Single-tier State Pension

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There are two parts to the UK State Pension: the basic State Pension, which is flat-rate, and the additional State Pension, which is partly earnings-related. The additional State Pension was provided through the State Earnings-Related Pension Scheme (SERPS) between 1978 and 2002 and, from 2002 through the State Second Pension (S2P).

The Government legislated in the *Pensions Act 2014* to introduce a single tier State Pension for future pensioners from 6 April 2016. People who have already reached State Pension age at that date will continue to be entitled to the State Pension under current rules.

The single-tier pension is to be set about the basic level of means-tested support (currently, £148.35 pw for a single person in 2014/15) uprated by at least the growth in earnings. Thirty-five 'qualifying years' (of National Insurance contributions or credits) will be needed for the full amount. Those with fewer than 35 qualifying years will receive a pro-rated amount, subject to them having at least ten qualifying years. In general, individuals will qualify for the single-tier on the basis of their own contribution record. So, with some transitional protection, the special rules for marriage divorce or bereavement will end.

This note looks at the development of the Government's proposals for a single-tier State Pension. The background to reform – including the reforms introduced by the Labour Government - is discussed in more detail in SN 5787 *State Pension reform - 2012*. The issue of women born between April 1951 and April 1953 who will not be eligible for a single-tier State Pension although a man born on the same date would be, is in Library Note SN 6630 *Single-tier State Pension – women born between 1951 and 1953* (March 2014).

Contents

1 Background

1.1 Overview of the State Pension system

The UK state pension has two tiers.

The **first tier** is provided by the State and consists of the basic State Pension (BSP) which is a contributory, flat-rate benefit. People with a full record of National Insurance Contributions (NICs) qualify for the BSP when they reach State Pension age (SPA). The level of a full BSP in 2014/15 is £113.10. The number of qualifying years needed for a full basic State Pension is 30, for people reaching State Pension age on or after 6 April 2010.[1]

Pensioners with relatively low incomes may also qualify for means-tested support through the Pension Credit. This has two elements. The Guarantee Credit tops up weekly income to a "standard minimum guarantee" (£148.35 for a single person and £226.50 for a couple in 2014/15). Additional amounts are payable in respect of severe disability, certain caring responsibilities and housing costs. The earliest age from which it can be claimed is linked to the State Pension age for women. The Savings Credit aims to provide an additional amount for those aged 65 or over who have made some provision for their retirement.The maximum Savings Credit for a single person is £16.80 in 2014/15.

The **second tier** is the additional State Pension, which is partly earnings-related. People have accrued entitlement through:

- The State Earnings Related Pension Scheme (SERPS) which operated between 1978 and 2002; and
- The State Second Pension (S2P) which replaced SERPS from April 2002.[2]

SERPS and S2P derive from contributions on earnings between lower and upper earnings limits. Entitlement can continue to build up throughout working life.[3] Under legislation already

[1] *Pensions Act 2007*, s1
[2] Between 1961 and 1978, earnings related provision was provided through Graduated Retirement Benefit
[3] This is discussed in more detail in Library Standard Note SN/BT 255 State Second Pension

in place, the additional State Pension is becoming less earning-related and more flat-rate over time.[4]

Since 1978 it has been possible to "contract out" of the additional State Pension into a private pension scheme that meets certain requirements. Where an individual is contracted-out into a salary-related scheme, they and their employer pay lower NICs, reduced by the amount of the "contracted-out rebate".[5] The option to contract-out into a Defined Contribution scheme was removed from 6 April 2012, so that it is only now possible to contract-out into a Defined Benefit (or salary-related) pension scheme.[6]

The SPA is rising. The SPA for women was in any case scheduled to increase from 60 to 65 over the period April 2010 to April 2020.[7] In the *Pensions Act 2007* the Labour Government legislated to increase the equalised SPA: to 66 over two years starting from April 2024; to 67 over two years starting in April 2034; and to 68 over two years starting in April 2044. Provisions in the *Pensions Act 2011* accelerated the pace of SPA equalisation for women from April 2016, so that women's SPA will reach 65 in November 2018. The SPA will then increase to 66 for both men and women from December 2018 to October 2020.[8] Part 2 of the *Pensions Act 2014* includes provision to bring forward the increase to 67 to between 6 April 2026 and 5 March 2028. For future increases, it has established period reviews, in light of changes in life expectancy and other relevant factors.[9] This is discussed in more detail in Library Note SN 6546 *State Pension age 2012 onwards.*

2 The Labour Government's reforms 1997-2010

In the period before it set up the Pensions Commission, the Labour Government made a number of changes to the State Pension system. Key changes included:

- The replacement of the State Earnings Related Pension Scheme (SERPS) with the State Second Pension (S2P) in April 2002, with the aim of boosting the pension entitlements of "those on low incomes and carers" and to help moderate earners build up better second pensions.[10]

- The introduction of Pension Credit in October 2003 with the dual aim of tackling pensioner poverty (through the Guarantee Credit element) and boosting the incentive for future pensioners to save for their own retirement (through the Savings Credit element).[11]

The Pensions Commission, chaired by Lord Turner of Ecchinswell, was established in December 2002 in response to growing concerns that people were not saving enough for their retirement and that measures taken to encourage private sector provision were not

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[4] *Pensions Act 2007,* sections 10-12

[5] For more detail, see SN 4822 Contracting-out of the State Second Pension

[6] Gov.UK – Contracting out of the additional State Pension; A Defined Contribution (DC) scheme is one where benefits depend on factors such contributions, investment returns and annuity rates. A Defined Benefit (DB) scheme is one where benefits are linked to a formula based on salary and length of service.

[7] *Pensions Act 1995,* section 126 and schedule 4

[8] This is discussed in more detail in Library Standard Note SN 6546 State Pension age 2012 onwards

[9] Pensions Act 2014 – Explanatory Notes, paras 126-9; DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, Executive summary, para 34

[10] DWP, *A new contract for welfare: partnership in pensions,* December 1998, Cm 4179, p39

[11] DWP, *Pension Credit: the Government's proposals*, November 2001, page 3; See Library Standard Note SN 1429 State Second Pension

succeeding.[12] The Commission's second report, published at the end of 2005 recommended two key elements of reform. To encourage and support private pension saving, it recommended:

> The creation of a low cost, national funded pension savings scheme into which individuals will be automatically enrolled, but with the right to opt out, with a modest level of compulsory matching employer contributions, and delivering the opportunity to save for a pension at a low Annual Management Charge.[13]

State pension reform would also be needed to provide "clear incentives and an understandable base on which private pension saving looking forward can build." The Commission recommended:

> Reforms to make the state system less means-tested and closer to universal than it would be if current indexation arrangements were continued indefinitely. In order to achieve this while maintaining the standard of living of the poorest pensioners it will need to be more generous on average. In the long-term this implies some mix of both an increase in taxes devoted to pensions expenditure and an increase in State Pension Ages.[14]

In response, the Labour Government introduced changes in the *Pensions Act 2007* aimed at improving coverage of the state pension and reducing the extent of means-testing over time. The changes, which took effect in April 2010, were:

- A reduction in the **number of qualifying years** (i.e. years with sufficient national insurance contributions paid or credited) required to achieve a full basic state pension from 44 (for men) and 39 (for women) to 30, for people reaching State Pension age from 6 April 2010.

- **Home Responsibilities Protection** (HRP) would be converted from a system which reduces the number of qualifying years required to a system of positive credits for each week of relevant responsibilities. There would be credits for each week of receipt of Child Benefit for a child up to the age of 12 for both BSP and the State Second Pension (S2P) (rather than 16 for HRP and 6 for S2P). It would be possible to **combine** periods with earnings (and, therefore, paid contributions) and periods with credits (e.g. for caring responsibilities) to make up a qualifying year for S2P purposes.

- A new specific **credit for carers** would be introduced for people caring for a severely disabled person for 20 hours or more a week.

- The **"25 per cent *de minimis* rule"** and the requirement for **one year's paid contributions** would be removed. People reaching SPA before 6 April 2010 had to satisfy two contribution conditions to get any basic state pension at all. They must actually have paid (as opposed to have been credited with) contributions for one qualifying year. Secondly they must have at least 25% of the number of qualifying years required for a full pension.

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[12] Pensions Commission, Pensions: Challenges and Choices: The First Report of the Pensions Commission, October 2004, pix

[13] Pensions Commission, A New Pension Settlement for the Twenty-First Century; The Second Report of the Pensions Commission, November 2005, Executive Summary

[14] Ibid, p6

It was estimated that these reforms would make a considerable difference to the proportion of women qualifying for a full pension in their own right:

> 2.3 Currently around 35 per cent of women reaching State Pension age in Great Britain are entitled to a full basic State Pension, compared with around 85 per cent of men. Around 50 per cent of women reaching State Pension age in 2010 would have been entitled to a full basic State Pension without reform.
>
> 2.4 Women's State Pension coverage will improve significantly as a result of reform. Women will increasingly build up individual State Pension entitlement based on their own contributions regardless of their marital or partnership status, with caring contributions valued equally with paid contributions. Under reform an estimated three-quarters of women reaching State Pension age in 2010 will be entitled to a full basic State Pension. By 2025, this will rise to around 90 per cent, the same proportion as men, and as a result of reform half a million extra women pensioners over State Pension age will be entitled to a full Basic State Pension.[15]

The generosity of the basic State Pension would be improved over time by restoring the link with earnings, probably from 2012:

> 3.24 During the next Parliament, therefore, we will re-link the uprating of the basic State Pension to average earnings. Our objective, subject to affordability and the fiscal position, is to do this in 2012, but in any event at the latest by the end of the next Parliament. We will make a statement on the precise date at the beginning of the next Parliament.[16]

To help pay for this, legislation was passed to increase the State Pension in stages, with the first increase, from 65 to 66, to be phased in over two years, starting in April 2024; the second increase, from 66 to 67, again phased in over two years, from April 2034; and the third increase, from 67 to 68, also to be phased in over two years, from April 2044.[17]

As recommended by the Commission, the Government took steps to accelerate the transition to a flat-rate S2P:

> 3.47 The beginning of this chapter made clear that, in the face of an ageing population and the need for the state system to provide a foundation for people's savings, the State should move away from the direct provision of pensions related to individuals' earnings and concentrate on flat-rate provision in the future. The introduction of the new personal accounts scheme will mean that for the first time everyone will have access to a genuinely low-cost private savings vehicle. We do not want the State Second Pension to duplicate this, which is why we are able to reinforce and speed up its change in focus to a flat-rate top-up benefit for years spent working, caring or parenting.
>
> 3.48 Accruals will start to become flat rate more quickly at the same time as we start to uprate the basic State Pension by earnings. We estimate that the State Second Pension will become completely flat rate in around 2030, or shortly afterwards.[18]

The background to these reforms is discussed in Library Standard Note SN 5787 *State Pension reform - background.* See also, Institute for Fiscal Studies, *History of state pensions in the UK from 1948 to 2010*.

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[15] DWP, *Gender Impact Assessment of Pension Reform,* 5 December 2007

[16] DWP, *Security in retirement: towards a new pensions system,* Cm 6841, May 2006, para 3.34

[17] Cm 6841, para 3.34; *Pensions Act 2007,* section 13

[18] Cm 6841, para 3.47-8; *Pensions Act 2007,* sections 10-12

3 2010 Green Paper

Following the 2010 General Election, the Conservative-Liberal Democrat Coalition Government announced changes to the arrangements for uprating the State Pension. From April 2011:

- The measure of prices used to uprate the additional State Pension (SERPS/S2P) would be the Consumer Prices Index rather than the Retail Prices Index.

- The basic State Pension would be uprated by a "triple guarantee" of earnings, prices or 2.5 per cent.[19]

On 16 November 2010, Pensions Minister, Steve Webb, confirmed that the Government was considering "a number of options for simplifying the state pension system" but that final decisions had not yet been made.[20] In Budget 2011, the Government said it would "look to reform the state pension for future pensioners so that it provides simple, contributory, flat-rate support above the level of the means-tested Guarantee Credit."[21]

3.1 Options for reform

The Green Paper, *A state pension for the 21st century*, was published on 4 April 2011. It argued that there were three main problems with the existing system:

- **The complexity and uncertainty of outcomes in the state pension** – makes it difficult for people to know what they will get when they retire, meaning it is more difficult to plan and save for retirement.
- **High levels of means testing** – can deter people from saving as the incentives are not sufficiently clear and too many pensioners are forced to rely on Pension Credit to top up their income. Around a third of pensioners do not claim the Pension Credit they are entitled to.
- **Significant inequality remains in the system** – groups such as women, the low paid and the self-employed tend to have lower state pensions.[22]

The Government's view was that reforms introduced in the *Pensions Act 2007,* had not gone far enough. For instance, although steps had been taken to accelerate the evolution to a two-tier flat-rate State Pension, this would take some time:

> 40. In an attempt to simplify the state pension and give people greater clarity over what they will get when they retire, the *Pensions Act 2007* legislated to remove the earnings-related component of the State Second Pension so that the state pension will evolve into two separate flat-rate components by the 2030s.
>
> 41. One of the reasons for this change was that a flat-rate pension, in contrast to the complexity of the partly earnings-related State Second Pension we have today, would make the state pension more transparent and make it easier for people to work out what they will get from the state when they retire.

