

# Single-Tier State Pension Fact sheet

The Government has published plans to reform the current state pension into a simple single-tier pension. Please bear in mind that these plans must be agreed by Parliament before they become law.

In this fact sheet we outline the basic features of the single-tier pension system, summarise how it will affect different people, and provide useful links to more information that is available on the [DWP website](#).

## What is single tier?

- A new, simple state pension that provides a firm foundation for workplace saving. If you reach State Pension age before 6 April 2016 you will receive your state pension in line with existing rules.
- If you contribute entirely to the new single-tier scheme, it will replace today's complicated state pension with a single amount based on 35 qualifying years of National Insurance contributions. If you have fewer than 35 years when you reach State Pension age you will get a pro-rata amount. However, you will need to have a minimum number of qualifying years when you reach State Pension age (this will be set between 7 and 10 years), otherwise you will not get a single-tier pension.
- If you have made National Insurance contributions or received credits under the current system they will be converted into a single-tier foundation amount. Providing you meet the minimum qualifying year requirement, you will get no less than the amount calculated using the present scheme rules. There is more detail about this later.
- The single-tier pension will deliver a modern state pension based on individual qualification, so you will not be able to inherit or derive rights to the single-tier pension of your spouse or civil partner. However, if you have contributions or credits on your National Insurance record under the current state pension scheme, there will be transitional protection.

## Who will get a single-tier pension?

- The single-tier pension will be introduced from 6 April 2016. This means all women born on or after 6 April 1953 will reach State Pension age after the introduction of single tier and will receive a single-tier pension, as will every man born on or after 6 April 1951. As long as they meet the minimum qualifying period these people will be able to get a single-tier pension.

## How much will the single-tier pension be?

- This will not be decided until shortly before single tier is introduced. It will be set above the basic level of means-tested support (the Pension Credit standard minimum guarantee, £142.70 per week in 2012/13). The White Paper used an illustrative full single-tier rate of £144 per week.
- It is proposed that the single-tier pension will be increased each year, by at least the percentage that average national earnings have grown in the previous year. The White Paper assumed that it will be increased by the 'triple lock' (i.e. the highest of the growth in earnings, price inflation or 2.5%) consistent with the basic State Pension now.

## How will single tier affect me?

### I reach State Pension age before 6 April 2016

- If you are already over State Pension age, or reach your State Pension age before the new scheme starts, you will continue to receive your State Pension in line with present rules.
- [I reach State Pension age before 6 April 2016 – further information](#)

### I reach State Pension age after 6 April 2016

- If you reach State Pension age after the new scheme starts your state pension will be based on the single-tier scheme. The contributions on your National Insurance record under the current system will count towards your single-tier pension. As long as you satisfy the minimum qualifying year requirement you will get a single-tier pension no lower than the valuation of these contributions.
- [I reach State Pension age after 6 April 2016 – further information](#)

### I start work after 6 April 2016

- If you start work after single tier starts, and you have no contributions under the current scheme, you will get the full single-tier pension if you have 35 qualifying years of National Insurance contributions. If you have fewer than 35 years you will get a pro-rata amount, as long as you satisfy the minimum qualifying year requirement.
- [I start work after 6 April 2016 – further information](#)

## Single-tier Myth Busting

- ✘ [If you are already getting your state pension this will change when single tier comes in.](#)
- ✘ [In 2016 everyone will get £144 if they have 35 years.](#)
- ✘ [People who get their state pension in the future get a better deal.](#)
- ✘ [No-one can get more than £144 even if they contributed to the current system.](#)
- ✘ [I must take action now to cover any gaps in my National Insurance record otherwise it will be too late.](#)

**All of these statements are incorrect. Please click on each statement to access the facts.**

## **I reach State Pension age before 6 April 2016**

### **My pension is more than £144. Are you going to cut it?**

- No. If you reach your State Pension age before single tier starts you will continue to receive your State Pension in line with present rules. You will continue to get both your basic State Pension and your additional State Pension (SERPS or S2P).

