



Chapter 2: Strengthening existing provision



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Summary

People are not saving enough for their retirement. The introduction of a new scheme of personal accounts, automatic enrolment and minimum employer contributions will tackle at source some of the key barriers to saving, overcoming inertia, reducing costs and simplifying the savings decision.

But our response must also recognise the important role already played by many employers in providing high-quality pension schemes with valuable employer contributions and high-quality support and advice for their staff. We must continue to support this existing provision.

We will:

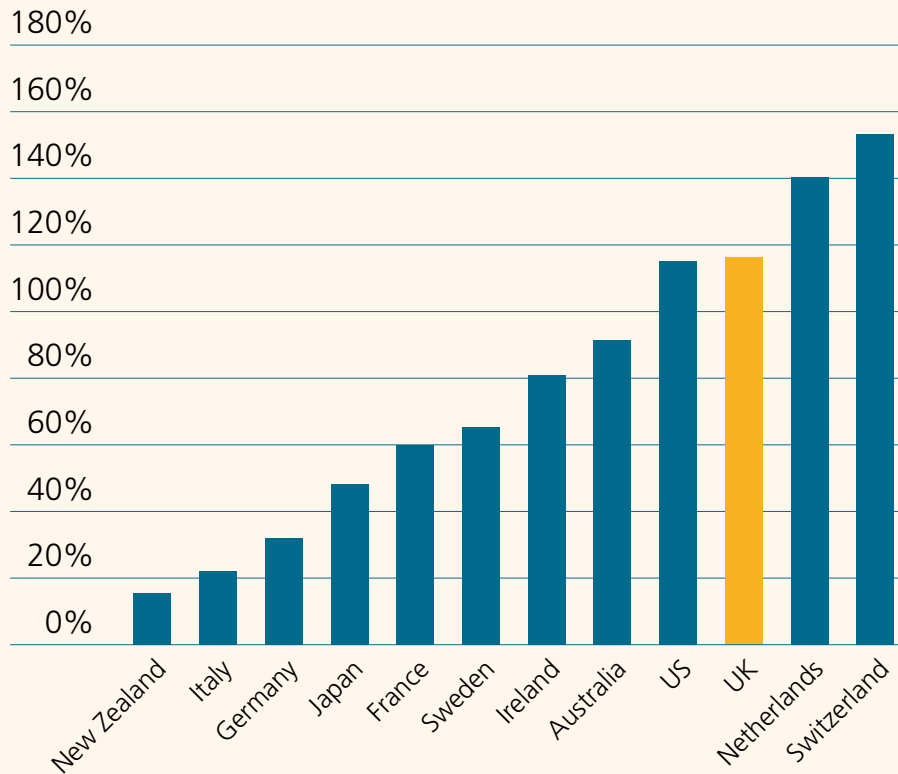
- reduce administrative complexity by **abolishing contracting out for defined contribution pension schemes**. This will also remove a key source of confusion for individuals;
- set in place a **rolling deregulatory review** of pension regulations;
- allow occupational schemes to **convert Guaranteed Minimum Pension rights into scheme benefits**, offering the actuarial equivalent in exchange;
- pilot a **Pensions Law Rewrite Project**, to establish whether there would be value for business in a substantive rewrite of pensions law; and
- bring forward proposals in the autumn for a review of those organisations established through the Pensions Act 2004 to ensure they are configured in the most effective way to achieve our long-term objectives.
- extend the Financial Assistance Scheme to ensure people within 15 years of their scheme's normal pension age in May 2004 may qualify for help.

These measures will help meet the five tests for pension reform. They will make the system **simpler** for employers and providers by reducing regulatory burdens, and for individuals through clarifying the choices they face. They will make the system more affordable and sustainable.

Context for reform

2.1 The introduction of a new pension saving scheme of personal accounts will provide access to a high-quality savings vehicle for those without good existing workplace provision. Many people already have access to such provision through existing occupational arrangements. The UK has a very successful history in occupational pension provision – employers have traditionally treated the provision of good-quality pension schemes as a serious priority in remuneration packages for their employees. Figure 2.i shows, as a percentage of GDP, the total pension assets under management in the UK compared with other countries.