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[19] HM Treasury, *Budget 2010,* HC 61, June 2010, para 1.107; For further information, see Library Standard SN/BT 5649 *State Pension Uprating – 2010 onwards*

[20] HC Deb, 16 November 2010, c713W

[21] HM Treasury, *Budget 2011,* HC836, March 2011

[22] Ibid, p13

42. However, it takes time for the greater simplicity and clarity provided by a flat-rate pension to come into effect – the first person will not retire with a completely flat-rate pension until the 2080s.[23]

Women would not reach comparable outcomes with men in the State Second Pension until 2050:

55. The comparatively poorer state pension outcomes for women can be seen to result from the fact that, historically, women have tended to have lower earnings and were less likely to have a sufficient number of qualifying years to get a full basic State Pension. They were also less likely to be entitled to a comparable level of additional State Pension because periods spent outside the labour market caring for children were not recognised in the additional State Pension until 2002.

56. As part of the *Pensions Act 2007*, reforms were taken forward in an attempt to reduce inequalities for women in the state pensions system. Key measures included reducing to 30 the number of years needed to qualify for a full basic State Pension and introducing more generous credits for carers to ensure more people, particularly women, could become entitled to a higher level of State Second Pension.

57. However, it will take time for these measures to translate into improved pension entitlement. The proportion of women qualifying for a full basic State Pension will not catch up with men until around 2020. It will take a further 30 years, until 2050, before women reach comparable outcomes with men in the State Second Pension.[24]

And the proportion of pensioners on Pension Credit would not fall far or fast enough:

52. Currently, just under half of pensioners (45 per cent) are eligible for Pension Credit to top up their state pension. This is projected to fall to around a third by 2050 as more pensioners qualify for a full state pension in their own right and benefit from a more generous uprating of the basic State Pension. While reliance on Pension Credit is projected to fall gradually the Government is concerned that, in light of the challenges facing current generations of savers outlined earlier, it does not fall fast or far enough.

53. It is also worth noting that Pension Credit is not claimed by around a third of pensioners who are entitled to it, a proportion which has proved fairly resilient despite efforts by successive governments to encourage pensioners to take up their entitlement. In 2008/09 between £1.6 billion and £2.9 billion Pension Credit was unclaimed by pensioners, with those who do not claim missing out on an average of around £34 a week.[25]

The Green Paper asked for views on two broad options for reform:

Option 1: acceleration of existing reforms so that the state pension evolves into a two-tier flat-rate structure more quickly; or

Option 2: more radical reform to a single-tier flat-rate pension set above the level of the Pension Credit standard minimum guarantee.[26]

[23] Ibid, p18
[24] Ibid, p22. See also, *DWP, Gross State Pension entitlement – February 2011*
[25] DWP, *A state pension for the 21st century*, Cm 8053, April 2011, p21
[26] Ibid, p9

Option 1 – Speeding the transition to a two-tier flat-rate pension

Under legislation already in place, the earnings-related part of the S2P is set to be phased out in the early 2030s.[27] Under Option 1, this process would be speeded up so that S2P became flat-rate more quickly:

> 67. The transition to a flat-rate State Second Pension could be speeded up by phasing out the earnings-related component of the State Second Pension more quickly – by 2020 instead of the mid-2030s. Currently, people can build up earnings-related State Second Pension on earnings between around £14,000 and £40,000. Under current legislation this band is being reduced gradually. Under option 1, the upper band of £40,000 would be brought down to £14,000 over seven years. At the end of this period, people would only build up the flat-rate amount of £1.60 for each qualifying year.[28]

The qualifying criteria for both parts of the State Pension would remain broadly the same and the method of uprating would continue as now. The Government's initial view was that under this option, the Savings Credit would need to be retained for future pensioners. It considered that although this option would give people a clearer indication of what they would receive, it would be "relatively slow to deliver improved state pension entitlement".[29]

Option 2 - A single-tier state pension

If pursued, this would mean combining the current basic State Pension (BSP) and State Second Pension (S2P) into a single-tier for people who reach State Pension age on or after the date any changes are introduced. Key features of this option would be that:

> - Everyone with 30 years of contributions or credits reaching State Pension age would receive a weekly flat-rate payment currently estimated at around £140, which would be above the Pension Credit standard minimum guarantee.
>
> - Everyone would qualify individually – whether single, married, divorced or widowed and no special rules for marriage, bereavement or divorce.
>
> - For self-employed as well as employees (subject to National Insurance considerations).
>
> - Uprated by the higher of earnings, prices or 2.5 per cent.
>
> - Minimum qualification of seven years of National Insurance contributions or credits.
>
> The following components of the existing system would end for future pensioners:
>
> - The State Second Pension, and with it the ability to contract out of the State Second Pension.
>
> - Savings Credit, as most people could expect to retire on a state pension that lifted them clear of the Pension Credit standard minimum income guarantee.[30]

3.2 The future of Pension Credit

Pension Credit would continue to be available as now for current pensioners:

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27 *Pensions Act 2007,* sections 10-12

28 DWP, A state pension for the 21st century, Cm 8053, April 2011, p26

29 Ibid, p28

30 Ibid, p30

103. Whatever the shape of the state pension, the Government recognises that there will always need to be a safety net benefit to help those pensioners who do not have sufficient resources to meet their basic needs in retirement.

104. Pension Credit currently fulfils this support for pensioners' basic needs, and will continue to support today's pensioners who have insufficient resources for their basic needs in retirement.[31]

However, if the single-tier option was pursued, the Savings Credit element of Pension Credit would be abolished for future pensioners:

111. As Chapter 2 outlined, there are two potential options for reform of state pension. Under Option 1 Savings Credit would be retained. Option 2 on the other hand would see the abolition of Savings Credit for future pensioners as the vast majority of future pensioners would have a single-tier pension which lifted them above the basic level of support provided by Pension Credit.

112. Pension Credit is an effective safety net in helping to keep today's pensioners out of poverty. However, we are interested in views as to whether a continuation of the current system of Pension Credit for future pensioners would help achieve the Government's principles of a state pensions system that is simple, fair, promotes personal responsibility, and is affordable and sustainable. Any reforms would need to [be] delivered without increasing public spending in any year.[32]

3.3 Who would the reform apply to?

In his statement to the House of Commons on publication of the Green Paper, Pensions Minister, Steve Webb, explained that both options would affect future pensioners only:

Both options are for future pensioners; pensioners who have already reached state pension age by the date of reform would not be affected, so no existing recipient of state pension would see their income reduced.[33]

The Minister also explained that "for future pensioners, we would also continue to honour the contributions that people have built up to the date of reform":

The first option involves bringing forward existing reforms so that the state pension would evolve into a two-tier, flat rate system more quickly. The second, more radical, option is to move to a single-tier state pension. Both options are for future pensioners; pensioners who have already reached state pension age by the date of reform would not be affected, so no existing recipient of state pension would see their income reduced. For future pensioners, we would also continue to honour the contributions that people have built up to the date of reform.[34]

The Green Paper said one of the main issues to address in the transition to a single-tier would be "recognising people's pension records under the existing system in a way that is fair, but facilitates transition to the new system as quickly as possible":

This could be achieved by calculating pension records under the existing system and then, during transition to the new system, recognising amounts in excess of the currently estimated single-tier pension of £140. This would mean people with higher

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[31] Ibid
[32] Ibid
[33] HC Deb, 4 April 2011, c795 ff
[34] Ibid

> amounts of additional State Pension before the introduction of single tier would receive correspondingly higher weekly payments than the current estimate of £140.[35]

Under the single-tier option, from the date of change, S2P would be closed and no new rights to it would be built up. Contracting-out would also end and, with it, the related National Insurance (NI) rebates. The Green Paper explained that this would mean "sponsors and members of Defined Benefit schemes contracted out of the state second pension would face an increase in National Insurance contributions, so that they would pay the same rate of National Insurance as other employers and employees."[36] They would also start to accrue entitlement to the State Pension on the same basis as other people.

The Green Paper noted that under the single-tier option, people who had been contracted-out would "receive their single-tier pension from a combination of their state and contracted-out scheme, as happens now."[37] In other words, their single-tier would be reduced to reflect the fact that, while contracted-out, they paid a lower rate of National Insurance (NI).[38] Calculating entitlement to the new pension taking account of periods spent contracted out of the State Second pension in a way that was "fair but facilitates transition to the new system as quickly as possible" would be one of the main issues to address in managing the transition to a single-tier.[39]

The Green Paper explained that the effect would be to deliver improved pensions to people who typically had low additional State Pension entitlements, such as women and the self-employed (although the loss of Savings Credit and reform of inherited rights would affect some people in these groups). The trade-off was that, in future, entitlement would be capped, meaning that people who might have been able to accrue state pension entitlements of more than the flat-rate had the existing system continued, would no longer be able to do so:

> In broad terms, people on low incomes and people who have been excluded from additional State Pension, such as women and the self-employed, would gain under this option, although loss of Savings Credit and reform of inherited rights would be expected to affect some people in these groups. Groups who would expect to build up more significant amounts of State Second Pension, such as those with longer working lives and higher earners, would not be able to do so under this option. The introduction of a seven year minimum qualifying rule would also affect the entitlement of older people who are either late migrants to this country or who have had very little contact with the National Insurance system.[40]

The Institute for Fiscal Studies identified as the biggest gainers, those who under the current system would not receive Pension Credit or would have received a lower State Pension than the flat-rate amount:

> This would result in significantly higher state pensions for many, but would also lead to some accruing lower state pension. The biggest gainers would be those who under the current system would not receive the Pension Credit and would also receive a lower State Pension than the proposed new flat-rate amount. This includes those who would not take up their Pension Credit entitlement, and those not eligible on grounds of their

[35] DWP, *A state pension for the 21st century*, Cm 8053, April 2011, chapter 2, para 95
[36] Ibid, para 79
[37] Ibid
[38] Ibid
[39] Ibid, para 95
[40] Ibid para 92-96

> partner's income. The losers would be those with relatively high lifetime earnings who would have otherwise gone on to accrue state pension rights above £140 per week.[41]

3.4 Cost

One of the Government's principles for pension reform was it should be affordable: "any options for reform must be cost neutral in each and every year to avoid placing an unsustainable burden on future taxpayers."[42] As regards its proposal for a single-tier pension:

> Our assessment indicates that a state pension currently estimated at around £140 would be cost neutral. The model set out here could be funded within the overall spending on state pensions. This would be achieved through the abolition of the Savings Credit, closure of the State Second Pension and the introduction of a seven year minimum qualifying rule for future pensioners. The revenue from ending contracting out (the National Insurance rebate) has been excluded from this assessment of costs. Final proposals are subject to confirmation, including on affordability, and will reflect the projections set out in the Office for Budget Responsibility's forthcoming Fiscal Sustainability Report.[43]

In its initial response to the Green Paper, the Institute for Fiscal Studies was sceptical that gains from stopping future accruals to the State Second Pension would be sufficient to finance significant winners in the near future.[44] However, the Pensions Policy Institute, based on an analysis of the Government's Green Paper proposals, said:

> The reform would be broadly cost neutral to introduce, depending on exactly how the system is implemented. PPI estimates suggest the single-tier would be broadly cost neutral, costing less than the current system by less than 0.1% between 2019 and around 2050, and costing more than the current system by about 0.1% by 2055.[45]

3.5 Responses to the consultation

The Government published its summary of responses to the consultation in July 2011. It found broad support for reform. It would consider further the issues that had been raised before making decisions:

> The responses show that there is broad support for reform of the state pension system, and in particular for the idea of a single tier pension. But they also highlight how many more details there are to think about and work through before any firm decision is taken on whether to pursue reform.
>
> This summary of responses outlines the many comments from organisations and individuals who responded to our request for views. It is not intended to be a Government response to the consultation in that it does not set out what we will do next. We need to think carefully about the issues raised during this consultation before making any decisions.[46]

