The Pensions Act 2008

The Pensions Act 2008 puts into law the reforms to the private pension system set out in the White Paper, Personal Accounts: a new way to save published in December 2006.

These reforms build upon the Pensions Act 2007 and are aimed at enabling and encouraging more people to build up a private pension income to supplement the money received from their basic State Pension.

The Act only applies to Great Britain but it is intended that Northern Ireland, which has its own pensions legislation, will make corresponding provision for its customers in due course.

The Pensions Act 2008 – an overview

The Pensions Act contains a number of measures aimed at encouraging greater private pension saving. From 2012 it is planned that all eligible workers, who are not already in a good quality workplace scheme, will be automatically enrolled into either their employers' pension scheme or a new savings vehicle, which is currently known as a personal account scheme. To encourage participation, employees' pension contributions will be supplemented by contributions from employers and tax relief.

Automatic enrolment

It is planned that from 2012, employers will automatically enrol eligible workers' between the ages of 22 and State Pension Age who are not in a qualifying scheme into a qualifying workplace pension scheme (which can include the new 'personal accounts' scheme). Automatic enrolment means instead of choosing whether to join a workplace pension scheme provided by their employer, all eligible workers will have to actively decide not to be in a scheme, if for any reason they feel this is not a suitable form of personal saving for their situation.

Minimum employer contribution

For the first time all employers will be required to contribute a minimum of 3 percent (on a band of earnings) to an eligible employee's workplace pension scheme. This will supplement the 4 percent contribution from the employee and around 1 percent from the Government in the form of tax relief.

The personal accounts scheme

From 2012 it is planned to introduce a new low cost saving vehicle (the personal accounts scheme) aimed at employees who don't have access to a good quality work based pension scheme - in the main, median to low earners.

Key features of the scheme:

Occupational pension scheme – run in the best interests of its members; Low charges; Simplicity.

There will be contribution limit of £3,600 per year (based on 2005 earning levels) and a general ban on transfers in and out of the scheme, to focus the scheme on the target market.

The Act also includes measures to:

- Enforce employer duties through a compliance regime for which the Pensions Regulator will have overall responsibility;
- Extend the remit of the delivery authority;
- The Government plans to introduce these reforms from 2012, but information will be made available in advance of this date to ensure that those affected are prepared for the changes before they take effect.

Simplification measures

This act includes a number of measures designed to simplify the existing system - for both state and private pensions. These include consolidation of additional State Pension and removal of rules relating to contracted- out rights.

Other measures

Pensions Protection Fund (PPF)

This Act makes a number of changes relating to the operation of the PPF including enabling PPF compensation to be shared on divorce as well as enabling individuals in the PPF with terminal illness to commute their entitlement into a lump sum.

Financial Assistance scheme (FAS)

The Act includes measures that will enable changes to be made to extend the qualifying conditions for the FAS.

Datasharing

The Act also allows data to be shared between the DWP and energy suppliers to enable them to better target the assistance they provide to individuals receiving Pension Credit.

4/12/08