Figure 2.i Total assets for pension funds and life insurance investments as a percentage of GDP, 2004



Source: OECD, *Global Pension and Insurance Statistics (2005)*

Note: This includes assets in pension funds, life insurance companies and social security reserve funds.

2.2 Personal accounts are intended to provide a new architecture for private pension saving for those not currently covered by alternatives provided through the workplace. Chapter 1 describes how employers already offering schemes of a certain standard will be able to opt out of the requirement to provide access to personal accounts.

- 2.3 Against this background, it is therefore crucial that we continue to support the existing occupational pensions framework. Employees saving in workplace schemes can benefit not only from contributions from their employer but frequently from low charges and good supporting information. It is an effective environment for saving. We will continue to support work-based pension provision and protect scheme members with a regulatory regime that encourages employers to continue to play a prominent role in pension provision.
- 2.4 We must also ensure that individuals are well placed to be able to take the decisions that are right for them about pension saving. This will in part be delivered through the measures described in Chapter 1, such as the introduction of automatic enrolment and the ongoing provision of financial and pension-related information. But it must also involve ensuring that there is no unnecessary legal or regulatory complexity for individuals surrounding private pension provision.

Summary of proposals

- 2.5 To strengthen the system further, we now propose:
- to revise the arrangements for contracting out of the State Second Pension into an occupational or personal pension scheme by abolishing contracting out into defined contribution (DC) pension schemes;
 - to investigate further ways to lighten the regulatory burden on business through a rolling deregulatory review of the rules governing pensions, which will feed into the Department for Work and Pension's (DWP's) simplification plan, to be published later this year;
 - to allow schemes to convert Guaranteed Minimum Pension rights into scheme benefits, offering the actuarial equivalent value in exchange;
 - to pilot a Pensions Law Rewrite Project, to establish whether deregulatory gains could be made from a substantive rewrite of pensions legislation; and
 - to bring forward proposals in the autumn for a review of those organisations established through the Pensions Act 2004 to ensure they are configured in the most effective way to achieve our long-term objectives.
 - to extend the Financial Assistance Scheme to ensure people within 15 years of their scheme's normal pension age in May 2004 may qualify for help.

Contracting out

2.6 Since 1978, the state pension system has included a mandatory, earnings-related second tier for employees. The system allows individuals a choice, however, on how this earnings-related provision is made: they must either be members of the state second-tier provision (State Earnings-Related Pension Scheme (SERPS)/State Second Pension) or be contracted out into a private pension. Where people choose to contract out of the state scheme, part of their National Insurance contributions (NICs) is rebated and invested to build up a funded pension. Box 2a describes contracting out in more detail.

Box 2a: What is contracting out, and how does it work?

Contracting out was introduced for defined benefit (DB) schemes in 1978, when SERPS was created, and has evolved over time to include DC schemes. It provides a private sector alternative to the State Second Pension, allowing people to invest privately now to replace benefits that would otherwise be provided by the State at some point in the future.

In the current contracting out system, employees forego all or part of their State Second Pension entitlement and in return pay lower-rate NICs and/or receive an annual payment into their pension scheme. Where the contracting out arrangement is an occupational scheme, the employer also pays reduced-rate NICs. These reductions and payments are known collectively as the contracted-out rebate.

For DB schemes, the rebate is currently¹ a reduction in NIC levels of 5.1 per cent (3.5 per cent for employers and 1.6 per cent for employees) on earnings between the Lower Earnings Limit and the Upper Earnings Limit. The rebates for contracted-out DC schemes are two-tier. For DC occupational schemes, flat-rate rebates are made through reduced-rate NICs (1 per cent for employers and 1.6 per cent for employees) and, at the end of the relevant tax year, an age-related 'top-up' is paid direct to the occupational scheme. For those contracted out through a personal or stakeholder pension, full-rate NICs are payable but a higher age-related rebate payment is made direct to their pension fund at the end of the relevant tax year. Age-related rebates are currently capped at 10.5 per cent.

The State therefore saves the need to pay for additional State Pension out of tax/NICs in the future and in return receives lower NIC income now.