There was particular support for the option of a single-tier pension:

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[41] IFS Observations, A simple flat-rate pension, but not any time soon, 6 April 2011
[42] DWP, A state pension for the 21st century, Cm 8053, April 2011, p8
[43] Ibid, chapter 2, para 90. See also, HC Deb, 4 April 2011, c805
[44] IFS Observations, A simple flat-rate pension, but not any time soon, 6 April 2011
[45] PPI, An assessment of the Government's options for state pension reform, (June 2011)
[46] DWP, *A state pension for the 21st century: A summary of responses to the public consultation*, CM 8131, July 2011

> There was widespread consensus among organisations who responded, regardless of their preferred option, that the current state pension system should be reformed, largely because of its complexity.
>
> The consultation indicated broad support for the single tier option, with around three quarters of organisations who responded supporting a single tier pension in principle.
>
> There was little support for the faster flat rating option. Around half of organisations who responded said they would not support it, mainly because it did not end the complexities of the current system. Only two said that given a choice between faster flat rating and single tier they would choose faster flat rating. Their reasons were potential increases in National Insurance contributions for the self-employed, and the belief that retaining a two tier system would allow greater policy flexibility in the future. A small number of organisations did not support either option but instead said that they would prefer the continuation of the current system.
>
> Respondents identified a number of specific issues about the proposed reforms that they felt required further assessment.[47]

However, individual respondents to the consultation were concerned that current pensioners would not benefit:

> The majority of the approximately 1,600 responses received from members of the public expressed strong disappointment that the proposals for reform would only apply to future pensioners. The great majority of these responses were from people who were pensioners themselves.[48]

Questions were also raised about the treatment of those who had already accrued rights in excess of the single-tier amount.[49]

The abolition of contracting-out was considered to need careful management:

> A number of organisations indicated that if ending contracting out for Defined Benefit schemes was to be an inevitable part of simplification of the state pension system, there were a number of ways the Government could help employers, employees and schemes to make the transition to a new system. Trades unions who responded expressed concern that ending contracting out would trigger the closure of Defined Benefit schemes. They were also concerned about the potential increases in National Insurance contributions for employees.[50]

Respondents also commented that there would be a "long and complex transition to a new system" and that communication to individuals would be a major challenge.[51]

4 2013 White Paper

In the March 2012 Budget, the Chancellor announced that that the Government would reform the State Pension into a single tier.[52] On 12 July 2012 the Pensions Minister announced that

[47] Ibid, Executive summary
[48] DWP, A state pension for the 21st century: A summary of responses to the public consultation, CM 8131, July 2011, Executive summary; See also PPI, The implications of Government policy for future levels of pensioner poverty, July 2011, Executive summary
[49] See also, HC Deb, 25 June 2012, c4
[50] DWP, A state pension for the 21st century: A summary of responses to the public consultation, CM 8131, July 2011, Executive summary
[51] Ibid
[52] NAPF press release, 12 March 2012

further detail would be set out in a White Paper.[53] The White Paper was published on 14 January 2013. The Government announced that it intended to introduce a single-tier state pension for future pensioners (i.e. people reaching State Pension age after the date of implementation):

> 14. The single-tier pension will:
>
> • be set above the basic level of means-tested support (the Pension Credit Standard Minimum Guarantee, currently £142.70 per week for a single pensioner). The current legislative requirement to increase the basic State Pension at least in line with average growth in earnings will also apply to the single-tier pension. For illustrative purposes, this document assumes uprating of the single-tier pension by the triple lock, in line with coalition policy for uprating the basic State Pension;
>
> • replace the State Second Pension, contracting out and outdated additions, such as the Category D pension and the Age Addition. The Savings Credit element of Pension Credit will also close to pensioners reaching State Pension age after the implementation of the single-tier pension;
>
> • require 35 qualifying years of National Insurance contributions (NICs) or credits for the full amount. There will also be a minimum qualifying period of between seven and ten qualifying years (modelled as ten throughout this document). Those with fewer than 35 qualifying years but above the minimum qualifying period will receive a proportionally smaller single-tier amount;
>
> • be based on individual qualification, without the facility to inherit or derive rights to the state pension from a spouse or civil partner; and
>
> • continue to allow people to defer claiming their state pension and receive a higher weekly state pension in return. The deferral rate will be finalised closer to the planned implementation date. It will no longer be possible to receive deferred state pension as a lump-sum payment.
>
> 15. Additional transitional arrangements will protect the position of those who have a pre-implementation National Insurance contribution record and are described below. [54]

Annex 3 of the White Paper went into more detail.

Initial responses

Responding to the publication of the White Paper, Shadow Pensions Minister, Gregg McClymont, said the Opposition welcomed the "principle of a simplified state pension". He raised a number of specific issues including;

- The fact that people reaching State Pension age before the date of change would not qualify. This would include a group of women born between 6 April 1952 and 6 July 1953 who would not qualify for the single tier although a man born on the same date would.

- The Government's plans regarding the extra revenue to the Exchequer that would result from the abolition of the contracted-out rebate;

- Whether the requirement to have 35 qualifying years for a full single-tier pension would reduce the number of people reaching State Pension age eligible for a full single-tier pension.[55]

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[53] HC Deb, 12 July 2012, c65-6WS
[54] DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528)

The White Paper was welcomed by the National Association of Pension Funds (NAPF), which said a single-tier pension would offer "an easily-understood foundation" on which people could plan their retirement:

> The NAPF has been campaigning for a flat rate state 'foundation' pension for years. This is the light at the end of the tunnel. However, these are complicated reforms that will mean big changes in the way many company pensions are run. We are glad that the Government recognises that challenge and is supportive of the need to manage the transition carefully.[56]

The proposal to allow employers to offset the increase in their NI payments (consequent on the abolition of contracting-out) was welcomed by the Confederation of British Industry.[57]

The Institute for Fiscal Studies (IFS) said that overall, the proposals looked like they would bring about a "welcome simplification". However, there would be "a fairly complex pattern of winners and losers from the reform in the short-term" and the main effect in the long run would be "to reduce pensions for the vast majority of people, while increasing rights for some particular groups (most notably the self-employed)".[58]

The National Pensioners' Convention opposed the proposals, arguing that they were "far from radical enough to tackle the serious problem of pensioner poverty and hardship facing millions of both current and future pensioners". It argued the rationale behind the White Paper was based on a number of flawed assumptions:

> Contrary to the government's view, the complexity of the current state pension system is less of a barrier to saving than the lack of spare capital which individuals can put aside for their retirement and the risks associated with defined contribution occupational pensions which are wholly reliant on the performance of the financial market. Life expectancy projections and the capability to continue working well beyond 65 have also been grossly over exaggerated, and bear little relation to actual experience.[59]

It was concerned that people reaching State Pension age before and after implementation would be treated differently:

> The introduction of a cut-off date in April 2017 for the new pension scheme will create a two-tier system. As a result, some will be getting simplified state pensions whilst others will be left to claim complicated means-tested benefits. Already millions of existing pensioners have missed out on the reduction in National Insurance which now only requires 30 years of contributions to get a full state pension, whereas many of them retired when the rules were 39 years for a woman and 44 for a man. Perpetuating such differences in the pension schemes across different generations of pensioners is simply unfair.[60]

It was also concerned that people who had already accrued a State Pension of more than the single-tier amount at the date of change would have to continue making NI contributions, while losing the right to build up any additional state pension.

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55 HC Deb, 14 January 2013, c608

56 NAPF press release, 'State pension revamp sets strong foundation for the future' 14 January 2013

57 CBI Press release, 'CBI: consultation plans crucial to protecting final salary schemes and jobs', 18 January 2013; See also, 'CBI – state pension reforms will bring 'clarity and certainty' to retirement saving', 14 January 2013

58 IFS Observations, Welcome simplification of state pension but younger generations lose, 14 January 2013

59 The State Pension White Paper, National Pensioners Convention Briefing, January 2013

60 Ibid

5 Pre-legislative scrutiny

The Government published its draft Pensions Bill on 18 January 2013, including proposed reforms to the State Pension (the single-tier pension).[61]

The Work and Pensions Select Committee conducted pre-legislative scrutiny of the single-tier elements in the draft Bill.[62] In its report, published on 26 March 2013, the Committee supported the principle of the single-tier State Pension but said it was vital that the Government decided on its high-level strategy for communicating the changes. Committee chair, Dame Anne Begg, said:

> We support the principle of the Single-tier Pension (STP). In the short to medium term it will mean more State Pension for many people, particularly the self-employed, and women and carers who have been low-earners or had gaps in employment.
>
> It will be a much simpler system to understand and people will be able to see more clearly how much they can expect from the State. As a result, it will give greater certainty about the value of saving into a private pension scheme and will complement the new system of automatic enrolment into workplace pensions.
>
> But this is a major reform which will affect all 40 million people of working age. Although the end result will be simplification, the transition period will be long and complex.
>
> Individuals will be affected in different ways depending on a number of factors, including their age, and their previous pension and National Insurance contributions. There are already misconceptions about who stands to gain and who might lose. People closest to retirement understandably have the most immediate concerns.
>
> So it is vital that the Government decides on its high-level strategy for communicating the changes to the public by the time the finalised Bill comes before Parliament in the summer. This should include how the internet will be used and what individualised information will be provided.
>
> Now that the implementation date has been brought forward to 2016, it is even more important that people receive understandable and accurate information as early as possible.[63]

The Government's response to the Committee's report was published on 10 May 2013.[64]

5.1 Pensions Act 2014

The Queen's Speech on 8 May 2013 announced that a Pensions Bill would be brought forward in the current Parliamentary session. One of the main elements of this would be:

> A new flat rate pension set above the basic means test to replace the current two-tier system of basic State Pension and earnings-related additional State Pension, to be implemented from April 2016.[65]

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61 Gov.UK, Draft Pensions Bill

62 Work and Pensions Select Committee press release, 22 January 2012, 'Committee to examine the Government's State Pension reform plans'

63 Work and Pensions Committee press release, MPs publish report on State Pension reforms, 4 April 2013

64 DWP, Government response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013

65 The Queen's Speech – background briefing notes

The *Pensions Bill 2013-14* was introduced in the House of Commons on 9 May 2013. The Government's response to the Select Committee includes a summary of the changes compared to the draft Bill published in January.[66] The provisions to introduce the Single-tier State Pension are in Part 1 of the Bill.

The Bill completed its Public Bill Committee stage on 11 July 2013. Part 1 of the Bill (State Pension) was debated over four sessions:

- Fifth sitting – 2 July 2013 (morning);
- Sixth sitting – 2 July 2013 (afternoon);
- Seventh sitting – 4 July 2013 (morning);
- Eighth sitting – 4 July 2013 (afternoon).

No amendments were made to Part 1 of the Bill. Three Opposition amendments were negatived on division. These related to:

- Those women born between April 1951 and 1953 who will not be eligible for the single-tier State Pension, although a man born on the same date may be (see Library Note SN 6620);
- The requirement to have 35 qualifying years for a full State Pension (see below); and
- The abolition of the right to derive entitlement to the State Pension on the basis of the contributions of a (former) spouse or civil partner (see page 45 below).[67]

The Bill had its Report Stage and Third Reading in the House of Commons on 29 October 2013.[68]

The Bill was published in the House of Lords on 30 October 2013, having completed its Commons' stages the previous day. It had its Second Reading in the Lords on 3 December 2013. This was followed by six sittings of the Grand Committee, Report Stage on 24 and 26 February 2014 and Third Reading on 12 March. The Government made a number of amendments to part 1 of the Bill in the Lords. These included amendments to:

- Provide for a new class of Voluntary National Insurance contributions (class 3A) to enable people reaching State Pension age before 6 April 2016 to increase their entitlement to the additional State Pension;[69]
- Increase entitlement to NI credits for spouses and civil partners accompanying Service personnel abroad;[70]
- Exclude schemes with 'protected persons' regulations from the application of the 'statutory over-ride'.[71]

One backbench amendment, opposed by the Government, was made to the Bill at Report Stage. This was in the name of Labour Peer, Baroness Hollis of Heigham. Its purpose was to enable regulations to be made providing for circumstances in which a person may opt to have a year treated as a 'qualifying year' for the purposes of the single-tier pension if, by aggregating income from two or more jobs, their earnings exceeded the earnings factor for that year. The House of Commons considered the Lords' amendments on 17 March 2014.

