over time<sup>(1)</sup>.

*(1) Northern Ireland Census 2001 – Table EXT 20051117B: Community Background by Age.*

10.1.2 Abolition of adult dependency increases and increases to State Pension age are, therefore, likely to have an adverse, differential impact on the Protestant community, although the impacts result purely from population make-up and the differential will gradually decrease.

10.1.3 The abolition of adult dependency increases and increases to State Pension age are addressed at sections 10.4.2, 10.8 and 12.4 (adult dependency increases) and 10.3.2 and 12.3 (increases to State Pension age) below.

## 10.2 **Racial Group**

10.2.1 The reforms do not make any direct provision in relation to racial groups. The assessment that can be made of the effects of the reform package on minority ethnic groups is limited by a lack of data. The Department believes that the reforms could have a positive impact on such groups. For example, the introduction of a positive parent's and carer's credit will benefit all women, but may in particular help women from ethnic minority groups who have in the past had a higher proportion of their basic State Pension record protected by Home Responsibilities Protection and may not, under current rules, be able to convert this into actual pension entitlement.

10.2.2 The reduction in the number of qualifying years to 30 will help those who have spent a number of years not accruing basic State Pension.

## 10.3 **Age**

10.3.1 The reforms introducing reduced contribution conditions for entitlement to a full basic State Pension and the Parent's and Carer's Credit will assist people attaining State Pension age on or after 6 April 2010. Those who attain State Pension age before that date will not be assisted by the reforms and will remain subject to existing rules. This might be considered to be disadvantageous on grounds of age.

10.3.2 Women's State Pension age is already set to increase from 60 to 65 over the period from 2010 to 2020. The further increase in State Pension age from 65 to 68 will adversely affect both men and women no longer able to claim State Pension at age 65.

10.3.3 These issues are explored further at sections 12.2 and 12.3 below.

## 10.4 **Marital Status**

10.4.1 A man or woman's State Pension may be increased if another adult is financially dependent on them. Adult dependency increases are available for a spouse or person having care of the beneficiary's children. For a woman to become entitled to an increase in respect of her husband she must also have been entitled to an adult dependency increase of incapacity benefit immediately before reaching State Pension age.

10.4.2 The abolition of adult dependency increases of State Pension from 6 April 2010 is, therefore, likely to have an adverse, differential impact on married couples. Within that group, married men are most likely to be affected since, at September 2006, over 99% of increases to State Pension in Northern Ireland were in payment to men <sup>(1)</sup>.

*(1) Department for Social Development – Retirement Pensions Summary Statistics 2006 ([www.dsdni.gov.uk/index/stats\\_and\\_research/benefit\\_publications](http://www.dsdni.gov.uk/index/stats_and_research/benefit_publications))*

10.4.3 This issue is addressed in sections 10.8 and 12.4 below.

## 10.5 **Sexual Orientation**

10.5.1 No data is held to enable an assessment of the impacts of Pension Reform in relation to an individual's sexual orientation to be made. However, the opportunities presented by the reforms to build basic State Pension and State Second Pension entitlements, and to contribute to a low cost personal pension will be available to all. In particular, provisions enabling a person to draw a pension based on the National Insurance record of a civil partner who has chosen not to retire are clearly advantageous to a member of a same-sex couple.

## 10.6 Men and Women

10.6.1 Pensioner income has been increasing in real terms. However, differences remain with women persistently having lower incomes than men. Single women on average receive £180 per week in income compared to £197 for a single man, though this varies according to particular circumstances <sup>(1)</sup>. Women who were married or divorced, for example, have incomes quite similar to men who were married or divorced, whereas there are considerable differences for women who were never married. Overall, women who are part of a pensioner couple receive on average £128 per week compared to £236 per week for a man in a pensioner couple.

*(1) Data from Family Resources Survey, NI, 2005/06. A pensioner couple is one where one partner is above the State Pension Age. Single in this context includes widowed, divorced and never married.*

10.6.2 Both State and private pension outcomes are lower for women than for men. For pensioners over the age of 80 the gap in State Pension outcomes is narrower, principally driven by the inheritance of State Pension Rights on the death of a spouse or civil partner. Benefit income accounts for, on average, 77% of a single woman's income compared to 67% for a single man. For individuals who are part of a pensioner couple, although benefit income represents a smaller proportion of their income, the gender difference is slightly more marked than for singles at 67% for women and 58% for men <sup>(1)</sup>.