### **My pension is less than £144. Why am I missing out?**

- You are not missing out. The changes will not result in spending more money on future pensioners: we will spend no more overall than if the existing system was to continue. Single tier will provide clarity to today's workers, so that they have more certainty about what they will get from their state pension. This will help them understand if they need to save more.
- We will continue to support existing pensioners. We have introduced the triple lock for the basic State Pension, which means that each year it is increased by the highest of the growth in earnings, price inflation or 2.5%. For the April 2013 increase, both price inflation and earnings growth were lower than 2.5%, so the basic State Pension is being increased by 2.5%.
- Poorer pensioners are already entitled to a minimum weekly income of £142.70 through Pension Credit (the standard minimum guarantee), and may also qualify for Housing Benefit and help with their council tax. Pensioners can also receive a Winter Fuel Payment, a free bus pass and, when over the age of 75, a free TV licence. Additional support is also available to those with disabilities or caring responsibilities.

### **If I defer my state pension until after single tier starts in 2016, will I be able to claim a single-tier pension?**

- No - the date you reach State Pension age determines whether you fall into the single tier or the current state pension system. You will not be able to delay taking your state pension in order to bring yourself within the scope of the single-tier scheme.

## **I reach State Pension age after 6 April 2016**

### **I have contributions in the current scheme. How will my single-tier pension be calculated?**

- Under the Government's proposals, National Insurance contributions and credits awarded before the new single-tier system starts will be recognised.
- When single tier starts we will look at your National Insurance record and work out its value under the single-tier rules. At the same time we will work out what you may have got under the present state pension rules. For both valuations we will make a deduction to take into account any periods when you were contracted out of the additional State Pension. Also the minimum qualifying year requirement will apply.
- The higher of these two amounts will then become your single-tier foundation amount. You could be in three positions: your foundation amount could be equal to, more than or less than the full single-tier pension. Please read on for more details.

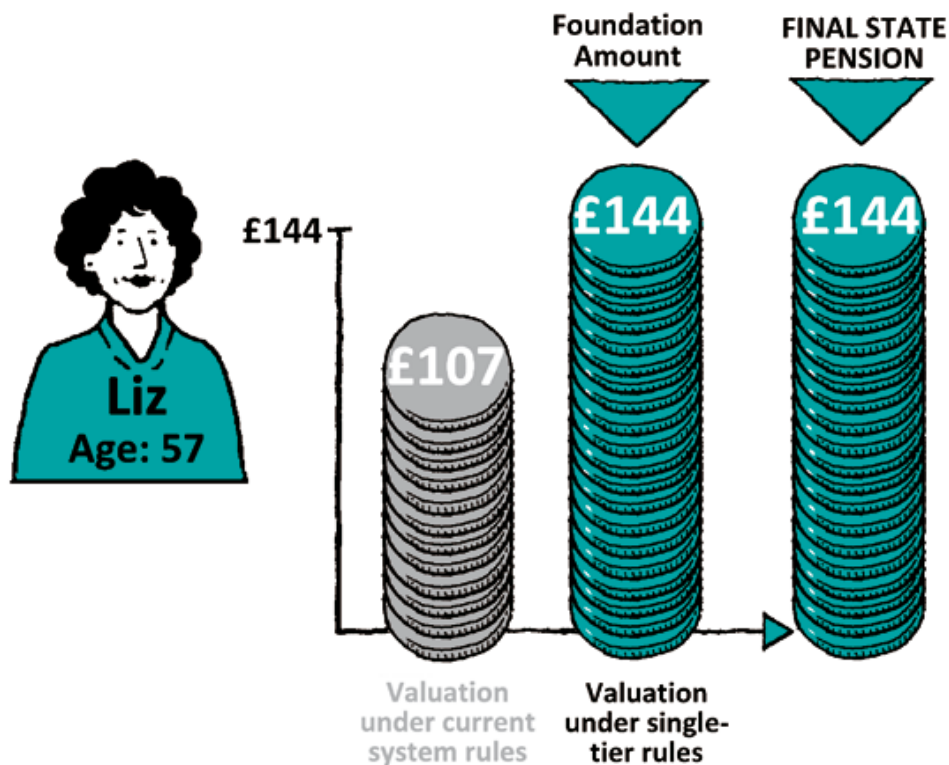
### **What if I have been self employed?**

- When your National Insurance record is valued under the single-tier rules your contributions will be treated in the same way as employee contributions.