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[66] DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, Annex A

[67] See Public Bill Committee Proceedings 11 July 2013 (eleventh and twelfth sittings)- votes on New clauses 1-3.

[68] HC Deb 29 October 2013 c776 - 872

[69] HL Deb 13 January 2014 c12GC

[70] HL Deb 24 February 2014 c772

[71] HL Deb 24 February 2014 c805

Baroness Hollis' amendment was rejected on division. Pensions Minister, Steve Webb thanked her for raising the issue but thought a stronger evidence base was needed before deciding how to proceed. He set out plans to take this work forward.[72] On 8 April 2014, the House of Lords agreed not to insist on its amendment.[73]

The *Pensions Act 2014* received Royal Assent on 14 May 2014. For a guide to debates on the Bill in Parliament, see Library notes SN 6634 Pensions Bill 2013/14 – Commons stages and SN 6846 Pensions Bill 2013/14 – Lords stages.

6 Issues

6.1 Implementation date

In Budget 2012, the Government said it intended to introduce its single tier pension "early in the next Parliament."[74] However, the January 2013 White Paper said it intended to "implement the single tier pension in April 2017 at the earliest."[75] In evidence to the Work and Pensions Select Committee, the Pensions Minister explained that in deciding on the start date, the Government had considered both operational deliverability and the implications for contracted-out occupational pension schemes:

> The two things we have had to think about in terms of start date are, as it were, our computers-can we operationally deliver this new system?-and company pension schemes. With the abolition of contracting out, they may have to do valuations and decide how to adjust their accruals in the light of the changes, and they need time to do that. Those are the two things that we have to get right. I am increasingly confident that there is no risk of April 2017 slipping, and I can say to the Committee that I would hope to be in a position to be definitive about the start date before we bring the Bill to the House.[76]

Joanne Segars of the National Association of Pension Funds told the Committee:

> We favour 2017 as a start date. That is slightly later than initially was perhaps thought of in any case. Of course, employers have got five years to implement the contracting-back-in phase, and that is the critical timeline for them. For them, the extended period after 2017 to contract back in, working through the valuation cycles and not having to implement a special valuation, is what is critical, so the fact that we have that long phase-in period for contracting back in is what we have been after, so it is manageable in terms of time.[77]

However, on 19 March 2013, the Government announced that implementation will be brought forward to April 2016, with the effect that around 400,000 more people would reach State Pension age under single tier, including every woman affected by the acceleration of the State Pension age equalisation process in the *Pensions Act 2011.*[78]

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[72] HC Deb 17 March 2014 c566
[73] HL Deb 8 April 2014 c1258
[74] HM Treasury, Budget 2012, March 2012 para 2.10
[75] DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p8, para 12
[76] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013
[77] Ibid Q83
[78] HC Deb, 19 March 2013, c43-46 WS

Comment

Age UK welcomed the plans to bring forward the implementation but said it was important that the Government "did not overlook the needs of millions of current pensioners who are also struggling to make ends meet."[79] However, Joanne Segars of the NAPF was concerned that it represented a tight-timescale for pension funds:

> This runs the risk of sparking a fresh round of final salary pension closures in the private sector. It is essential to give pension funds the flexibility and time to adapt and make the changes.[80]

The Work and Pensions Committee expressed concern at the timing of the announcement – just a week after the Minister had given evidence to it - and said this strengthened its case for including the date on the face of the Bill.[81] The Government agreed that it was important to give clarity and regarding the implementation date and has specified the implementation date in the Bill.[82]

An implementation date of 6 April 2016 means that the single tier pension will apply to men born on or after 6 April 1951 and women born on or after 6 April 1953, so that a woman born between these dates would not be eligible for the single-tier, although a man born on the same day may be.[83] For more detail, see Library Note SN 6620 *Single-tier State Pension - women born between 1951 and 1953* (March 2014).

6.2 Building up entitlement to the single-tier pension

Current system

Under the current system, individuals build up entitlement to the basic State Pension (BSP) by paying (or being treated as having paid) National Insurance contributions or being credited with contributions.[84] The amount of BSP they get is worked out based on the number of "qualifying years" they have built up during working life.

People who reached SPA before 6 April 2010, needed 44 qualifying years (men) or 39 qualifying years (women) for a full BSP. They needed a minimum number of years (equal to at least 25% of working life, or ten years) to qualify for any BSP. They also needed to have actually paid contributions in at least one year. As a result of measures introduced under the *Pensions Act 2007* to improve coverage of the State Pension, a person reaching SPA on or after 6 April 2010, needs 30 qualifying years to qualify for a full BSP. With fewer than 30 years, they qualify for a BSP of 1/30th of the full rate for each complete qualifying year they have built up. This means that the only people reaching SPA from 6 April 2010 who are not be entitled to any BSP, are those who have not built up one qualifying year.[85] The Labour

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79 'Osborne brings forward £144 flat rate pension to 2016 in victory for 80,000 women who suffered double-whammy', *This is Money*, 17 March 2013

80 Rachel Dalton, Budget 2013: Earlier state pension reform to accelerate DB decline, *Professional Pensions,* 18 March 2013

81 Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013

82 DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, page 11; *Pensions Bill 2013-14,* clause 1

83 DWP, The single-tier pension: Note on the cohort of women born between 6 April 1951 and 5 April 1953, April 2013; Individuals can check their State Pension age on Gov.UK – State Pension calculator.

84 Pension Service, *A detailed guide to State Pensions for advisers and others*, NP46 September 2008; For more details, see HMRC website, National Insurance credits

85 *Pensions Act 2007,* section 1; Pension Service, A detailed guide to State Pensions for advisers and others, NP46 September 2008

Government expected this to mean that, by 2025 over 90 per cent of people reaching SPA would be entitled to a full BSP.[86] These measures have still to work through, to be fully reflected in the published statistics for the current "stock" of pensioners.

Requirement for 35 qualifying years

The January 2013 Pensions White Paper said that under the single tier, qualifying years will be generated in the same way for the current BSP:

> 16. Qualifying years under the single-tier pension will be generated in the same way as qualifying years for the current basic State Pension. A qualifying year will be defined as a tax year during an individual's working life in which they paid, or were treated as having paid, National Insurance contributions or were credited with National Insurance contributions on earnings of 52 times the 'Lower Earnings Limit' (LEL).[…][87]

A qualifying year is one in which a person has paid, been treated as having paid or been credited with enough National Insurance contributions on their earnings for it to count as a qualifying year.[88]

Thirty-five qualifying years will be needed for a full single-tier pension. This is a change compared to the April 2011 Green Paper, which said:

> Everyone with 30 years of contributions or credits reaching State Pension age would receive a weekly flat-rate payment currently estimated at around £140 [...][89]

Presenting the White Paper to Parliament, Pensions Minister, Steve Webb said:

> Under our plans, someone who starts work under the new single-tier rules would become entitled to just one state pension set above the level of the basic means test. The full rate will be payable for 35 qualifying years of national insurance contributions. This reflects the fact that we are combining two pensions: a basic pension payable for 30 years and a state second pension based on national insurance contributions over a working life of up to 50 years.[90]

The Government has estimated that around 85 per cent of people reaching State Pension age (SPA) in 2020 would have at least 35 qualifying years.[91]

At Public Bill Committee stage, Pensions Minister, Steve Webb, explained that the number of qualifying years was one of the many different parameters the Government could change in order to meet its overall goal of cost neutrality. Overall, he argued that 35 qualifying years struck the right balance:

> We think that 35 years allows people to have about 15 non-qualifying years. Bear in mind, it is 35 years of contributions or credits. It is not just paid work; it is caring, being at home with young children and active job searching. It is a comprehensive definition of what a person has to do to get the qualifying year. We think that 35 out of about 50 is the right balance. Of course, there will be the odd year when the person does not qualify—there are a range of things that people can be doing—but it seems about right to ask people to be doing something creditable or contributing for roughly two thirds of

[86] DWP *Gender Impact of Pension Reform* (Nov 2006) Figs 4.i & ii

[87] DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, Annex 3, para 16

[88] See DWP, State Pensions – Your guide, March 2014, page 15; Pension Service, A detailed guide to State Pensions for advisers and others, NP46, September 2008, p12

[89] DWP, A State Pension for the 21st century, Cm 8503, April 2011, p30

[90] HC Deb, 14 January 2012, c606

[91] DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, p91, para 14

> their adult life. When people do not have 35 years, the amount is reduced pro rata, as with the present system. That is what clause 2(2) does.[92]

An Opposition amendment to require the Government to conduct a review to "determine the costs and benefits of phasing the transition to a 35-year full pension requirement via an interim requirement for 30 years" was defeated on division by eight votes to four.[93]

The issue was debated again in the House of Lords. Baroness Turner said a lot of concern had been expressed about it. Lord Freud explained why the Government thought 35 years struck the right balance.[94]

The relevant provisions are in now sections 2 and 3 of the *Pensions Act 2014*.

Minimum qualifying period

People reaching SPA before 6 April 2010 had to satisfy two contribution conditions to get any basic state pension at all. They must actually have paid (as opposed to have been credited with) contributions for one qualifying year. Secondly they must have at least 25% of the number of qualifying years required for a full pension. The Labour Government removed these requirements for people reaching SPA on or after 6 April 2010.[95] The Pensions White Paper published in May 2006 explained the rationale for this as follows:

> 3.97 These rules mean that small numbers of people have no entitlement to basic State Pension despite having up to nine years of contributions or credits. The two conditions of entitlement are more likely to affect some ethnic minority women who may feel or face cultural barriers to participating in paid work. Those women in this position usually contribute to society in other ways, such as through childcare or care of severely disabled people.[96]

A requirement to have a minimum number of qualifying years is to be re-introduced for the single-tier pension. The rationale is to target expenditure on those who have made a "significant economic or social contribution to this country during their working lives":

> 23. People reaching State Pension age after the implementation of the single-tier pension will need to have a minimum number of qualifying years to become eligible for a pro rata amount of state pension. This will be set at between seven and ten years – the equivalent of around 15 - 20 per cent of normal working life. This ensures state pension expenditure is targeted at those who make a significant economic or social contribution to this country during their working lives. The final decision on the length of the minimum qualifying period will be made closer to implementation, but for illustrative purposes, modelling in this document has assumed a ten-year minimum qualifying period.[97]

In his statement to the House on 14 January 2013, Pensions Minister, Steve Webb said the minimum qualifying period could be met through qualifying years in both the current and the new system:

> Let us be clear that we are not saying 10 years in the new system—the requirement is 10 qualifying years in someone's lifetime. That is because there are backpackers who

92 PBC Deb 2 July 2013 c141-2
93 PBC Deb, 11 July 2013 c425-6
94 HL Deb 16 December 2013 c247-254GC
95 *Pensions Act 2007*, section 1
96 DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006
97 DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p92

> do a couple of years of bar work and 40 years later we are paying them a state pension for another 20 years. The sorts of people who would be excluded are those who come for a few years, do not really have any skin in the game and pay just a few years of national insurance. They will not get a pension—that is how we save money to spend on pensions.[98]

The Work and Pensions Committee recommended that the forthcoming Bill should specify that the minimum number of qualifying years would not be more than ten.[99] The Government accepted this recommendation.[100] On 3 December 2013, it announced that the minimum qualifying period at 10 years would be set at ten years.[101]

The Impact Assessment to the legislation summarised the impact of the minimum qualifying period (MQP) as follows: [102]

> - The numbers affected and savings in the early years of the policy are expected to be relatively low (rising from zero to around 35,000 people in 2020).
> - In 2040 we estimate that the MQP could affect around 400,000 people living overseas.
> - The expected savings from the MQP in 2040 are around £650m (in 2013/14 prices).
>
> The proportion of overseas residents that reach State Pension age under the single tier that are affected by the MQP is much greater than the proportion of GB residents that are affected. This is expected to be approximately 2% of the GB cohort and around 20% of the overseas cohort.
>
> Our estimate of the number of Great Britain and overseas residents affected by the MQP over the first three years of the single-tier pension is shown in Table 3.1 below.

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[98] HC Deb, 14 January 2013, c610

[99] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, para 72

[100] DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, p11-12; *Pensions Act 2014,* section 2 (3)

[101] HC Deb 3 December 2013 c17-18WS

[102] DWP, *Single-tier impact assessment,* October 2013, section 3.4

Table 3.1: Estimate of number of people affected by the MQP, 2016-2020

Year of SPA	Average for each year, 2016-2020	As a proportion of those reaching SPA
Great Britain residents		
7 year condition	6,000-10,000 per year	1%-2%
10 year condition	9,000-12,000 per year	2%-3%
Overseas residents		
7 year condition	5,000-9,000 per year	15%-20%
10 year condition	6,000-10,000 per year	18%-23%

Source: Based on NICs records from L2 data for 2010/11 financial year (1% sample of NIRS2). DWP modelling of qualifying years gained in the intervening years.