*(1) Data from Family Resources Survey, Northern Ireland, 2005/06.*

10.6.3 Between September 2005 and September 2006 the number of women claiming a Category A Retirement Pension increased by 6.2%, the number of men increased by 2.5%.

10.6.4 The average amount of basic State Pension payable to men at September 2006 was £81.63, the average payment to women was £68.55 <sup>(1)</sup>.

*(1) Department for Social Development – Retirement Pension Summary Statistics 2006*

10.6.5 The State Pension reforms will narrow the gender pensions gap and assist carers (frequently women) to build up pensions rights. The reforms are based on a modernised contributory principle: a life of unpaid caring responsibilities will be rewarded in retirement in the same way as a life of work. Career breaks will no longer necessarily have a negative effect on pension entitlement.

10.6.6 In the past an incomplete recognition of caring responsibilities, especially when tied to the different labour market experiences of men and women, combined to make women’s State Pension outcomes worse than men’s. The reforms help to address the pension effects of labour market differences and the pension impact of childcare responsibilities. The 30-year qualifying rule will help women to build a full basic State Pension despite a fragmented career history.

### **Reformed System.**

#### **Approximate proportions of people reaching State Pension age entitled to a full basic State Pension**

<b>Year</b>	<b>2010</b>	<b>2025</b>	<b>2050</b>
<b>Males</b>	Over 95%	Over 90%	Over 90%
<b>Females</b>	Around 75%	Over 90%	Over 90%

*Source: Projections from the Department for Work and Pensions Forecasting Division using the Government Actuary’s Department Retirement Pension model, Great Britain, see “The Gender Impact of Pension Reform”, paragraph 72.*

10.6.7 The reforms help both men and women. Men will gain from the reduction in qualifying years – as well as the carer’s credit. While men represent a smaller proportion of carers among today’s working age population, they can equally benefit from the reforms and this may be important should patterns of caring change. At November 2006, 34% of those entitled to Carer’s Allowance in Northern Ireland were men <sup>(1)</sup>.

*(1) Department for Social Development – Carer’s Allowance Summary Statistics 2006 (www.dsdni.gov.uk/index/stats\_and\_research/benefit\_publications).*

10.6.8 Uprating the basic State Pension in line with earnings will ensure that it keeps its value. For low-earning men and women this will provide a solid underpin to their retirement income. Women, in particular, will benefit increasingly from this reform as basic State Pension coverage improves. This is because they tend to live longer and State pensions make up a larger proportion of their income. The overall effect of this and the extended coverage of both basic State Pension and State Second Pension is that women will receive a more generous State Pension and be less reliant on means-tested benefits.

10.6.9 The table below shows the value of the basic State Pension, using 2005/06 earnings and prices terms, if it continued to be uprated by prices until 2050 and its value with earnings upratings from 2012. Earnings uprating the basic State Pension ensures that it keeps its value in earnings terms and would more than double its value in price terms by 2050.

	EARNINGS TERMS		PRICE TERMS	
	Price Uprated BSP	Earnings Uprated BSP	Price Uprated BSP	Earnings Uprated BSP
<b>2012</b>	£73	£73	£84	£84
<b>2020</b>	£62	£73	£84	£98
<b>2030</b>	£51	£73	£84	£120
<b>2040</b>	£42	£73	£84	£146
<b>2050</b>	£34	£73	£84	£178

*Source: Department for Work and Pensions calculations: see Pensions Bill Regulatory Impact Assessment, page 38 and "The Gender Impact of Pension Reform", page 30.*

*Assumes receipt of full basic State Pension when reaching State Pension age: age 66 in 2030; age 67 in 2040 and age 68 in 2050. Price and Earnings uprating starting from 2012.*

10.6.10 Pension Credit, with the standard minimum guarantee uprated by earnings, will continue to provide a safety net for those who do not build up sufficient State and private pension entitlement, thus continuing to address pensioner poverty. However, the reforms will ensure that many more people have incomes above the standard minimum guarantee, so the number of people on the Guaranteed Credit is expected to reduce.