DB schemes that contract out must meet an overall scheme quality test, known as the Reference Scheme Test. There are no specific rules about the use of the rebate in DB arrangements.

¹ A review of the rebate rates is required by legislation at least every five years. New rates will be introduced from April 2007. These are set out in the Regulatory Impact Assessment that accompanies this paper.

Box 2a: What is contracting out, and how does it work? (continued)

The sponsoring employer of a contracted-out DC occupational scheme must pay amounts equivalent to the rebate into the scheme within a set period. These are known as minimum payments. There is no requirement for the employer to contribute more than the minimum payment. The contracted-out DC benefits from both occupational and personal pension schemes are subject to certain restrictions.

A brief history of contracting out

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|------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| 1978 | Contracting out introduced for DB schemes. |
| 1988 | Contracting out extended to money-purchase schemes and a 2 per cent incentive added to the rebate for individuals in DC schemes from 1988 to 1993. |
| 1993 | 1 per cent age addition paid to people aged 30 and over in a DC personal pension scheme from 1993 to 1997. |
| 1997 | Age-related rebates introduced for individuals in money-purchase schemes, making the rebate actuarially neutral. |

Complexity for individuals

- 2.7 Since contracting out was introduced in 1978, the pattern of private pension provision has evolved. At that time, most private sector occupational schemes were DB schemes. An estimated 24 per cent of employees belonged to a private sector contracted-out DB occupational scheme. But this had fallen to 11 per cent by 2004, largely as a result of the closure of DB schemes to new members and, in some cases, to all future accruals.
- 2.8 As a result, the number of individuals contracted out in private sector DB occupational schemes fell from around 5 million in 1989/90 to under 3 million in 2003/04.
- 2.9 An increasing proportion of private pension schemes now operate on a DC basis. Under the current DC arrangements, with an actuarially neutral rebate, it has become increasingly difficult to judge (particularly for personal pensions) whether or not an individual would be better off in the State Second Pension scheme or contracted out. There is an inevitable tension in substituting DC for DB provision because it is not comparing like with like. Contracting out on a DC basis involves investment in equities and bonds and, as with all investments, there is no guaranteed outcome.²

² The age-related rebate is capped and it is generally accepted that the majority of those affected by the cap would be better off contracted in.

- 2.10 Current trends would suggest that an increasing number of people with DC pensions are contracting back into the State Second Pension. There is also evidence that a growing number of providers have contracted policy holders back into the state scheme, unless the policy holder opts not to do so. Between 2001/02 and 2003/04 around 700,000 people in DC schemes contracted back into the State Second Pension.³
- 2.11 The evidence that complexity is a key factor in putting people off any sort of long-term savings decisions is compelling. Elsewhere in this paper we have made clear the priority we place on tackling undersaving and encouraging personal responsibility by clarifying the key decisions people need to take in relation to their financial planning for retirement.
- 2.12 We want people to be clear on what they can expect from the State. In this context, we have decided that the current contracting out arrangements do not fit with the newly clarified environment in which we are asking people to take their savings decisions. People will not therefore be able to use personal accounts as a vehicle into which to contract out.

Regulatory complexity for pension schemes

- 2.13 In addition to difficult decisions about the benefits of contracting out into DC schemes, many commentators have pointed to the associated administrative complexity and costs. These arise because of particular conditions that apply to contracted-out rights. Requirements relating to investment, the purchase of a unisex annuity and the provision of a survivor benefit require contracted-out rights to be tracked separately from other rights and treated differently at the point of annuitisation.
- 2.14 Administrative complexity also arises from rights built up in DB schemes. Part of the reason for the current complexity is that, with each past reform, members have built up a series of different rights under different rules.
- 2.15 Against this background, any proposals for the reform of contracting out must also address the past rights that individuals have built up if we are to avoid complicating matters still further. Later in this chapter, we introduce proposals to tackle one element of this problem – Guaranteed Minimum Pension rights.

Proposals for reform to contracting out

- 2.16 The complexity and regulatory burdens associated with contracting out undermine saving. The Pensions Commission suggested that, if contracting out did not exist, it would not be invented now. We accept this view and, therefore, have been considering how to reform contracting out as part of a coherent pensions reform package.