Note: Data are presented as ranges to indicate uncertainty around the final outcome. The analysis is static and assumes no within-cohort migration or mortality. The overseas estimate assumes that all people living in a European Economic Area (EEA) or bilateral country will overcome the MQP on account of gaining the required balance of qualifying years over the rest of their working lives abroad. However, it also assumes that none of those living in non-EEA or non-bilateral countries gain sufficient qualifying years to overcome the MQP.

NI Credits

As explained above, qualifying years can be built up through National Insurance (NI) contributions or credits. NI credits can be awarded to recognise a range of activities including caring or looking for work. They help people to maintain their NI record and so protect their state pension.[103] For example, carers' credits are awarded to a person who is:

- In receipt of Child Benefit for a child under 12 years; or an adult under State Pension age who cares for a family member under age 12, where the parent or main carer is in receipt of Child Benefit and already has a qualifying year of NICs;[104]
- An approved foster carer; or
- "Engaged in caring" – for at least 20 hours a week for someone for at least 20 hours, or for more than one person for a total of at least 20 hours, *and* the person you care for is in receipt of a qualifying benefit, *or* the decision maker considers that the level of care is appropriate. [105]

The introduction of Universal Credit is expected to extend NI credits to a further 0.8 million households, as all eligible claimants will be credited with Class 3 NI credits and in a joint claim both members of the couple will be awarded the credit.[106] For more detail, see Gov.UK – National Insurance credits.

The Government has confirmed that the current crediting arrangements will be "brought forward to the new system and that people will still be able to get credits to protect their single-tier pension position."[107] In addition, when the legislation was before Parliament, it amended the Bill to increase entitlement to credits for Service personnel abroad. It also

[103] For more detail, see HMRC website – National Insurance credits
[104] For more details, see DWP, Specified Adult Childcare Credit Factsheet
[105] *Pensions Act 2007,* Section 3; *Social Security (Contributions Credits for Parents and Carers) Regulations 2010* (SI 2010/19)
[106] DWP, *National Insurance credits and the single-tier pension,* 2013; DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, p16-17
[107] HL Deb 18 December 2013 c353-4GC; See also DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528)

agreed to look further at the position of people with multiple jobs, where earnings did not exceed the lower earnings limit (LEL) in any one job (see below).

Spouses accompanying Service personnel abroad

At Lords Committee Stage, Baroness Hollis raised the position of spouses and partners accompanying Service personnel abroad. She explained that it was not easy for women in those circumstances to pay National Insurance contributions (NICs) and voluntary NICs became expensive if overseas for a long period.[108] At Report Stage, the Government amended the Bill to require the Secretary of State to:

> […] make regulations to allow service spouses and civil partners, due to reach state pension age from 6 April 2016, to apply for national insurance credits for periods during which they accompanied their partner on a posting outside the UK. The regulations will make provision to allow credits for periods between 1975-76 and 2010. This will ensure that, even in the rare circumstances that someone has spent their entire working life accompanying their spouse abroad, they will still be able to build the 35-year contribution record needed for the full single tier.[109]

Multiple jobs below the Lower Earnings Limit

At Report Stage in the Lords, Baroness Hollis raised the issue of people with multiple part-time jobs who do not earn enough in any one job to reach the NI lower earnings limit (LEL) but would do if their earnings were aggregated. She moved an amendment to allow regulations to be made providing for "circumstances in which a person may opt to have a year treated as a qualifying year if by aggregating income from two or more jobs, that person's earnings is equal to or greater than the earnings factor for that year."[110] For the Government, Lord Freud responded that the aggregation of earnings from multiple jobs should be considered as part of the Government's work on the operational integration of the income tax and NI system:

> The processes required to capture and collate earnings from people in mini-jobs cannot be achieved by simply tweaking the system. Moving to the aggregation of earnings from mini-jobs can only sensibly be considered under the work on the operational integration of income tax and national insurance contributions announced at Budget 2011 by the Chancellor. As noble Lords will be aware, national insurance liability is calculated on a per job basis but income tax liability is aggregated across all sources of earnings so the issues are similar. The Government concluded that given the scale of the change that operational integration would entail and the amount of change that employers are already managing, including the introduction of real-time information, they would await further progress on these before moving forward on tax/national insurance integration.[111]

Baroness Hollis' amendment was accepted on division by 215 votes to 210.[112]

On 17 March 2014, the House of Commons voted to reject Baroness Hollis' amendment.[113] Pensions Minister Steve Webb said the Government was grateful to Baroness Hollis for raising the issue but thought a firmer evidence base was needed before deciding how to proceed:

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108 See Gov.UK, National Insurance credits
109 HL Deb 24 February 2014 c772.
110 Ibid, c711
111 Ibid c725-6
112 Ibid c728-30; Work on the operation of income tax and NICs was announced in Budget 2011, para 1.77
113 HC Deb 17 March 2014 c572

> We have always been clear that there will be people who will not make the 35 years, particularly those who come into the country later in life, for example, but the link between multiple mini-jobs and not making the 35 years, which we are talking about here, is unclear at best. We simply do not know whether it is a transient phase for people or whether they are in a recurring pattern. Again, I counsel the House against rushing to policy conclusions in amendments that are not accurately drafted rather than saying, "Let's get the evidence base together."
>
> As well as undertaking to update our own figures, we are happy to commit to a literature review of what is known about this end of the labour market, making sure we have access to all the available data. We are also content to convene what we have grandly called an analytical stakeholder forum—that is three words of jargon in one go, so it must be impressive.[114]

Opposition spokesperson, Gregg McClymont, argued that the House should support the Lords' amendment:

> The amendment seeks to future-proof the Bill, to construct a pensions platform underneath the poorly paid—those in deeply insecure, fractured work—and to make it clear that this House believes that they should not lose or be denied a full state pension because of changes in the labour market structure which are not of their doing.[115]

However, the Commons voted to reject Baroness Hollis' amendment by 274 votes to 198.[116] In its final debate on the Bill on 8 April 2014, Lord Freud explained that the department would update its analysis and would convene a forum to discuss the evidence before the summer recess. Baroness Hollis welcomed the review. The House of Lords agreed not to insist on its amendment.[117]

Take-up of NI credits

In some cases, NI credits are awarded automatically. However, in others, an application is needed – See Gov.UK National Insurance credits for details.

The Work and Pensions Committee was concerned that steps should be taken to improve take-up of NI credits, on the basis that "any system which relies on individuals being aware of this facility is likely to exclude many of the people it is intended to help."[118] In its response, the Government said it recognised that more needed to be done to communicate the availability of NI credits and increase take-up.[119]

In debate on the Bill in the House of Lords, Labour Peer Lord McKenzie called on the Government to report to Parliament on a strategy to improve take-up of NI credits.[120] Lord Freud said that for the vast majority of people, take-up was not an issue as credits were awarded automatically. However, steps were being taken to increase take-up of those credits for which an application was required:

[114] Ibid c565-6
[115] Ibid c568
[116] Ibid c572
[117] HL Deb 8 April 2014 c1258
[118] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, para 117
[119] DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, p16-17
[120] HL Deb 18 December 2013 c353GC

For these credits, which require an application, we want people to know what is available and to be getting all the credits they are entitled to in order to safeguard their future entitlement to the single-tier pension. Information is available in our departmental leaflets, and the gov.uk website clearly sets out the circumstances in which credits are available, as well as whether an application is required. But we are not complacent and we know that there are a number of different reasons why people do not take up credits. This is why we made it clear in the White Paper that the implementation of single tier provides us with an opportunity to simplify our recording and operating systems.

With that in mind, we intend to review these systems to identify what efficiencies can be put in place to make the system of national insurance credits as simple as possible. We are also developing a comprehensive communications strategy for the new pension system and, as part of this, we are exploring with HMRC how we could seamlessly link information about state pension to information about national insurance through online services.

The deficiency notices raised by the noble Lord inform people about gaps in their national insurance records and are not being sent out to those who reach state pension age on or after 6 April 2016. We cannot currently provide state pension statements that give accurate estimates of single-tier pension until the single-tier proposals are enacted, making it difficult for a contributor to decide whether to pay voluntary contributions. HMRC has publicised the fact that deficiency notices will not be issued for the time being. In the meantime, we are exploring with HMRC whether there are alternative ways in which we can provide customers with information about gaps in their record, including possible online alternatives.[121]

Voluntary NICs

Under current rules, people can pay voluntary class 3 NICs to protect their entitlement to the basic State Pension where there would otherwise be a gap in their NI record.[122] The White Paper said the Government intended to retain this as an option but would keep the cost of those contributions under review.[123] In general, class 3 NICs have to be paid within six years of the end of the tax year for which the contributions are being paid.[124] However, the time limits have been extended for those reaching State Pension age on or after 6 April 2016.[125]

The Work and Pensions Committee said individuals would need help to assess whether they should pay VNICs and recommended a publicity campaign to raise awareness.[126] The Government agreed this was important:

Accordingly, in advance of implementation, the DWP will provide State Pension statements with an estimate of an individual's State Pension to date, based on the rules of the current system. These will be accompanied by a leaflet with simple information and case studies that will help people to understand how they will be affected by the single-tier changes and how the foundation amount will be calculated. When the single tier is introduced and all pre-implementation contribution years are recorded on an individual's NI record, we will be able to provide State Pension statements with a single-tier foundation amount valuation and explain how future

[121] Ibid c354

[122] For more details, see HMRC website – Voluntary National Insurance contributions (the basics)

[123] DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, p92, para 22

[124] HMRC, when and how to top up your national insurance contributions

[125] DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, p13

[126] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, recommendation 8

qualifying years may build on this. People who want to find out more about their specific calculation will be able to contact the DWP.[127]

Self-employed NICs

People who are self-employed currently accrue entitlement to the basic State Pension but not the additional State Pension. In its April 2011 Green Paper, the Government proposed that if it introduced a single-tier pension, this would be for "self-employed as well as employees (subject to National Insurance considerations)."[128] Self-employed people are liable for two types of national insurance contributions:

> **Class 2 flat rate contributions** which count towards entitlement to certain social security benefits such as the basic State Pension and Employment and Support Allowance.
>
> **Class 4 earnings-related contributions** which do not count towards any state benefits.[129]

Employees currently pay class 1 NICs at a rate of 12% on earnings between the primary threshold which is set at £153 a week and the upper earnings limit (UEL) which is set at £805per week. Earnings above the UEL are charged NICs at a rate of 2%.[130] It has been noted, as a feature of the NI system that the self-employed contribute less than employees, even given their lower entitlement to benefits.[131]

The White Paper says that all forms of NICs will be treated equally in the calculation of the single-tier pension.[132] In evidence to the Work and Pensions Select Committee, Pensions Minister, Steve Webb said there were no plans that he was aware of to change NI rates for the self-employed.[133] The Committee recommended that any change should be considered as part of a wider review:

> Self-employed people are one of the key groups to benefit from the introduction of the Single-tier Pension, as they will be brought fully into the State Pension system. We recognise the principle that this might mean they should pay the equivalent in National Insurance Contributions that employed people will pay. However, we believe that this change should be considered as part of a wider review of how National Insurance could be simplified.[134]

In its response, the Government said there were reasons for improving State Pension provision for the self-employed:

> Improving State Pension provision for those who have spent time self-employed is particularly important in light of emerging trends in private pension provision amongst this group: only 21 per cent of self-employed people are contributing to a private

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127 DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, p13

128 DWP, A state pension for the 21st century, April 2011

129 *Social Security (Contributions and Benefits) Act 1992,* ss15 (1) and (3); HMRC website – self-employed tax and national insurance

130 See Library Research Paper RP 14/21 Direct taxes: rates and allowances

131 HL Deb, 24 May 2006, cc112-2WA; For more detail, see Library Note SN 547 Self-employed people and contribution-based Jobseekers' Allowance (July 2014).