10.6.11 Although not contained in the present Bill, proposed reforms to the private pension system – personal accounts, automatic enrolment and an employer contribution – also provide the potential for significant improvements to women's pension outcomes through better opportunities and, coupled with State Pension reforms, better incentives to save. Women are less likely to accrue a private pension because of fragmented work histories and lower lifetime earnings. Thirty four per cent of women of working age contribute to a private pension, compared to 41% of men of working age <sup>(1)</sup>. The proportion of men and women saving at least £10 per month has remained relatively stable in recent years.

*(1) Data from Family Resources Survey, Northern Ireland, 2005/06.*

10.6.12 Personal Accounts, by focusing in particular on moderate to low earners and by providing a low-cost, portable vehicle for private savings, will provide a significant opportunity for men and women to build pension savings.

10.6.13 An adverse, differential impact on a number of, mainly, male pensioners has been identified in relation to the abolition of adult dependency increases. This is addressed in sections 10.8 and 12.4.

10.6.14 The Department considers that, overall, the reformed pension system will benefit men and women and, in particular, will assist women to establish entitlement to, both, State and private pensions.

#### **10.7 Persons with a disability and persons without**

10.7.1 The opportunities presented by the reforms to build basic State Pension and State Second Pension entitlements will be available to all. However, the reform of the contribution conditions for entitlement to a basic State Pension, the abolition of the Labour Market Attachment test for long-term disabled people from 2010 and the introduction of Personal Accounts will address existing inequalities in the system and are likely to be of significant benefit to disabled persons.

#### **10.8 Persons with dependants and persons without**

10.8.1 The current State Pension system provides for a man or woman's State Pension to be increased if another adult is financially dependent on them. In order for a woman to become entitled to an increase in respect of her husband she must also have been entitled to an adult dependency increase of incapacity benefit immediately before reaching State Pension age.

10.8.2 The abolition of adult dependency increases from 6 April 2010 will adversely affect those who might otherwise be entitled to the increase.

10.8.3 This issue is addressed at section 12.4 below.

## **11. ASSESSMENT OF IMPACTS**

### **Occupational and Personal Pension Schemes**

#### **11.1 Defined Contribution Schemes**

11.1.1 The United Kingdom has a long history of private pension provision. Traditionally, many employers have provided high quality pension schemes for their employees, supporting them with employer contributions. In 1978, this was further recognised by allowing contracting out from what was then the State Earnings Related Pension Scheme.

11.1.2 Contracting out allows people to opt out of the State Second Pension scheme. Those who do, forego some or all of their rights in the State Second Pension scheme. In return they receive a rebate of their National Insurance contributions. In a defined contribution scheme, the rebate, and any associated tax relief, is invested in the person's pension scheme.

11.1.3 Over time, layers of regulation have been added to the legislation surrounding private pensions, including the rules on contracting out. This has produced an extremely complicated system, both for schemes to operate and for members to understand.

11.1.4 The Pensions Bill will abolish contracting out on a defined contribution basis. This will apply to both occupational schemes set up by an employer and personal pension schemes. Schemes contracted out on a defined contribution basis and the members of those schemes will no longer receive the contracting out contributions rebate. The members will, however, build up rights to the State Second Pension.

11.1.5 In a defined contribution scheme the pension outcome depends on investment in equities and bonds. There is no guaranteed outcome,

unlike State Second Pension which provides a defined benefit. It is therefore difficult for a defined contribution scheme member to judge whether he or she would be better off contracted out of or contracted in to the State Second Pension because they are not comparing like with like. Defined contribution contracting out does not provide the clarity necessary to encourage pension savings.

11.1.6 Reform of the State Pension will provide a clear foundation from the State, making it easier for people to make decisions about their additional pension savings. The effect of abolishing contracting out on a defined contribution basis on those (including those on average earnings) currently contracted out is expected to be broadly neutral over the long term.

11.1.7 Although they will not have the advantage of the contracted out rebate, they will start accruing rights to State Second Pension. Furthermore the loss of the rebate will not prevent them from continuing to make contributions to any other pension scheme (or other savings vehicles) in addition to the rights that they will be building up in the State scheme.

