



**Simplicity, security  
and choice:**

**Working and saving for retirement  
Action on occupational pensions –  
a summary**



# Summary

1. People are living longer than ever before. Rising longevity is to be celebrated, but it brings important challenges for all developed countries. The UK is better placed than most to adapt to an ageing population with one of the largest stocks of private pension savings in Europe and a state system that is fiscally sustainable.
2. An ageing society needs long-term solutions. As the Pensions Green Paper<sup>1</sup> made clear, individuals need to be able to plan for their retirement and make real and informed choices about how and when to save, and how long to work.
3. The Government will be driving forward this agenda over the coming months. However, as responses to the consultation made clear, occupational pensions, traditionally a source of strength in the UK pensions partnership, face particular pressures that require early action.
4. In total, more than 800 consultation responses were submitted, from a broad and diverse range of stakeholders, as well as feedback from 35 consultation events attended by nearly 2,000 people.
5. *Simplicity, security and choice: Working and saving for retirement – Action on occupational pensions* sets out steps the Government will be taking to reform occupational pensions to address the concerns raised.
6. The Government recognises the importance of protecting accrued rights, but at the same time recognises that, to meet future challenges, all partners need to be given greater flexibility to find solutions that best suit their needs, so that they can play their part in renewing the UK pensions partnership.
7. We believe these proposals achieve that balance. But we are committed to independent monitoring, so we have established the Pensions Commission to ensure that these solutions continue working over time.

## Occupational pensions – improving member protection

8. In the Green Paper, the Government proposed to improve the protection offered to members of pension schemes so that they would have greater confidence that they would benefit from their saving. Over the consultation period many respondents told us they agreed, arguing that there was a particular need to take early action to ensure that members of defined benefit pension schemes were protected if their schemes were wound up.

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<sup>1</sup> *Simplicity, security and choice: Working and saving for retirement*, Cm 5677.

### Action on occupational pensions

9. The Government will protect consumers and improve the future security of pensioners by:
  - **introducing a Pensions Protection Fund** to guarantee members a specified minimum level of pension when the sponsoring employer becomes insolvent;
  - **requiring solvent employers who choose to wind up their pension schemes to meet their pension promise in full**; and
  - **revising the priority order which applies on wind-up** to ensure the fairest possible sharing of assets.
10. In addition, the Government will introduce new protection to deal with anxieties arising from the demands of an increasingly dynamic economy where companies are taken over and people move between jobs more frequently. We will:
  - increase protection when firms are bought out by **extending the protections offered by the Transfer of Undertakings (Protection of Employment) regulations (TUPE)** to the pension schemes of workers in the private sector;
  - help people build up rights in short-stay jobs by introducing a **new approach to vesting**. At the moment, rights are only protected after two years' employment; in future, employees who have been scheme members for at least three months and leave during the vesting period will be offered the choice of a refund of contributions or a Cash Equivalent Transfer Value (CETV). This will be of particular benefit to women, who are more likely to change or leave jobs during the period; and
  - introduce a **requirement on employers to consult** before making changes to pension schemes to ensure changes are developed in partnership.
11. The Government will introduce a new system of private pension regulation with a **new Pensions Regulator**. The new Pensions Regulator will concentrate on rooting out fraud and bad practice so that everyone has confidence in the system. It will do so in a way that supports our objectives of simplicity and reduced burdens on business.

### Making pension provision easier for employers

12. In the Green Paper, we said that in order to encourage greater pension provision, we needed to strike a balance between offering simplification for pension providers and employers, and ensuring that pension scheme members are reassured that their money is held securely.
13. The Government will implement a number of changes to simplify and enable greater flexibility in pension provision for employers and pension providers. In particular, we will:
  - replace the Minimum Funding Requirement with **scheme-specific funding arrangements**;
  - **reduce the cap on mandatory indexation** that is required of schemes;

- **increase the flexibility for schemes** to rationalise the structure of their benefits; and
  - **simplify the legislation** in other key areas – including tax and contracting-out – to make it easier to administer pension schemes.
14. In addition, the Government has set up an Employer Task Force, chaired by Sir Peter Davis, Group Chief Executive of J Sainsbury plc, with members drawn from employers and trade unions. The Task Force will identify what employers can do to improve and extend pension provision, and will advise Government on the employer's role.

## Choice for all – planning for retirement

15. The Government wants to do away with outdated inflexible approaches to retirement. We believe people should have the choice over how they save and when they retire. However, we recognise that there are currently barriers in the system that prevent people from exercising this choice.
16. Alongside this document on occupational pensions, we can confirm that we will be taking forward a range of measures that will enable people to make their own decisions about how and when to save. For example, we will:
- work to **extend combined pension forecasting** across the private pensions industry, by encouraging voluntary provision; and
  - **open up more options for flexible retirement** and encourage people to work for longer by outlawing age discrimination, providing back-to-work help for those aged 50 and over, and introducing changes to tax rules to allow people to work at the same time as drawing a pension.
17. Extending working lives can have a significant, positive impact on retirement income, and may be of particular benefit to women, many of whom interrupt their careers to look after children. The reforms also complement the Government's existing efforts to improve the opportunities of black and minority ethnic people in the labour market. In addition, the Government will play a leading role by raising the normal pension age for public service pension schemes.
18. We will consult with leading employers, employee representatives and pension providers to gather and promulgate best practice.

## Conclusion

19. The measures outlined in *Simplicity, security and choice: Working and saving for retirement – Action on occupational pensions* build on the existing strengths of the UK pensions system. They will renew the pensions partnership between Government, individuals, employers and the financial services industry.

**Action on occupational pensions**

20. We have developed a package that strikes a balance between tough choices. The measures bolster members' security, while ensuring, through simplification and deregulation in some areas, that the costs of providing good schemes do not rise. We estimate that across all schemes, depending on what employers choose to do, the impact will range from cost-neutral to a net saving of £155 million a year.
21. It is important that employees and employers work together to define the type of pension provision that suits them best. This balanced package is designed to make it easier for pension schemes to operate, while ensuring employees have much greater confidence that pensions promised are pensions delivered.

This document is a summary of *Simplicity, security and choice: Working and saving for retirement – Action on occupational pensions*. The full report (Cm 5835, June 2003) is available free from The Stationery Office.

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