³ DWP, 2006, *Second Tier Pension Provision 1978/79–2003/04*.

2.17 However, we also recognise, as did the Pensions Commission, that the nature of DB provision does not allow for sudden reforms. Consequently, any changes to DB contracting out will need to take place over the longer term to reflect changes to the State Second Pension, and as part of the evaluation of the overall pensions reform package.

Contracting out for DC schemes

2.18 The Government agrees with the Pensions Commission that the decisions around contracting out into DC schemes have become too complicated and that the system is poorly understood. We now propose to abolish contracting out into DC pension schemes, both occupational and personal/stakeholder.

2.19 Abolishing contracting out into DC schemes will:

- offer greater clarity for individuals, removing the difficult judgement to be made about whether they would be better off contracted in or contracted out;
- enable individuals to make informed decisions about their additional pension saving options by building on a clear foundation from the State;
- avoid the complex decisions for individuals and advisers that could arise from the introduction of a new scheme of personal accounts, if people were able to contract out; and
- reduce costs for providers by removing the associated regulatory complexity.

2.20 We described earlier the conditions that currently apply to contracted-out DC rights. The abolition of contracting out for DC schemes raises important questions about the treatment of rights already accrued in the past and whether any or all of those conditions should continue to apply. We intend to consult on the possibility of reforming or removing the restrictions on investment and the type of annuity that may be purchased with savings built up through contracting out. We will examine options in this area with a view to increasing simplicity for scheme members and reducing the regulatory burden.

2.21 The DC contracted-out rebate will end at the same time as the basic State Pension is uprated in line with earnings, which we describe in detail in Chapter 3.

Contracting out for DB schemes

- 2.22 In a DB scheme, the pension is calculated by reference to the individual's earnings, and employer and employee contributions are set at a level to fund the scheme benefits. Decisions on funding levels and contribution rates are taken on a long-term basis. Decisions on contracting out and joining the pension scheme are therefore usually more clear cut. The Pensions Commission recognised that the abolition of contracting out for DB schemes would be more likely to spur scheme closure and reduce national saving than to stimulate more saving. This is because it could require a major restructuring of scheme benefits and a revision of scheme rules.
- 2.23 The Pensions Commission concluded that, for DB schemes, rather than abolishing contracting out, it should be phased out by 2030 when the State Second Pension becomes flat rate, making the flat-rate element of the State Second Pension 100 per cent contracted in. However, we do not intend, at this stage, to bring forward additional proposals to abolish DB contracting out in the longer term. Instead, the long-term future of contracting out for DB schemes will be subject to ongoing review as part of the evaluation of the overall reform package.
- 2.24 We believe that abolishing contracting out for DC schemes and retaining it for DB schemes on the current basis strikes the best balance between the need to simplify the system, where possible, for individuals and schemes, and a desire not to disturb existing DB provision.

The impact of reforms to contracting out

- 2.25 As a result of the abolition of contracting out into DC pension schemes, those people who had previously been contracted out into such schemes will start to build up new rights to the State Second Pension. At the same time, they will no longer receive contracted-out rebates into their pension schemes. There will be no impact on their take-home pay.
- 2.26 Given the actuarial assumptions currently used to calculate the level of the rebate, people should generally be no better or worse off in retirement as a result of the abolition of contracting out for DC pensions.
- 2.27 An additional impact of this decision will be on the insurance industry and other firms managing contracted-out pension funds. We recognise the need to manage this impact carefully and will take this fully into account when considering how we approach the implementation of this decision. We welcome views on this issue.