## 11.2 **Defined Benefit Schemes**

11.2.1 In a contracted out defined benefit scheme, the employer and employee pay reduced rate National Insurance contributions and the scheme provides benefits calculated by reference to the individual's earnings and length of pensionable service.

11.2.2 From 1978 to 1997, if a defined benefit scheme wanted to contract out of the additional State Pension, the employer had to agree that the scheme would pay at least a statutory minimum level of benefits – the Guaranteed Minimum Pension. While Guaranteed Minimum Pensions ceased to accrue in 1997, past rights still exist. This is a continuing source of complexity. Since 1997, schemes have been required to

meet an overall test of scheme quality, the Reference Scheme Test, which is considerably more flexible.

11.2.3 The conversion of Guaranteed Minimum Pensions into ordinary scheme benefits on the basis of actuarial equivalence will allow schemes to adopt a unified and streamlined benefit structure. Members will benefit from obtaining pension rights that can be more easily understood, compared with the existing situation where there may be different tranches of benefit involving a complex mixture of rules. Furthermore, they will benefit from being able to transfer their post-conversion rights to another scheme more readily.

11.2.4 Guaranteed Minimum Pension conversion will be an option for schemes; no scheme will be required to convert.

11.2.5 The occupational and personal pension reforms will simplify a complex system in the interest of schemes and their members. The reforms will provide a degree of clarity which does not exist at present and will, therefore, encourage saving for retirement for all. The Department believes that the reforms will result in no adverse, differential impact on any of the section 75 groups.

## **12. MITIGATION**

12.1 The provisions of the Pensions Bill have been considered in the context of their impact on the groups set out in Section 75 of the 1998 Act. The Department has concluded that, whilst the reforms are largely positive, they may have an adverse, differential impact on some Section 75 groups. Those incidents are considered below.

## 12.2 **Reduced Contribution Conditions and the Parent's and Carer's Credit**

12.2.1 The introduction of the reforms introducing reduced contribution conditions for entitlement to a full basic State Pension and the Parent's and Carer's Credit could result in two people with similar working histories, reaching State Pension age either side of 6 April 2010, ending up with different pension outcomes.

12.2.2 A phasing-in of the new rules might help to avoid this, but to do so would mean that many of the people for whom reform is most needed would miss out. Bringing the date forward simply moves the cut-off dates to affect a different group of people.

12.2.3 The 2010 date has been chosen as a clear start date, based on what is fair, affordable and sustainable.

## 12.3 **Increase in State Pension Age**

12.3.1 Increased longevity means that people are working proportionately less and spending more years beyond State Pension age. Today, male life expectancy after State Pension age is a further 17 years, so that 26% of male adult life is spent after State Pension age. By 2051, it is expected that this will increase to nearly a third of adult life if State Pension age remains unchanged. Female life expectancy is higher and also increasing, though at a slightly lower rate<sup>(1)</sup>.

*(1) Government Actuary's Department, United Kingdom Interim Life Table and United Kingdom Principal Projection; House of Commons Library calculations.*

12.3.2 The increases in State Pension age will mean that the proportion of adult life spent in receipt of State Pension will remain about the same. By 2055, assuming life expectancy continues to increase in line with projections, for both men and women the number of years after State

Pension age will be broadly the same as that of those reaching 65 in 2020 (when the equalisation of male and female State Pension age at 65 will be fully phased in).

**Reformed System**  
**Number of years and percentage of adult life spent**  
**post-State Pension age**

	<b>2006 SPA 65</b>	<b>2020 SPA 65</b>	<b>2026 SPA 66</b>	<b>2036 SPA 67</b>	<b>2046 SPA 68</b>	<b>2055 SPA 68</b>
<b>Years</b>						
Men	20.1	21.6	21.1	21.1	21.0	21.8
Women	28.3	24.5	24.0	23.8	23.6	24.4
<b>Percentage</b>						
Men	30.0	31.4	30.6	30.1	29.6	30.4
Women	40.3	34.3	33.3	32.7	32.1	32.8

*Source: Government Actuary's Department 2004-based principal projection; median cohort figures for the United Kingdom.*

12.3.3 A rise in State Pension age means a higher proportion of people will continue to work for longer, thereby reducing the number of people of pensionable age and increasing that of working age. The result is that the ratio of working age to pensionable age population will remain in decline, but not as sharply as it would if State Pension age remained unchanged. For those unable to work between the ages of 65 and 68, the increases to State Pension age will result in a corresponding extension in the availability of working-age benefits.

