NAPF
Securing the future of pensions

The DWP's consultation document on "The Pension Sharing (Pension Credit Benefit) (Amendment) Regulations 2008"

A response by

The National Association of Pension Funds

July 2008

Introduction

1. The NAPF is the leading voice of workplace pensions in the UK, with over 1300 members, between them providing pensions to over 10 million working people. NAPF Member schemes hold assets of some £800bn.

2. We welcome the opportunity to respond to the consultation by the Department for Work and Pensions (DWP) on the new flexibility being proposed for the payment of pension credit benefit by occupational pension schemes in cases of pension sharing on divorce.

3. We offer comments below on the four areas on which DWP has requested input. These are based on a limited number of written submissions from our NAPF pension scheme members. The overwhelming verbal feedback we have had from our members is that the proposals are to be welcomed.

Comments

4. The policy proposals are entirely sensible. There is often a need for an ex-spouse to draw an income from a pension sharing order before a pension scheme's 'normal benefit age' and it is hard for individuals to understand why this need can be met only by taking up the CETV option (where options are available). There is little logic to the average individual to the current restriction. Also, it is sensible to apply the same commutation rules to pension credit benefit as apply to other benefits payable from pension schemes.

5. The proposed regulations appear to us to put the policy aims into effect.

6. We have had no comments indicating that the proposed implementation date of October 2008 would create difficulties for our members.

7. A number of comments have been submitted to us regarding potential additional costs imposed by the regulations, although none of these included an estimate of those costs. We have received no submission which foresees a saving for schemes or employers arising from the changes.

8. One member is concerned that this change might lead to a requirement for trustees to offer pension credit benefit where no such requirement exists at present. Although nothing in the regulations explicitly states this, the member fears an unintended new pressure on trustees to change their stance on pension sharing - perhaps because an early retirement benefit retained within a scheme usually provides a higher income than a pension credit transferred to an insurer.

9. If this were to happen, then simply introducing an additional scheme member (the ex-spouse), whose benefits would otherwise have been a liability met by an insurer, creates additional risk – and potential cost – for the scheme.

10. Another comment pointed to the additional cost imposed in cases where a scheme's early retirement factors may not be actuarially neutral.

11. The final cost concern expressed some frustration with divorce lawyers, who "seem to find it horrendously difficult to deal with pension sharing even where a CETV is the only option". This member suggests that trying to value a pension where scheme specific rules and flexibility apply "could make matters even more difficult or costly for the participants".

12. Lastly, on a more positive note, a large NAPF scheme member reports that the pattern within that particular scheme is for pension credits to go to disadvantaged women in fairly low numbers. We note from Parliament's Research Paper 07/94 that the abolition of safeguarded rights, proposed in the current Pensions Bill is likely to affect 4,000 to 5,000 pension sharing cases each year. Therefore the impact of the changes proposed here on any one pension scheme will be minimal. The impact on affected individuals is potentially of enormous benefit.

Alan Chart, Policy Adviser: Regulation **21 July 2008**