Dealing with past rights – Guaranteed Minimum Pension conversion

- 2.28 Abolition of contracting out for DC schemes will simplify private savings decisions for individuals and reduce complexity for employers offering DC pension provision. There is also, however, an ongoing issue of complexity within DB schemes as a result of the fact that, with each past reform, members have built up a series of different rights under different rules. The most complex of these rules concerns the Guaranteed Minimum Pensions built up on an individual basis by members of DB schemes.
- 2.29 From 1978 to 1997, if a DB occupational pension 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, particularly on wind-up and over transfers. Since 1997, however, contracted-out DB schemes have been required to meet an overall test of scheme quality, the Reference Scheme Test, which is considerably more flexible.
- 2.30 Against this background, any proposals for the reform of contracting out must also address the past rights that individuals have built up, if we are to avoid complicating matters still further.
- 2.31 The Government proposes to allow schemes to convert Guaranteed Minimum Pension rights into scheme benefits, offering the actuarial equivalent value in exchange. This would allow for easier (and therefore cheaper) administration in the scheme and also make it easier for the member to move their rights into other pension products, if they wish to do so.
- 2.32 We estimate that this measure would save schemes around £8 million to £15 million a year, assuming that 25 to 50 per cent of schemes choose to make the change. There would be a one-off cost to implement the change, of between £12 million and £24 million, to make IT software changes and pay associated legal, actuarial and administrative fees.
- 2.33 The Government intends to bring forward legislation to enable this change as soon as a suitable opportunity arises.
- 2.34 One further proposal for possible administrative simplifications relating to contracting out has been that we should allow employers to buy their staff back retrospectively into the State Second Pension. We have considered this approach, but, for a number of reasons outlined in Box 2b, we have decided not to take this proposal forward.

Box 2b: Buy-back into the State Second Pension

It has been suggested that as part of the pension reform package the Government should allow contracted-out pension schemes to 'buy back' their members' rights in the State Second Pension. The potential benefits to schemes of such a buy-back are that it would enable them to simplify their administration – for example, closed DB schemes might be able to stop operating contracting out altogether – and to match their assets more closely to their liabilities. However, it would not in itself reduce the pension fund deficits facing certain DB schemes: deficits would only be reduced if scheme sponsors financed the buy-backs, and this would consume cash that sponsors might use to reduce their deficits in other ways. It would also produce a short-term cash inflow to government (though this would be offset over the longer term by increased payments of the State Second Pension).

The Government is sympathetic to the aims of the buy-back proposal. It is envisaged that forthcoming legislation will allow schemes to convert certain contracted-out rights (Guaranteed Minimum Pension rights) into scheme benefits. Accordingly, we undertook a preliminary investigation of both the legal and the financial feasibility of creating a facility for more broad-based buy-backs. This investigation suggested that buy-backs would be feasible in principle, but very complex in practice. In addition, unless significant changes were made to SERPS/State Second Pension, it would not be possible to guarantee that individuals would receive at retirement as much SERPS/State Second Pension as they had given up in the pension scheme. Accordingly, the Government does not propose to include a provision for buy-backs in its pension reform.

Further reducing the regulatory burden

A continuing programme of simplification

2.35 The Government recognises the importance of security and confidence as prerequisites to private pension saving. The Pensions Act 2004 set out a new approach. The Act created the Pension Protection Fund (PPF), a major new institution that radically transformed the nature of protection offered to members of DB pension schemes. Over 10 million members of final salary pension schemes now benefit from the security of knowing they will receive a meaningful occupational pension even if their company becomes insolvent and the pension scheme is underfunded.

- 2.36 The Act also established The Pensions Regulator (TPR), which now assists in protecting members' benefits while enabling companies to get on with running good schemes. It operates a risk-based approach to regulation in line with the recommendations of the Hampton Review.⁴ It promotes effective governance for all work-based pension schemes and works with trustees, employers and professional advisers to put things right where necessary.
- 2.37 Since the 2004 Act, the Government has been pursuing a range of simplifying measures. These have included:
- changes to section 67 of the Pensions Act 1995 to make it easier for schemes to amend scheme rules, by allowing changes that affect accrued rights, provided that the overall value of benefits is not changed (depending on take-up, potential ongoing savings of £3.5 million a year);
 - key legislation in the Finance Act 2004 to replace the complex pensions tax rules with one simple and flexible regime. The legislation was implemented in April 2006;
 - aligning some contracting out rules with tax rules (savings in the region of £9 million a year); and
 - making it easier for employers who run several small schemes to bulk-transfer members with protected rights into a single scheme (expected to save schemes £10 million over the next three years).
- 2.38 In addition, TPR and the PPF are considering how they might contribute to the simplification process. TPR, for example, has already been working on reducing the burden of the scheme return, with a more streamlined version available from the beginning of May 2006. It is also reviewing its information and data requirements in the widest sense and looking at where it can use information already gathered by other organisations – government or commercial – rather than requiring schemes to submit it. The PPF is looking at the requirements governing the provision of information to its Board with a view to identifying and eliminating duplication wherever possible.
- 2.39 In the light of regulatory experience, TPR is also considering whether there are parts of the legislative framework which have proved to be unnecessary or less effective in practice than anticipated, and which could be removed – for example, some types of notifiable event – and will make recommendations to DWP. TPR will continue to review its effectiveness in fulfilling its statutory objectives, particularly in the context of proportionate and risk-based regulation.