**Projected population by age  
United Kingdom, 2004 - 2071**

YEAR	2004	2011	2021	2031	2041	2051	2061	2071
<i>Thousands</i>								
Under 16	11,646	11,231	11,399	11,483	11,246	11,270	11,307	11,217
Working Age	37,064	38,479	40,588	40,191	40,214	40,377	39,868	40,029
Pensionable Age	11,125	12,182	12,740	15,340	16,894	17,605	18,682	19,235
<i>Percentages</i>								
Under 16	19.5	18.1	17.6	17.1	16.5	16.3	16.2	15.9
Working Age	61.9	62.2	62.7	60.0	58.8	58.3	57.1	56.8
Pensionable Age	18.6	19.7	19.7	22.9	24.7	25.4	26.7	27.3
<b>Support Ratio</b> (working age/ pensionable age)	3.33	3.16	3.19	2.62	2.38	2.29	2.13	2.08

**Effect of increase in State Pension age: Projected  
population by age United Kingdom 2004 – 2044**

YEAR	2004	2011	2021	2026	2031	2036	2041	2044
<i>Thousands</i>								
Under 16	11,646	11,231	11,399	11,487	11,483	11,360	11,246	11,219
Working Age	37,064	38,478	40,588	41,381	41,040	41,568	41,594	42,526
Pensionable Age	11,125	12,182	12,740	13,134	14,491	14,838	15,513	14,911
<i>Percentages</i>								
Under 16	19.5	18.1	17.6	17.4	17.1	16.8	16.5	16.3
Working Age	61.9	62.2	62.7	62.7	61.2	61.3	60.9	61.9
Pensionable Age	18.6	19.7	19.7	19.9	21.6	21.9	22.7	21.7
Support Ratio (working age/ pensionable age)	3.33	3.16	3.19	3.15	2.83	2.80	2.68	2.85

Source: Government Actuary's Department Population Projections database (population by age by single year of age).

Note: Working age and pensionable age population based on State Pension Age for given year. Between 2010 and 2020, State Pension age will change from 65 years for men and 60 for women to 65 years for both sexes.

The second table takes account of the increase from age 65 to age 68.

12.3.4 If the value of State Pensions is to be maintained in the long-term, the only alternative to an increased State Pension age is an additional financial burden for the working population of the future.

12.3.5 There are therefore valid socio-economic reasons for increasing the State Pension age.

#### 12.4 **Persons with dependants and persons without**

12.4.1 Abolition of adult dependency increases from 6 April 2010 may adversely impact on some pensioners.

12.4.2 Dependants of pensioners receiving a Category A pension become entitled to a Category B pension on reaching State Pension age. Since adult dependency increases are payable at the same rate as a Category B pension, there is no advantage in claiming an increase in respect of a dependant who has reached State Pension age. Those likely to be affected are, therefore, pensioners with an adult dependant who has not reached State Pension age.

12.4.3 At September 2006, out of a total of 262,824 State pensioners in Northern Ireland, 1075 adult dependency increases were in payment, representing 0.4% of State pensioners in Northern Ireland. Of those, 1,068 increases were in payment to men, while 7 were in payment to women<sup>(1)</sup>.

*(1) Department for Social Development – Retirement Pensions Summary Statistics 2006*

12.4.4 The reform will, therefore, have an adverse impact on a number of, mainly, male pensioners.

12.4.5 Adult dependency increases have their origins in the immediate post-war period when single breadwinner households were the norm. The

concept of “dependency”, on which adult dependency increases are based, has arguably little relevance in today’s society, in which partnerships of equals is the norm, and can act as a disincentive for individuals to work up to the State Pension age.

12.4.6 Existing provisions governing entitlement to adult dependency increases are complex and do little to assist lower income couples, as the amount of any increase is taken into account, pound for pound, in calculating Pension Credit entitlement. Their abolition will simplify the rules for State Pension and the availability of Pension Credit will mitigate the financial impact for pensioners on low and moderate incomes.