### **What if my foundation amount is equal to the full single tier?**

- If your foundation amount is equal to the full single-tier amount, this is what you will get at your State Pension age. It will not increase, even if further qualifying years are added to your National Insurance record.

## Case Study



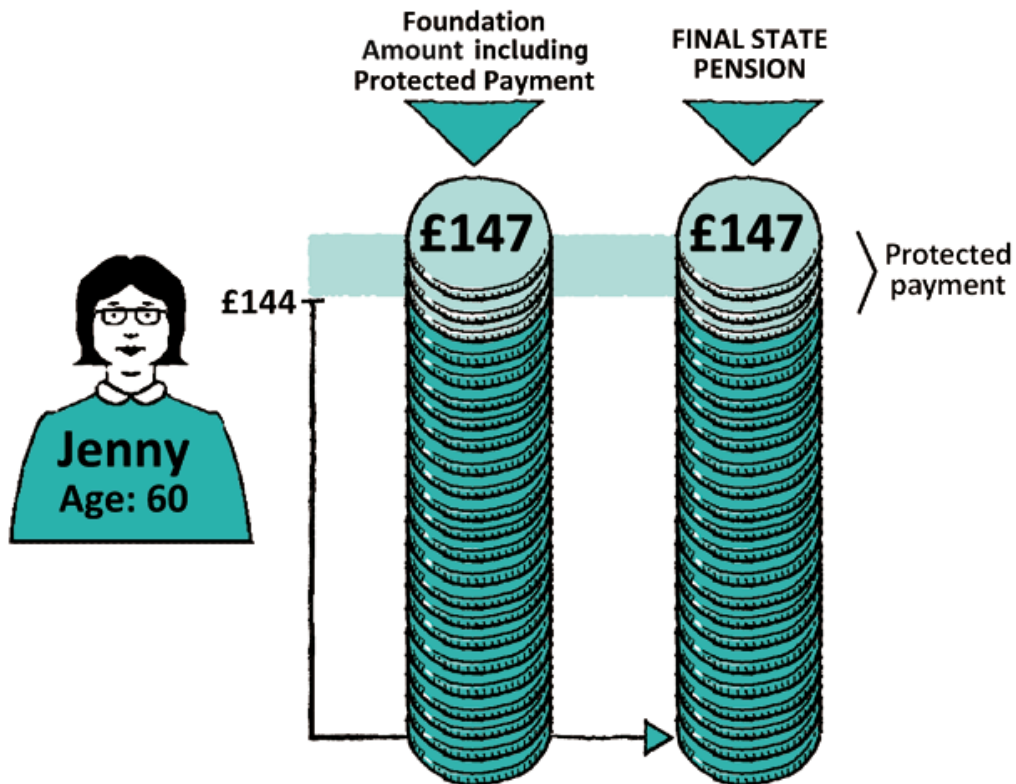
***Liz's foundation amount is equal to the full level of the single-tier pension. She will therefore get £144 every week when she reaches her State Pension age.***

- Liz has been running her own small business for the past 36 years.
- Her National Insurance record as at implementation is valued under the single-tier rules, which take into account her qualifying years. Because she has not been contracted out, no deduction is applied.
- A check is performed to see if Liz would get a higher valuation under the rules of the current system. Time spent self-employed does not build additional State Pension, and so the maximum she could expect under the current system is the full level of the basic State Pension: £107 per week.
- In Liz's case, the single-tier valuation is higher, and so becomes her foundation amount.
- As her foundation amount is already £144, she will not be able to add extra pension by gaining post-implementation qualifying years.
- When she reaches her State Pension age, she will get £144 per week.

## What if my foundation amount is more than the full single tier?

- Under the Government proposals, if your foundation amount is higher than the full level of the single-tier pension you will get the extra amount as a separate protected payment. This will be paid on top of the full single-tier pension.
- This means that your state pension will not be lower than the state pension you would have got under the current scheme, based on your National Insurance record when single tier starts.