⁴ Hampton Philip, March 2005, *Reducing administrative burdens: effective inspection and enforcement*. This report can be accessed at www.hm-treasury.gov.uk/hampton

2.40 TPR's aim is to focus on those areas where concerns are greatest, and to concentrate on delivering better and more effective risk-based regulation relevant to its environment and stakeholders. TPR will therefore apply a light touch to enforcing legislation that does not contribute significantly to the achievement of its objectives and will draw DWP's attention to legislative requirements that appear to be ineffective or disproportionate.

Deregulatory review

- 2.41 The proposals contained earlier in this chapter to abolish contracting out on a DC basis will considerably simplify the position for DC occupational schemes. Enabling the conversion of Guaranteed Minimum Pension rights within DB schemes will help that part of the pensions sector. Alongside the introduction of the new scheme of personal accounts, we also propose to review the current requirement on most employers to designate a stakeholder pension provider. Clearly, the future of stakeholder pensions is an important issue and one that we will consider carefully with key stakeholders in the industry and with employers.
- 2.42 In addition, we are now launching a rolling deregulatory review of pensions regulation, which will feed into DWP's simplification plan, to be published later this year. It may be possible to remove, merge or simplify many of the layers of legal requirements introduced in and since the 1995 Pensions Act. This could include re-examining the provisions on matters such as:
- mandatory indexation of pensions in payment;
 - member-nominated trustees;
 - administrative and internal control requirements;
 - restrictions on changes to accrued rights (section 67);
 - payments to employers where surplus funds exist;
 - deemed buy-back; and
 - internal dispute resolution.
- 2.43 Reforms in some of these areas (for example, further reform of the requirement to apply price indexation to pensions in payment) could have the scope to make a significant difference to the costs of running an occupational pension scheme.

- 2.44 We will establish a group of external stakeholders to help us review the current position, first to identify particular areas where quick wins may be possible (including changes that could be achieved by secondary legislation or administrative action), and then, more comprehensively, to maintain momentum by mapping out a programme of simplification measures.
- 2.45 We would welcome proposals for priority areas – in the first instance, during the consultation period following the publication of this paper.

Pensions Law Rewrite Project

- 2.46 The Government has also been considering the possibility of launching a Pensions Law Rewrite Project, drawing on the experience of the successful recent Tax Law Rewrite Project, which has been progressively rewriting the body of tax law with a view to making it simpler and easier to understand. Such a project would involve a mixed team of public and private sector lawyers and other professionals taking a hard look at the complexity of pensions law to see whether it could be written more clearly, thus removing some of the burden of compliance without changing the substance of the regulatory policy.
- 2.47 This would be a very major undertaking and consequently the Government proposes to run a pilot which would focus on one or more sets of regulations which have an impact on business, to test whether the approach is likely to produce worthwhile dividends in terms of simplicity and, ultimately, savings for schemes and employers.

The institutional landscape for pensions

The existing landscape

- 2.48 The pensions landscape has changed markedly as a result of the introduction of the Pensions Act 2004 and the creation of two new independent statutory bodies, The Pensions Regulator and the Pension Protection Fund.
- 2.49 These bodies – working together – have transformed the security of occupational pension saving for members of DB schemes. The Act also established the Financial Assistance Scheme to provide help to many of those who had lost the most in the past. The scheme came into operation on 1 September 2005, providing help to qualifying members within three years of their scheme pension age on 14 May 2004. The Financial Assistance Scheme (FAS) will help groups close to retirement who lost out before the PPF was established. Following the Prime Minister's announcement to expedite the review of the FAS planned for CSR07, the Government has decided to extend the FAS so that it will assist eligible people who were within fifteen years of their scheme pension age on or before 14 May 2004. This should ensure that up to a further 30,000 people who lost significant amounts when their pension schemes were wound up, will benefit from the new arrangements. Under this extension, scheme

benefits will be tapered so that the Government will pay the full 80 per cent to those within seven years of scheme pension age, 65 per cent to those within eight to eleven years of scheme pension age and 50 per cent to the remainder.