12.4.7 The Bill provides for all entitlements existing immediately before 6 April 2010 to be protected up to 2020. Those in respect of whom adult dependency increases would otherwise have been payable and are unable to work, will be eligible for the usual range of working-age benefits.

### **13. RESPONSES TO CONSULTATION**

13.1 One response was received, from Disability Action

13.2 Whilst welcoming changes to the pensions system addressing inequalities experienced by disabled people, Disability Action pointed out that, although pensioner incomes compare well with those of previous generations, according to Help the Aged 2.2 million pensioners in the United Kingdom are still living in poverty.

13.3 Disability Action suggested that the low number of responses to the White Paper *Security in Retirement: towards a new pensions system* might be a consequence of the consultation extending over the summer period and recommended that the Department consult by meeting affected groups.

## 14. CONSIDERATION OF RESPONSES

- 14.1 Across the United Kingdom around £11.6 billion more will be spent on pensioners in 2007/08 as a result of measures introduced since 1997. Average pensioner incomes rose by 25 per cent between 1996/7 and 2004/5, compared to 15 per cent for average earnings over the same period. Even pensioners not on Pension Credit (or any other income-related benefit) have seen their income from the State rise around as fast as average earnings. Today, pensioners are less likely to be living in poverty than other sectors of society. The Bill provides a power to uprate the Standard Minimum Guarantee in Pension Credit annually in line with earnings. This is particularly beneficial to pensioners on low incomes.
- 14.2 The measures proposed in the Pensions Bill are designed to provide future generations – tomorrow's pensioners – with a more generous, more widely available foundation for private saving, while addressing the inadequacies and injustices of the current system.
- 14.3 A full public consultation was carried out between May and September 2006 in respect of the White Paper *Security in Retirement: towards a new pensions system*. Over 220 consultation documents were issued to political parties and key interest groups in Northern Ireland. Three responses were received.
- 14.4 In addition, a number of public consultation events were held across the United Kingdom, including Belfast, on 18 March 2006. In view of the need to maintain parity with Great Britain in the policy development process and to ensure that Northern Ireland interests were represented, consultation arrangements for Northern Ireland mirrored those for the rest of the United Kingdom.
- 14.5 Having considered the observations made by Disability Action and in view of its earlier assessment of the impact of the proposed reforms as

set out in section 4 above, the Department has decided to proceed with the Pensions Bill without any change to policy.

## **15. MONITORING FOR ADVERSE IMPACTS IN THE FUTURE**

- 15.1 While the parity principle is designed to ensure uniformity of provision across the United Kingdom, and notwithstanding that the Westminster Pensions Bill has already received Royal Assent, in line with the Department's commitment under the Equality Scheme, any adverse differential impacts on equality of opportunity or good relations identified will be shared with the Department for Work and Pensions and taken into account in its ongoing monitoring of the effects of the policy. Such findings will be used to inform further development of, or modification to, existing policies.

### List of consultees

Advice NI

Age Concern (NI)

Dr Sean Brady, Archbishop of Armagh & Primate of all Ireland

Most Rev. Alan Harper, Archbishop of Armagh & Primate of all Ireland

Rev. Roy Cooper, Methodist President

Rt. Rev. Dr. John Finlay, Presbyterian Moderator

Association of Independent Advice Centres

Belfast Islamic Centre

Bryson House

Carers Northern Ireland

Citizens Advice Regional Office

Community Foundation for Northern Ireland

The Community Relations Council

Cruse Bereavement Care (NI) Regional HQ

Disability Action

Equality Coalition Committee on the Administration of Justice

Equality Commission

Gingerbread

Help the Aged (NI)

Irish Congress of Trade Unions

The Law Society

Members of the Legislative Assembly

Multi-Cultural Resource Centre

National Association of Pension Funds

NICVA

NIGRA (NI Gay Rights Association)

Northern Ireland Committee, Irish Congress of Trade Unions

Northern Ireland Council for Ethnic Minorities

NI Human Rights Commission (NIHRC)

Relate

RNIB (Northern Ireland Services Bureau)

Simon Community (NI)

UNISON

Women's Information Group

Women's Support Network