

**OCOP (00)05
18 April 2000**

HM TREASURY

OFFICIAL COMMITTEE ON OCCUPATIONAL PENSIONS

NOTE BY THE SECRETARY

DEFINED CONTRIBUTION PENSION SCHEMES: INDEXATION

The DSS have announced, in the attached press release, that defined contribution occupational pension schemes will have greater flexibility to offer their members investment-linked annuities. An amendment to the Child Support, Pensions and Social Security Bill, due to receive Royal Assent in the summer, will allow funds in occupational schemes subject to the "Limited Price Indexation" requirement to be used to buy investment-linked annuities.

Could departments please ensure that any of their bodies which have money purchase schemes are alerted to this proposed new flexibility.

ELIZABETH ROBERTS

**HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG**



PRESS RELEASE

00/076

22 March 2000

GOVERNMENT RELAXES RULES FOR OCCUPATIONAL PENSION SCHEMES

Occupational pension schemes will have greater flexibility to offer their members investment-linked annuities under proposals put forward by the Government this week.

Following extensive consultation with the pensions industry, employers and the public, the Government has tabled amendments to the Child Support Pensions and Social Security Bill.

Replying to a Parliamentary Question from Jean Corston MP (Bristol East), Pensions Minister Jeff Rooker said:

"We asked for views from the pensions industry, employers and the public on whether it would be right to relax the current indexation rules for money purchase pension schemes, to allow schemes to offer investment-linked annuities to any members who might wish to choose this option as an alternative to a traditional indexed annuity. Investment-linked annuities enable the annuitant to benefit from growth in a range of underlying investments after retirement, though this goes hand in hand with a risk of possible falls in pension income if investment performance is poor.

"The principle of introducing this greater flexibility for occupational scheme members was widely welcomed. The balance of opinion was against the introduction of mandatory guarantees to protect the level of pension paid by investment-linked annuities, because this would hamper product design and could have a significant effect on the potential growth in the annuitant's future income. A mixed response was received to the question of whether investment-linked annuities should also be allowed to be bought from "protected rights" elements of funds (that is, any part of the fund which has accrued in place of rights in SERPS).

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"We have tabled an amendment to the Child Support, Pensions and Social Security Bill which will have the effect of allowing funds in occupational schemes subject to the "Limited Price Indexation" requirement to be used to purchase an investment-linked annuity. Protected rights will not be covered by the amendment, however. We intend to give further detailed consideration to the issues that arise for protected rights before deciding whether to make any changes to the indexation rules which apply to them. We shall also give careful consideration to the comments which many respondents made on the wider question of the application of indexation requirements to occupational money purchase pension schemes.

"I am arranging for copies of the responses received in the consultation exercise to be placed in the library of the House."

Press Enquiries: **020 7238 0866**
Out of Hours: **01459 108883**
Public Enquiries: **020 7712 2171**
Internet address: **www.dss.gov.uk**

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