132 DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), para 111-2

133 Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, Q 240

134 Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, para 124

pension scheme, compared to 50 per cent of all employees. The self-employed are also out of scope for automatic enrolment into an occupational pension with a statutory employer contribution, although they can make voluntary contributions to the National Employment Savings Trust.[135]

A DWP paper explains the effects the single-tier pension may have on people who have spent time in self-employment.[136]

6.3 Level and uprating of the single tier

The April 2011 Green Paper proposed a "weekly flat-rate payment current estimated at around £140 which would be above the Pension Credit standard minimum guarantee."[137]

The White Paper explained that the single tier would be set above the level of the Pension Credit Standard Minimum Guarantee (SMG). For illustrative purposes, a starting level of £144 per week (in today's earnings terms) was assumed.[138] The precise level of the single-tier and the uprating policy would be decided prior to implementation:

> **Setting the level of the single-tier pension**
>
> 3. The single-tier pension will be a simple, flat rate amount set above the basic level of means-tested support (the Pension Credit Standard Minimum Guarantee, £142.70 per week in 2012/13). The precise starting value will be a matter for the Government to decide shortly prior to implementation taking account of the fiscal context at the time.
>
> 4. It will replace the basic State Pension, additional State Pension, Graduated Retirement Benefit and the Savings Credit, providing a clearer foundation to support saving.
>
> **Uprating the single-tier pension**
>
> 5. The basic State Pension must be increased at least in line with the average growth in earnings. This same legislative requirement will also apply to the single-tier pension. For the purposes of illustration, in this document it is assumed that the single-tier pension will be uprated by the triple lock (the highest of earnings, prices or 2.5 per cent), as per Government policy for the basic State Pension. Single-tier uprating policy will also be set shortly prior to implementation, taking account of the fiscal context at the time. Further decisions on uprating will be made by future governments on a yearly basis, as part of the annual uprating process.[139]

Section 3 of the Act provides for the full rate of the new State Pension to be set in regulations:

> 47. The full rate of the new state pension which will be applicable for the first year will be set by regulations prior to the start date of the new state pension.[140]

These regulations would be subject to the affirmative procedure, which means that both Houses of Parliament must expressly approve them.[141]

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[135] DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, p17

[136] DWP, *The single-tier pension and people who have spent time in self-employment,* May 2013

[137] DWP, A State Pension for the 21st century, Cm 8053, April 2011, p30

[138] DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p12, para 29

[139] Ibid, p90

[140] Pensions Act 2014 – Explanatory Notes

[141] For more detail, see House of Commons background paper – statutory instruments (SN 6509)

Schedule 12 (14) provides for the uprating arrangements for the single-tier pension to reflect those for the current basic State Pension (i.e. the Secretary of State must increase it by a percentage not less than the percentage annual increase in the general level of earnings).[142]

The Work and Pensions Committee concluded that the requirement for the level of the single-tier pension to be higher than the SMG was a fundamental principle of the reform that should be set out on the face of the Bill.[143] The Government said it had clearly stated that the starting rate would be higher than the SMG and that Parliament would be able to debate this as the regulations would be subject to the affirmative resolution procedure.[144]

At Lords Committee stage, Baroness Hollis moved an amendment proposing that the single-tier pension should be set at least 2% above the level of the Standard Minimum Guarantee in Pension Credit (£148.35pw in 2014/15).[145] Baroness Drake said confidence about the initial level of the single-tier and how its value would be maintained over time was needed if people were to have confidence about the assessments of gainers and losers. This was particularly important in view of the fact that the level would be set in regulations. The Delegated Powers and Regulatory Reform Committee (DPRRC) had drawn the attention of the House to the fact that "for the first time, the rate of the state pension will be specified only in subordinate regulation".[146] Lord Freud responded that "every extra pound added to the start rate increases annual costs by £500 million in the 2030s." The regulations setting the start rate would be "subject to affirmative resolution and will therefore be debated in this House."[147]

In research published in October 2013, the Pensions Policy Institute looked at the impact of uprating by the triple lock or earnings. It concluded that:

> Significant savings are likely to be made in the future as a result of switching from the current state pension system to the single tier pension. The triple lock is more expensive than earnings indexation, but it has a large impact on the level of the single-tier state pension that individuals will receive in the future, and makes it more likely that individuals will achieve an adequate retirement income.[148]

At Lords Committee stage, Lord McKenzie moved an amendment to require a calculation of any difference between actual uprating and that which would have applied under the triple guarantee.[149] Lord Freud said he saw no advantage in committing in legislation to providing a relatively straightforward calculation.[150]

Section 20 provides the regulation-making power for the current policy of uprating the State Pension in some overseas countries to continue (i.e. it will only be uprated in an EEA country or one with which the UK has a reciprocal agreement requiring this). This is discussed in more detail in Library Note SN 1457 *Frozen overseas pensions* (May 2014).

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142 Pensions Act 2014 – Explanatory Notes, para 50

143 Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, para 132-4

144 DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, 18

145 HL Deb 16 December 2014 c232GC

146 DPRRC, 13th Report 2013-14, HL Paper 83, paragraphs 1-3

147 Ibid c238-9GC [DEP 2014-0266]

148 PPI, Single-tier series Paper 3, The impact of a switch from the triple lock to uprating by earnings, October 2013

149 HL Deb 18 December 2013 c356

150 Ibid c358

State Pension deferral

The option to put off claiming the State Pension and, in return, to receive a higher amount has been part of the system since 1948.[151] In a December 2002 Green Paper, the Labour Government proposed improving incentives to defer, in order to encourage flexible retirement. Under the *Pensions Act 1995,* the five-year limit on deferral was to be removed and the weekly rate of deferred retirement increments increased, with effect from April 2010. Green Paper proposed bringing this forward to 2006. In addition, it proposed that people should be offered the option of a lump sum instead of a higher pension. [152] These measures were legislated for in the *Pensions Act 2004* (s297)*.* Under current rules, to get extra State Pension, an individual has to defer for at least five weeks. For each five weeks of deferral, their State Pension can be increased by one per cent (10.4 per cent a year). There is also the option of a lump sum where an individual has deferred for at least a year.[153]

The January 2013 White Paper explained that deferral would still be an option under the single-tier pension. However, there would no longer be the option of a lump sum. Furthermore, the amount of extra pension an individual can build might reduce.[154] In October 2013, the Government said that the current arrangements were "actuarially generous" and it intended to change the deferral reward to "more closely reflect the value of the income foregone by the delay:

> **Individuals will still be able to defer claiming their state pension and receive a higher weekly state pension in return**
>
> The ability to defer claiming the state pension will be retained under single tier, but the deferral reward will change to more closely reflect the value of the income foregone by the delay in drawing a single-tier pension, and it will no longer be possible to receive a lump-sum payment. In the analysis we assume that state pension will increase by 1 per cent for every 10 weeks that it is deferred. The decision on the rate will be informed by the latest actuarial factors, such as life expectancy, considering advice from the Government Actuary's Department (GAD), and the fit with the Government's agenda for supporting people who wish to work longer. It will not be possible to inherit the increments built up from deferring a single-tier pension.[155]

Regarding the impact of this, it said:

> <u>Deferrals</u>: the ability to take a lump sum will be ended, and the rate of increment for deferral will be set closer to implementation and so for illustrative purposes, this paper assumes a rate of 1 per cent for every ten weeks' deferral. We expect that between 10,000 and 25,000 people will be affected each year by the end of the ability to take a lump sum and the change to the rate of return for deferrals. We estimate this

[151] *National Insurance Act 1946;* As reported in: Secretary of State for Social Services' Report under Section 6 of the *Social Security (Miscellaneous Provisions) Act 1977* on *The Earnings Rule for Retirement Pensioners and the Wives of Retirement and Invalidity Pensioners*, HC 697: 1977-78, p27

[152] DWP, Simplicity, security and choice: Working and saving for retirement, December 2002, Cm 5677; Chapter 6, para 39-43

[153] The detailed rules are in Schedule 5 of the *Social Security (Contributions and Benefits) Act 1992*; DWP, *Deferring your State Pension*, April 2014; DWP, Decision Makers' Guide, para 75366 and para 75499; The policy background is discussed in more detail in Library Standard Note SN 2868 *Deferred retirement increments* (June 2010).

[154] DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), para 111-2

[155] DWP, Single-tier Impact Assessment, October 2013, para 50

component to save around £200m in 2020, rising to £300m by 2030 (in 2013/14 prices).[156]

At Report Stage in the Lords, Baroness Hollis moved an amendment to retain the option of a lump sum for who had deferred their State Pension. She stressed the importance of pensioners having savings to meet unexpected costs. She did not accept the Government's argument that the removal of the lump sum was a simplification measure.

> The Government propose to abolish the choice of taking that saved-up pension as a lump sum; it will be available to people only as an addition to the state pension. They are removing the choice of a savings sum from future pensioners. Currently, of the 1.2 million who defer their pensions, 63,000 take the lump sum, which was, on average, just under £14,000. In future, that option will be scrapped. Why? The Minister for Pensions, Steve Webb, is absolutely clear that he is doing it to "simplify the system". It is not about costs at all, he says, just about simplicity. What is so difficult to understand about a lump sum of your two years or so deferred pension?[157]

Lord Freud responded that the removal of the lump sum option had played a "key role in flattening expenditure." The "early-year savings" that this delivered had been "ploughed back into the single-tier design." People would still have the option of delaying their claim for 12 months and receiving the arrears as a lump sum (although there would be no interest on the arrears).[158] Baroness Hollis hoped Ministers would ensure people were aware they could take their pension lump sum in arrears after 12 months. She was disappointed by the reply but withdrew the amendment.[159]

The deferral provisions for the single-tier are in sections 16 to 18 of the *Pensions Act 2014*. The amount of the increment accrued for a period of deferral will be in regulations.[160]

6.4 Pension Credit

In its April 2011 Green Paper, the Government said that Pension Credit would "continue to support today's pensioners who have insufficient resources for their basic needs in retirement."[161] In January 2013, the Pensions Minister said that he expected people who had reached SPA before implementation to be able to continue to claim Pension Credit under current rules:

> [...] I have every anticipation that those rights will be honoured for as long as people are in a position to draw them.[...] There will be knock on effects when the universal credit is introduced for people of working age, we will have to incorporate housing benefit for pensioners in the pension credit system. There will be knock-on changes, but we envisage, certainly for the foreseeable future, a continuing separate pension credit system.[162]

[156] Ibid para 95
[157] HL Deb 24 February 2014 c776
[158] Ibid c778
[159] Ibid c781
[160] *Pensions Act 2014*, section 17 (4)
[161] DWP, *A state pension for the 21st century*, Cm 8053, April 2011, para 104
[162] HC Deb, 14 January 2013, c613 and c620

Savings Credit will close to people reaching State Pension age after the implementation of the single-tier pension, although other means-tested benefits are to remain.[163] The rationale is that:

> 40. The single-tier pension will be set at a rate that is above the basic level of means-tested support. As a result there will no longer be a need for a complex savings reward under single tier. Removing Savings Credit will simplify means-tested support and help to ensure Pension Credit is re-focused on providing a safety net targeted at the poorest and most vulnerable.
>
> 41. Other income-related benefits will remain, and support will be retained for a period of five years for those people who may have received more help with housing costs by virtue of the availability of the Savings Credit.[164]

At Third Reading in the Lords, Lord McKenzie table an amendment calling for a "a report to Parliament on alternative arrangements for accessing cold weather payments and the warm home discount currently available to recipients of Pension Credit."[165]

Lord Freud said the Government was considering ways in which it might be possible to identify, for cold weather payment purposes, single-tier pensioners whose income will be above but close to the level of the standard minimum guarantee:

> While I understand concerns about knock-on effects for vulnerable pensioners, there is actually relatively little in the pensioner welfare system that depends entirely on receipt of pension credit. For example, housing benefit and council tax reductions can already be claimed on low-income grounds, regardless of receipt of pension credit, and this will continue. Other benefits such as free television licences and travel concessions can be claimed on the grounds of age. The only significant benefits that are truly passported from pension credit are cold weather payments and the warm home discount scheme
>
> Cold weather payments are made to people who receive certain income-related benefits and satisfy the eligibility conditions set out in the *Social Fund Cold Weather Payments (General) Regulations 1988.* All those who receive pension credit are eligible, whether they receive the guarantee credit or the savings credit element, or both.
>
> Our predicted expenditure on cold weather payments is based on the average number of payments over the past 10 years. On that basis, while we cannot predict the actual impacts, we might expect around £2 million to have been spent in 2020 on cold weather payments for people who would have received pension credit under the current system, but who would not under the single -tier system. That is based on our calculation of 20,000 single-tier pensioners being raised above the standard minimum guarantee, and 60,000 who would have been entitled to a savings credit under the pre-single tier system.
>
> That expenditure is of course by no means certain, which is why we have not assumed any savings from cold weather payments as a result of the Bill. However, we are not complacent about that issue and that group of people. That is why we are already considering ways in which it might be possible to identify, for cold weather payment