## Case Study



***Jenny's foundation amount is more than the full level of the single-tier pension. When she reaches State Pension age, she will receive the full single-tier amount of £144 per week, plus the extra amount.***

- Jenny worked as a receptionist for 32 years. She has not been contracted out at any point in her working life.
- When single-tier starts her National Insurance record is valued under the single-tier rules.
- A second calculation is made to check if Jenny would get a higher valuation under the rules of the current system.
- In Jenny's case, the current system valuation is higher, and therefore this becomes her foundation amount.
- When she reaches State Pension age, she will get the full single-tier amount of £144, plus her 'protected payment' amount of £3 a week.



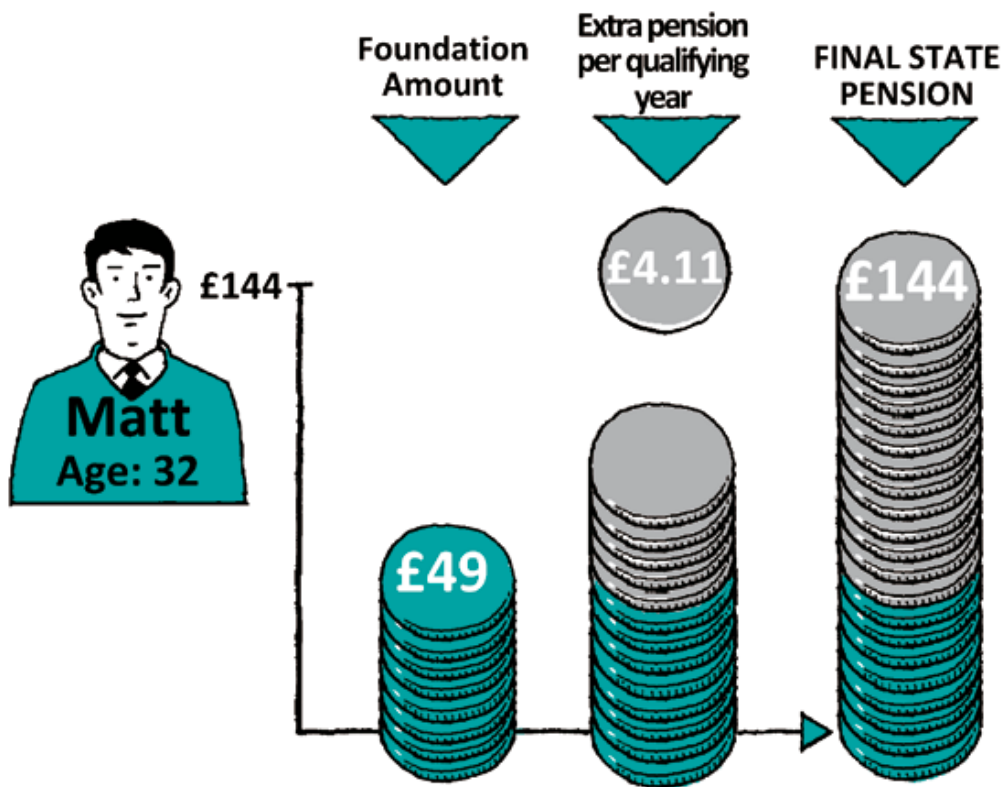
## What if my foundation amount is less than the full single tier?

- Under the Government's proposals, if your foundation amount is lower than the full single-tier pension, you can increase the value of your state pension with further qualifying years up until you reach State Pension age.
- You can do this even if you already have 35 qualifying years. This is likely to be people who were previously contracted out. Please see [here](#).
- Each further qualifying year after 6 April 2016 will increase your foundation amount by 1/35th of the full single-tier pension (up to the maximum level). The White Paper used the illustrative value of 1/35<sup>th</sup> of £144; this would result in each qualifying year being worth £4.11 in extra weekly state pension.

## I am a member of a contracted-out scheme. Will I receive £144 per week if I already have 35 qualifying years?

- If you have previously been contracted out of the additional State Pension, a deduction will be applied when we calculate your foundation amount. This reflects the fact that, whilst you were contracted out, you paid lower National Insurance contributions and your employer received a National Insurance rebate to fund your workplace pension. Therefore, you could have 35 qualifying years and not receive £144 per week.
- The deduction is broadly equivalent in value to the workplace pension the rebate funded. This is consistent with the rules of the existing pension system.