- 2.50 The establishment of these new pensions bodies has added to the existing pensions landscape. In addition to the government departments with various responsibilities for pensions policy, there are several government-sponsored bodies charged with functions partly or wholly related to pensions policy, and beyond that a number of outside organisations whose roles include pensions to a lesser or greater extent. A number of these are described in Box 2c.

Box 2c: The existing institutional landscape

The Pension Protection Fund – a statutory fund established under the provisions of the Pensions Act 2004 to pay compensation to members of eligible DB pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover PPF levels of compensation.

The Pensions Regulator – a regulatory body for work-based pension schemes, created under the Pensions Act 2004, which takes a risk-focused approach to regulation.

The Financial Assistance Scheme – administered by DWP and managed by a national Financial Assistance Scheme Operational Unit, the scheme offers help to people who have lost out on their pension because their scheme was underfunded, and the employer is insolvent or no longer exists.

The Pensions Advisory Service – an independent non-profit organisation which provides information and guidance on the whole spectrum of pensions, covering state, occupational, personal and stakeholder schemes.

The Pensions Ombudsman – an independent and impartial adjudicator who investigates and decides complaints and disputes concerning occupational pension schemes and Personal Retirement Savings Accounts.

Maintaining the consensus

- 2.51 The Pensions Commission recommended the creation of a government advisory body. The Commission envisaged that such a body would provide a detailed analysis of key trends in demographics and pension provision. The overall intention was to provide an independent and trusted voice that would spell out ‘the unavoidable trade-offs’.

2.52 The Government recognises the value of the Commission's recommendation. The Commission itself has been hugely successful in driving forward the debate on pension reform and in particular in helping convince the public of the need for change. We therefore propose to periodically commission reviews drawing on a range of independent expert advice in the light of emerging evidence on demographic change.

Supporting the strategy for an ageing society

2.53 Chapter 4 sets out plans to ensure a cross-government strategic approach towards an ageing society. Part of that work has implications for the institutional landscape that need to be considered:

- The Social Exclusion Unit promised a review to consider the establishment of an office for ageing and older people.
- The Government committed in *Opportunity Age*⁵ to explore the scope for an observatory on ageing that would improve the evidence base available to policy makers.

2.54 Further work remains to be done in both of these areas – the review promised by the Social Exclusion Unit will not be complete until later this year and options exist regarding how any institutional changes would take effect. An observatory on ageing, for example, could fit within an existing institution, or form part of any office for ageing and older people.

Pensions institutions

2.55 The pension reforms, particularly the new scheme of personal accounts, and the work on an ageing society, will have significant implications for the pensions institutional landscape. This makes it appropriate and in line with the principles of good governance and better regulation to review those organisations established through the Pensions Act 2004 and how they fit with the reform proposals. The aim is to ensure they are configured in the most effective way to achieve our long-term objectives. We will be bringing forward plans for this review in the autumn, once we have developed further detail on the scheme of personal accounts.

⁵ DWP, 2005, *Opportunity Age: Meeting the challenges of ageing in the 21st century* (Cm 6466i) DWP.

- 2.56 This chapter has outlined a range of measures to help strengthen the existing occupational pensions sector, and to help clarify further the decisions individuals need to take with regard to their saving. Coupled with the measures outlined in Chapter 1 – introducing mandatory automatic enrolment, a minimum level of employer contributions and a new scheme of personal accounts – these measures will help support a private pensions sector delivering good outcomes for individuals in retirement.
- 2.57 But for these measures to be successful, it is essential that individuals receive the right incentives from the State Pension as a foundation on which to build savings. The following chapter introduces a radical reform to the state pension system to ensure that it continues to perform this vital function.