[163] *Pensions Act 2014*, section 23 and Schedule 12 (part 3)
[164] DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), Chapter 2
[165] HL Deb 12 March 2014 c1763

purposes, single-tier pensioners whose income will be above but close to the level of the standard minimum guarantee.[166]

Regarding the warm homes discount scheme, the Government had not yet made plans for 2016/17 and beyond:

> The noble Lord, Lord McKenzie, also asked about the warm home discount scheme. That is a rebate on electricity bills for pensioners aged 75 or over who receive the guarantee credit in pension credit, and for pensioners under 75 who receive the guarantee credit without a savings credit. From 2014-15 it will be extended to all pensioners receiving the guarantee credit. Rebates may also be available for a broader group including those in receipt of the savings credit as well as certain other groups below pension age, but those broader group rebates are subject to a cash limit and to the policies of individual suppliers, as agreed with Ofgem. We have committed to extending the warm home discount scheme into 2015-16, but we have not made plans for 2016-17 and beyond.[167]

Lord McKenzie withdrew his amendment.[168]

Opposition spokesperson Lord Browne asked about the impact on mixed-age couples, where one reaches State Pension age before 6 April 2016 and the other after.[169] Lord Freud responded that:

> A key principle of the reforms is to remove access to savings credit for single-tier households, which includes couples where one reaches state pension age before 6 April 2016. We need to balance the fairness between recipients and taxpayers in dealing with the conflict between the individual basis of the single-tier pension and the household basis of the savings credit. However, we will allow those mixed-age couples already in receipt of savings credit on 6 April to retain it, if they continue to meet the eligibility conditions.[170]

6.5 How individuals will be affected in the transition

Current pensioners (entitlements under the current system)

The Government intends to implement the single-tier pension in April 2016.[171] It will apply to future pensioners only.[172] The rationale for this, as set out by the Pensions Minister on publication of the Green Paper in April 2011, was that pensioners of the future faced particular challenges in saving for retirement:

> Both options are for future pensioners; pensioners who have already reached state pension age by the date of reform would not be affected, so no existing recipient of state pension would see their income reduced.[...] However, the pensioners of tomorrow face a new landscape. With longevity continuing to increase, future pensioners can expect to work for longer and they may not have the same levels of housing equity. They are less likely to have the certainty of a final salary pension and from 2012 we will introduce a new system of automatic enrolment into workplace pensions. Today, the Government are publishing a consultation document, which looks

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166 Ibid c1767

167 Ibid c1768

168 Ibid c1769

169 HL Deb 8 January 2014 c413 GC

170 Ibid c414GC

171 HC Deb, 19 March 2013, c43-46

172 DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), Executive Summary, para 13

> at whether the existing pensions system is suitable for meeting the challenges of the future. This Green Paper marks the next step in the coalition's plan to create a system that is fair and simple for pensioners and that rewards those people who do the right thing and take responsibility for their future. It is right that we ask people to take responsibility for their retirement by saving over the course of their working lives, but it is also right that the Government should play their part by ensuring that we support those who make the right choices for their future and those of their families. If we want to encourage pension saving, the key is getting the state pension system right.[173]

Furthermore, he said the Government had already taken steps to support current pensioners – for example, committing itself to uprating the basic State Pension by the highest of earnings, prices or 2.5%.[174] Asked about the cost of extending the single-tier to current pensioners, the Minister has said:

> The Department has estimated the annual cost of increasing the pensions of people who reach state pension age before the implementation of single-tier pension to the proposed single-tier level as being around £10 billion in the medium term. These costs are net of an associated reduction in expenditure on means-tested benefits of around £2 billion.[175]

Asked whether consideration had been given to introducing a taper for those retiring close to the date of implementation, he said this would "add further complexity into the system and would not meet our objectives to simplify the system to support today's working people."[176]

In the 2013 Autumn Statement, the Government announced that it would introduce a new class of voluntary NICs to allow people reaching SPA before 6 April 2016 an opportunity to top up their additional State Pension records.[177] Provision for this was made in a new clause added to the Bill at Lords Committee Stage. Lord Freud explained that the scheme would start in October 2015 and run for a limited period:

> As set out in these amendments, we now want to give existing pensioners and those reaching state pension age before 6 April 2016 the opportunity to boost their additional state pension by paying a new class of voluntary national insurance contribution: class 3A. The intention is that a unit of additional pension, obtained by paying the class 3A contribution, will provide £1 a week of extra pension. The extra pension itself will simply be added to people's state pension. The intention is for the scheme to start from October 2015 and run for a limited time of between 18 months to two years. There are just two entitlement conditions to class 3A—entitlement to a UK pension and that the person reaches state pension age on or before 5 April 2016.[178]

The cost of VNICs would be set on "actuarially fair terms":

> As noble Lords will know, covering basic state pension gaps through existing class 3 is relatively cheap. A person paying class 3 to acquire one qualifying year of basic state pension will get their money back within four years of reaching state pension age. A different approach is required for class 3A to ensure that the arrangements do not

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[173] HC Deb, 4 April 2011, c795

[174] Ibid; See also HC Deb, 14 January 2013, c605

[175] HC Deb, 14 February 2013, c775-6; For more detail, see DWP, Cost of paying £140 a week State Pension to all pensioners retiring before 2016/17, April 2011

[176] HC Deb, 29 January 2013, c783-4W

[177] HM Treasury, Autumn Statement 2013, Cm 8747, 5 December 2013, para 2.56; DWP, Class 3A Voluntary National Insurance – policy detail, December 2013; DEP 2013-2001

[178] HL Deb 13 January 2014 c12GC

become a burden for today's national insurance contributors. So the costs of class 3A, which will be set by the Treasury, will be based on actuarially fair terms, in consultation with the Government Actuary's Department. In keeping with this, the cost will be adjusted to reflect the age of the pensioner at the time they pay class 3A.[179]

Administrative arrangements would be put in place to ensure that individuals applying to pay new class 3A contributions are made aware that they should first check their eligibility to make class 3 contributions.[180]

Budget 2014 confirmed that there would be a cap of £25 on the maximum additional amount of pension that could be paid for:

> **2.62 Voluntary National Insurance contributions (VNICs) Class 3a** – The Budget confirms further details about the new class of VNICs, which will enable those who reach State Pension age before the 6 April 2016 to top up their Additional State Pension record. The scheme will be open from October 2015 for 18 months. The pricing will be set at an actuarially fair rate and the maximum additional amount available will be £25 a week. The Department for Work and Pensions (DWP) will set out full details shortly.[181]

Future pensioners (eligible for the single-tier)

The White Paper explains that transitional arrangements will apply for people with "pre-implementation National Insurance records."[182] In particular, they are needed to: protect the rights of those who at the point of implementation have accrued more than the single-tier; for those who were contracted-out of the additional State Pension during working life; and for people who would have derived or inherited a state pension income based on the National Insurance record of a spouse or civil partner.

At the point of implementation, rights under the single tier will be compared to rights under the current system. As a result of this comparison, individuals will fall into four distinct groups:

> 21. The transition process for the single-tier pension will translate people's pre-implementation National Insurance records into a simple single-tier starting amount – the 'foundation amount'.
>
> 22. An individual's National Insurance record will be valued using single-tier rules as at the implementation of the single-tier pension. Where an individual has previously been contracted out of the additional State Pension, a deduction will be applied, reflecting the fact that they have paid lower National Insurance contributions whilst they were contracted out, as is consistent with current practice.
>
> 23. As an added safeguard, the Government will check to see if the rules of the current system would give a better outcome. The higher valuation will then become that individual's foundation amount.
>
> 24. Under this approach to transition, those reaching their State Pension age after the implementation of the single-tier pension will fall into four distinct groups:

[179] Ibid c13GC
[180] Ibid c13GC
[181] HM Treasury, *Budget 2014,* HC 1104, March 2014, para 2.62
[182] DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, p27

• Individuals with a foundation amount which is **equal to the full level of the single-tier** pension. These are likely to be people who have the necessary 35 qualifying years, little additional State Pension and have not been contracted out.

• Individuals with a foundation amount which is **less than the full level of the single-tier pension**. These are likely to be younger people, with fewer qualifying years, or older people who have spent many years contracted out of the additional State Pension. These people will be able to increase their single-tier pension up to the full level, at the rate of 1/35th of the full rate (£4.11 to the nearest penny) for each additional qualifying year they gain before reaching their State Pension age.

• Individuals with a foundation amount which is **more than the full level of the single-tier** pension. These are likely to be older people with many qualifying years, and who have not spent significant periods contracted out of the additional State Pension. These people will receive the difference between their foundation amount and the full single-tier amount as an extra payment on top of the full single-tier weekly amount.

• Individuals with **no pre-implementation National Insurance record**. The simpler and easier to understand single-tier system will give them long term clarity of outcome. They will also be supported to save into a workplace pension scheme through automatic enrolment and the policy measures set out in the Government's 'Reinvigorating Workplace Pensions' document throughout all of their working lives.[183]

Compared to the proposals set out in its Green Paper, this approach speeded up the process of transition, "significantly increasing the number who will receive the full single-tier pension." The Government estimated that, by the mid-2030s, over 80 per cent of people reaching SPA will receive the full single-tier pension.[184]

People who have accrued a higher state pension than the single tier amount

Presenting the White Paper to Parliament, Pensions Minister, Steve Webb, explained that a higher flat-rate pension was affordable because the amount people could build up in future would be capped at the single-tier amount:

> The overall cost of the new system will be the same as that of the one it replaces. This is not a pensions giveaway for the next generation. A higher flat pension is affordable only because, in the long term, people will not become entitled to very large earnings-related pensions through the state system. In a world where everyone will be automatically enrolled into a workplace pension with a contribution from their employer, it no longer makes sense for the state to run its own separate earnings-related pension scheme. Higher earners are among those being automatically enrolled, with substantial employer contributions, so those who earn the most while they are working will continue to be the best off in retirement.[185]

However, contributions already paid under the current system would be recognised:

> Of course, national insurance contributions paid and that would, under the current system, have led to entitlement to a second state pension will be recognised. For example, when we introduce single tier, someone who retires in 2018 who has £160 in the current system will still get a pension of £160.[186]

[183] DWP, *The single-tier pension: a simple foundation for saving,* January 2013 (Cm 8528)
[184] Ibid, Chapter 4, p44; DWP, *Single-tier impact assessment*, October 2013, para 14
[185] HC Deb, 14 January 2013, c607
[186] Ibid, c606

The White Paper explained how this will work. As stated above, on implementation, a comparison would be made of an individual's rights under the single tier and under the current system. Some individuals (such as older people with many qualifying years who have not spent significant periods contracted-out of the additional State Pension) will have a "foundation amount" which is more than the amount of the full level of the single tier pension. In this case, the Government's intention is that they should receive the full single-tier amount and keep any amount above this as a "protected payment" when they reach State Pension age.[187] Different uprating arrangements will apply to the single-tier (which will be uprated at least in line with earnings) and the protected payment (which will be uprated in line with prices):

> **Uprating the single-tier pension**
>
> 99. The simplified illustrations leave the full level of the single-tier pension at £144 at implementation and at State Pension age. However, as the single-tier pension will be uprated each year, at least in line with the growth in average earnings, the value of the pension will increase over time. Further information can be found in Chapter 5.
>
> **Uprating the protected payment**
>
> 100. In the current system, each individual's additional State Pension is revalued up to their State Pension age in line with average earnings. It is then uprated in line with the increase in prices (CPI) when in payment. The protected payment – the difference between an individual's foundation amount and the full level of the single-tier pension – will be both revalued and uprated in line with prices.[188]

At Lords Committee Stage, Baroness Turner argued that the same uprating arrangements should apply to the protected payment as to the full amount of the single-tier.[189] Lord Whitty agreed, saying it was an issue of fairness.[190] Lord Freud responded that:

> As this is a cost-neutral package of reforms, we would need to make offsetting changes elsewhere. Given that we expect most people to be better off from the combined revaluation and uprating changes, this would be difficult to justify.[191]

People who have been contracted-out during working life

Where a person has been contracted-out during working life, a deduction (a "rebate derived amount") will be applied to reflect the lower rate of NICs paid when contracted-out. The White Paper explains that:

> 84. For those who have been contracted out, a deduction – the 'rebate-derived amount' – will be applied to the single-tier valuation, as of the date of the implementation of single tier, to reflect the lower rate of National Insurance contributions paid when contracted out.