## Case Study



***During periods in Matt's working life he has been contracted out of the additional State Pension. His foundation amount is less than the full level of the single-tier pension because a deduction is applied. He can build on this amount with every qualifying year gained between 2016 and when he reaches State Pension age.***

- Matt has been working as a teacher for ten years before 2016.
- When single-tier starts his National Insurance record is valued under the single-tier rules.
- A second calculation is made to check if Matt would get a higher valuation under the rules of the current system.
- In both calculations a deduction is made to reflect the lower National Insurance contributions he paid when contracted out.
- The higher of the two valuations becomes his foundation amount.

## **Is there any more information about these transitional arrangements?**

- More information can be found in Chapter 4 of the White Paper and this can be accessed here: [www.dwp.gov.uk/single-tier-pension](http://www.dwp.gov.uk/single-tier-pension).

## **I have gaps in my National Insurance record. Should I make voluntary National Insurance contributions now?**

- If you are not due to reach State Pension age until after the single-tier scheme starts, you should wait until DWP can provide full estimates of your single-tier pension before deciding whether to pay.
- HMRC are taking steps to ensure that customers affected by the introduction of single tier will not be adversely affected by the time limits for paying voluntary contributions. More information will be available on the HMRC website.

## **What is happening to inherited or derived rights for those reaching State Pension age after single tier starts in 2016?**

- It is proposed that there will be transitional arrangements. In some circumstances, people who have made National Insurance contributions under the current system will still be able to derive or inherit state pension from a late or former partner.
- Members of a couple in which only one of them reaches their State Pension age under the current system may be able to increase their state pension using their partner's National Insurance record. They can also inherit some additional State Pension from their deceased spouse or civil partner as under the present system.
- When both partners reach State Pension age after single tier starts, a surviving spouse or civil partner will be able to inherit 50% of any protected payment that exists.
- You can find more information at Annex 3 of the White Paper. Also a more detailed technical note can be found here (along with the White Paper): [www.dwp.gov.uk/single-tier-pension](http://www.dwp.gov.uk/single-tier-pension).

## People who are currently members of a contracted-out scheme

### I am a member of a contracted-out scheme. Will I be required to pay higher National Insurance contributions?

- When the single-tier pension starts the State Second Pension scheme will close and contracting out will end - there will be nothing to contract out of.
- You will pay the same rate of National Insurance contributions as people who were not previously contracted out. This will mean an increase in the rate of contributions that you will pay, equivalent to 1.4% of relevant earnings<sup>1</sup>.
- Around 90 per cent of people reaching State Pension age in the first two decades of single tier should get enough extra state pension to offset the increase in National Insurance contributions they will pay over the rest of their working lives and any potential adjustments to their occupational pension schemes.

### I am a member of a private sector contracted-out scheme. What will happen to my workplace pension?

- The pension benefits that you have accrued in your workplace scheme up to the ending of contracting out will be protected.

## Future pension rights in the scheme after the end of contracting-out

- The end of contracting out will mean that your employer will no longer receive the National Insurance rebate for you. They will begin to pay the same National Insurance rate as all other employers - an increase of 3.4% of the relevant earnings of each previously contracted-out employee.
- Employers may make changes to future scheme benefits to take into account the cost of these increased National Insurance contributions. As the rules of some schemes make it difficult for employers to make such changes, the Government plans to change the law to make it easier for schemes to make **limited changes** to reflect the increased cost of National Insurance contributions.
- Employers making scheme changes will be required to consult with the members affected by any re-design of the scheme.
- Some employees who were transferred into the private sector when the nationalised industry they were employed in was privatised have their pension rights protected by Regulations. We are considering whether it is fair and appropriate to override these regulations to enable employers to make limited changes to future benefits.

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<sup>1</sup> Earnings between the Lower Earnings Limit (£5,564) and the Upper Accrual Point (£40,040) (2012/13 annualised figures).

## **I am a member of a public sector contracted-out scheme. What will happen to my workplace pension?**

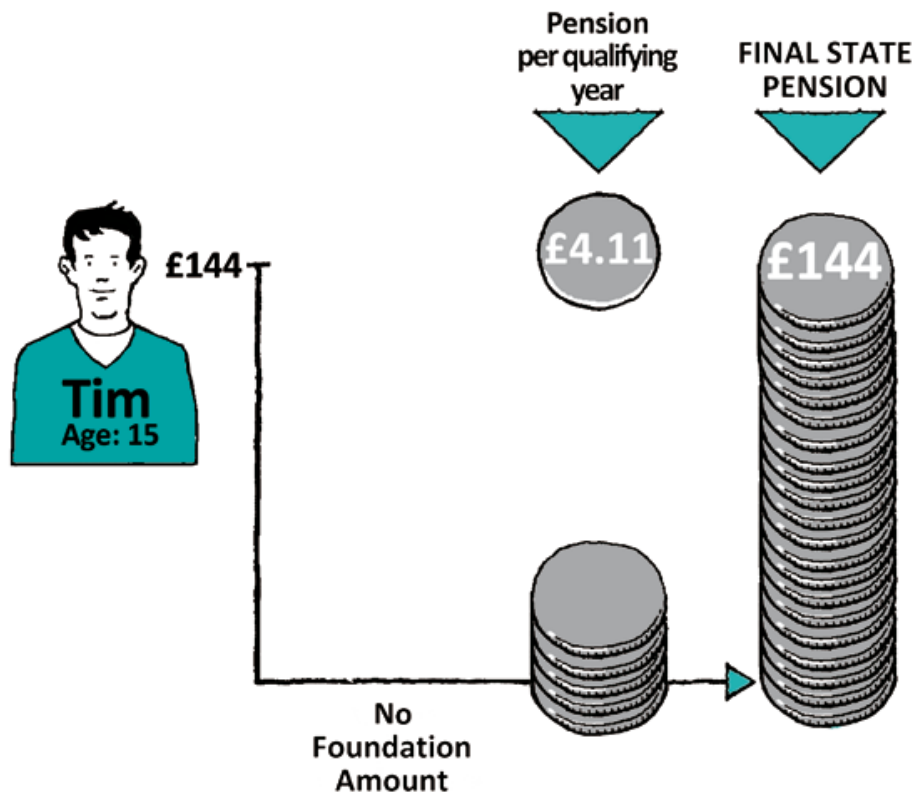
- The Government is already making significant changes to public sector pensions. As part of these changes they gave a guarantee that they would not make any further changes to the schemes for 25 years. As a result, public sector employers will not be able to change their pension schemes to recoup the increased National Insurance costs.

## **I reach State Pension age after 6 April 2016**

### **I will have no contributions under the current scheme. What will I get?**

- You will get the full single-tier pension if you have 35 qualifying years of National Insurance contributions or credits under the single-tier scheme. If you have fewer than 35 years you will get a pro-rata amount. For instance if you have 30 qualifying years you will get 30/35ths of the full amount. If you have 15 years you'll get 15/35ths of the full amount, and so on.
- Each qualifying year is therefore worth  $1/35^{\text{th}}$  of the full single-tier pension. National Insurance contributions made by the self employed will count towards the single-tier pension in the same way as those paid by employees.
- However, you will need to have a minimum number of qualifying years when you reach State Pension age (this will be set between 7 and 10 years), otherwise you will not get a single-tier pension.
- To protect those who cannot work, we intend to use the same rules for awarding National Insurance credits in single tier as we use currently for the basic State Pension.

## Case Study



***Tim is still in school when the single-tier pension starts so he doesn't have a National Insurance record yet. For every qualifying year he gets he will add £4.11 per week to his single-tier pension, up to the full £144.***

- Tim knows that if he gains 35 qualifying years, he will receive £144 per week when he reaches his State Pension age.
- This puts him in a good position to understand how much he needs to be saving in his workplace pension scheme from the start of his working life.
- When Tim begins working he is automatically enrolled into his workplace pension scheme, making it easier for him to save for his retirement.