A person who has spent many years contracted-out may, therefore, find they have a foundation amount that is less than the full amount of the single-tier. However, they will be able to increase their single-tier pension up to the full level, at the rate of 1/35th of the full rate for each additional qualifying year they gain before reaching State Pension age.[192] DWP

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[187] DWP, *The single-tier pension: a simple foundation for saving*, January 2013 (Cm 8528)
[188] Ibid, Chapter 4
[189] HL Deb 8 January 2014 c375GC
[190] Ibid c375GC
[191] Ibid c378GC
[192] DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, p11, para 24

produced a note - single-tier transition and contracting out **–** to explain in more detail how this will work.

This has led some commentators to note that gainers from the introduction of the single-tier State Pension will include some people who have been contracted-out. The Institute for Fiscal Studies, said:

> Overall, 35% of men and 61% of women (43% of individuals) would see their pension income at SPA increased as a result of the proposed reform. Many of these individuals will be benefiting from the ability to 'work off' previous periods of contracting out.[193]

The Pensions Policy Institute noted that the precise impact of the reforms on individuals will be highly dependent on individual circumstances. However, potential gainers included individuals who have been contracted-out of S2P and have time to build up more pension after the introduction of single-tier could also gain from the reforms:

> Under the Government's proposals, people who have been contracted-out of SERPS and S2P will be treated as having built up less state pension rights than similar individuals who have not contracted-out. As part of their "state" pension will be delivered by a private pension scheme, the value of this amount will be deducted from their foundation amount at the time that the single-tier pension is introduced. This means that an individual who has been contracted-out will have a lower foundation amount than an identical individual who has not been contracted-out. This is simply replicating what happens in the current system.
>
> However, if these individuals are younger and have many years to go to retirement, the contracted-out individual may be able to build up more single-tier pension in the future than the contracted-in individual, and both could end up with full single-tier pensions.[194]

The Government's impact assessment says that "around 15% of people retiring in the first twenty years of single tier do not get enough extra state pension to compensate for the extra NICs paid."[195]

People contracted-out in April 2016 will also find that their rate of NI increase as a result of the abolition of contracting-out (see section 6.6 below).

Special rules for marriage/civil partnerships, divorce and bereavement

Under current rules, people with insufficient qualifying years in their own right, may be able to draw on the contributions of a (former) spouse or civil partner. Different rules apply depending on their marital status. For example:

- A person who is married or in a civil partnership may be able to claim a lower-rate basic State Pension (a Category B(L) pension), payable at around 60% of the contributor's basic State Pension entitlement (so £67.80 pw in 2014/15, if the contributor has a full basic State Pension) provided both members of the couple have reached State Pension age (SPA). The dependant can combine any amount they have accrued in their own right with the Category B pension to increase their entitlement (although the combined basic State Pension cannot exceed £66pw).

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193 IFS, *A single-tier pension: what does it really mean?,* July 2013; see also *PPI, Single-tier series paper 4: the impact of the abolition of contracting-out,* 19 February 2014

194 PPI, *Single-tier series paper 1: The impact of the Government's single-tier state pension reform,* June 2013

195 DWP, *Single-tier impact assessment,* October 2013 paragraph 88, para 135

- A widow(er) or surviving civil partner may be eligible for a basic State Pension based on the contributor's record (if bereaved when over SPA, or if under SPA, where widow's pension or widowed parent's allowance are in payment up to State Pension age) and to inherit additional State Pension (with the amount that can be inherited depending on when the contributor died and their date of birth). This is known as a Category B pension for surviving spouses and civil partners. There is no entitlement if the survivor was under 45, either when bereaved or when they ceased to receive Child Benefit for the youngest child. In addition, they must not have remarried before reaching SPA;

- A person who is divorced, or whose civil partnership has been annulled, can substitute their former spouse's or civil partner's NI record (in part or in its entirety) up to the point of divorce/annulment in order to qualify for the basic State Pension. This is referred to as a Category A pension (substituted). This is not applicable where the dependant has subsequently remarried or entered into a civil partnership before reaching SPA. Substitution can also be used to provide a basic State Pension for a surviving spouse or civil partner if there is no entitlement to a Category B pension or it does not include a basic State Pension.

A more detailed overview of the current system of derived entitlements can be found in DWP, *State Pension entitlements derived from a current or former spouse's or civil partner's national insurance contributions* (March 2013) - Annex A.

The Government intends that people should qualify for the single-tier on the basis of their own contributions and that in steady state there will be "no rationale" for allowing people to "inherit or derive state pension income based on the National Insurance record of their spouse or civil partner." Where **both dependant** (i.e. the person relying on using their spouse's or civil partner's record) **and contributor** (who will be their spouse or civil partner) **reach State Pension age (SPA) before the implementation of the reforms, then the current rules continue to apply**. In addition, there will be "transitional protection to cover a variety of circumstances where the Government believes it is right to recognise contributions made prior to the implementation of the single tier pension."[196]

These transitional arrangements depend on when dependant and contributor reach SPA.[197] For example, where the **dependant reaches SPA in the current system** and contributor reaches SPA, or dies or divorces under SPA, in the single-tier, the dependant will continue to be able to derive an entitlement from the contributor's record, based on the contributions he or she made up to the introduction of the single-tier. DWP explains:

> 29 Under the scenario shown above, the Dependant will retain the following access routes to derived entitlement, as per the current system.
>
> A. Category B(L) basic pension for married persons and civil partnerships.
>
> B. Category B basic pension and additional pension for widows, widowers and surviving civil partners.

[196] DWP, State Pension entitlements derived from a current or former spouse's or civil partner's national insurance contributions (March 2013); DWP, The single-tier pension: a simple foundation for saving, CM 8528, January 2013, Annex 3D
[197] DWP, State Pension entitlements derived from a current or former spouse's or civil partner's national insurance contributions, March 2013

C. Substituted Category A basic pension for persons whose marriage/civil partnership has ended (either through divorce or death: in the latter case it is used if it is either better than the basic in the Category B or where no Category B basic applies).

D. Inherited graduated retirement benefit for widows, widowers, and surviving civil partners.[198]

30. For the purposes of determining the above categories of pension, the Contributor's National Insurance Contributions (NICs) record up to the introduction of the single tier will be considered.

Where the **dependant reaches SPA in the single-tier and contributor reaches SPA or dies in the current system**, the dependant will not be able to derive an entitlement to the basic State Pension (unless covered by the special transitional arrangements for women with an election to pay reduced-rate NICs). They may be able to inherit some additional State Pension.[199]

Where the **dependant reaches SPA in the single-tier and the contributor reaches SPA (or dies or divorces under SPA) in the single-tier**, individuals will not be able to derive entitlement to the basic State Pension (unless covered by the special transitional arrangements for women with an election to pay reduced-rate NICs). If the contributor has a "protected payment" (see above), the dependant may be able to inherit 50% of it.[200]

Transitional protection for women with an election to pay reduced-rate NICs

The White Paper proposed specific transitional protection arrangements for married women who in the past elected to pay reduced rate NICs (which did not count towards State Pension entitlement). The option to make this election was withdrawn for new entrants from 1977, although those who had already made the election could continue to pay the reduced rate in certain circumstances.[201] The White Paper explained:

> 32. From 1948 to 1977 married women (and certain widows) who were employed could opt to pay lower National Insurance contributions in exchange for relying on their husband's contributions for state pension entitlement. Self-employed women could opt not to pay the flat-rate self-employed stamp. This option was known as a Reduced Rate Election. Most elections in force when the option to make such an election was ended in 1977 have since lapsed but a very small number of women are still paying the 'married woman's stamp' and they will be able to continue to do so after single tier is implemented.
>
> 33. Fully removing the potential to derive basic State Pension from a spouse under the single-tier pension would disadvantage women who elected to pay reduced rate National Insurance contributions. They may have few or no qualifying years as a result of their election, which would leave them with potentially no state pension under single-tier rules despite a long history of paying National Insurance contributions and engaging with the system.

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[198] Ibid, page 8; The term dependant refers to the individual who is relaying on using their spouse or civil partner's National Insurance contributions record for the purpose of accessing pension entitlement. The term contributor refers to the individual whose NIC record is to be used by the dependant (and will be either the spouse or civil partner of the dependant)

[199] Ibid

[200] DWP, State Pension entitlements derived from a current or former spouse's or civil partner's national insurance contributions, March 2013

[201] There is more on the background to this in Library Note SN 1910 Married women and state pensions (January 2014)

> 34. The Government therefore intends to make provision for married women and widows who paid these reduced rate contributions. Where a valid election existed at any point in the 35 years before State Pension age, they will be able to access a single-tier pension based on their own contributions to the point at which the single-tier pension is implemented. This will include an amount equivalent to the full rate of the 'married woman's' lower-rate basic pension or, if widowed or divorced, the full rate of the basic State Pension. If they would also qualify for a single-tier pension based just on their own contributions, they will receive the higher of the two.[202]

An example on page 95 of the White Paper illustrates how this is expected to work. Provision for this is made in sections 11 and 12 of the *Pensions Act 2014*.

Inheriting additional State Pension rights
Under the current system, widow(ers) and surviving civil partners may inherit additional State Pension in certain circumstances (Annex 3, para 36-40 of the White Paper provides an overview).There is to be no change to the current rules on inheriting State Pension where both members of a couple reach, or would have reached, SPA before the single tier is implemented.[203] In other cases, the transitional arrangements will depend on when the survivor and deceased reach SPA.[204]

Work and Pensions Committee inquiry
In evidence to the Work and Pensions Select Committee, Sally West of Age UK said that, while she that it was right that the State Pension should be an individual entitlement, she was concerned that there was a "gap" for some women who had expected to rely on their husband's contributions. For example, Age UK had been contacted by a woman with only eight years' contributions:

> She has had poor health for a lot of her life, and she and her husband decided that he would work and earn, and they could manage on his income. She felt it would put pressure on her health to try to work or to work, so they agreed that they would live on his income. She did not claim benefits. She said she did not want to claim benefits, but in any case she was not sure she would get anything.
>
> They were both assuming she would get a married woman's pension when she gets to State Pension age, and that if he dies before her, she would get the basic pension as a widow. Now it appears that will not be the case, because she will be reaching State Pension age under the single tier. It is really important when we look at the foundation pension in 2017 that people in this position, who could reasonably have expected to use their husband's contribution records, do not suddenly find they are left without a pension at all. She has now started signing on, because she says, "At least that will give me an extra four years, so I can get my pension contributions up to 12 years," but that would still be 12 years at £4.11; it will be nothing near a full basic pension.
>
> This is a particular issue. I am not saying we have any problems with the issue of not having derived rights, but where people have that legitimate expectation that they would receive a pension on their partner's contributions, it seems very unfair to suddenly say, "We are changing the rules and you should have done something different for the last 40 years.[205]

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[202] Ibid
[203] DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p96
[204] Ibid, p97
[205] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, Q34

In his evidence, the Minister said that only around 10% of women reaching State Pension age (SPA) in 2011 were entitled to a pension based on their husband's contributions, compared to 20% of women resident overseas. He added that a woman with 15 qualifying years would qualify for a single tier of just over £60 a week (15/35 x £144):

> By 2020, we think that less than 5% of single-tier pensioners-women, female pensioners-will get less because we have got rid of this Category B. That is about 30,000 women. Cumulatively, by 2020, there will be about 30,000 women who will get less than they would have got, because we got rid of what are called Category B pensions. As I say, they will be people who do not even have 15 years.[206]

The Committee recommended that the Government should give further consideration to finding a solution for a small group of women close to SPA:

> We believe that it should be possible to find a solution for another small group of women: those who did not build up their own NI record because they had a legitimate expectation that they would be able to rely on their husband's contributions to give them entitlement to a Basic State Pension. One option might be that women in this position who are within 15 years of State Pension Age should be able to retain this right. We recommend that the Government assesses and publishes the cost of providing this option for the relatively small number of women affected. We believe that, for those further from retirement, there is sufficient time for them to plan on the basis of the new rules.[207]

In response, the Government said that, by 2020, "fewer than 30,000 women in Great Britain would receive a notionally lower State Pension outcome because of the removal of derived entitlement." It explained the reasons for its position, as follows:

> The provision for derived entitlement dates back to the 1940s, when men worked and women stayed at home. This has not resembled the structure of our society for many decades and there is no longer a substantial need for these provisions: by 2020, fewer than 30,000 women in GB will receive a notionally lower State Pension outcome because of the removal of derived entitlement. The Pension Credit Guarantee Credit will remain in place as a safety net for those living in GB.
>
> Additionally, the derived entitlement arrangements have evolved over time so that they now result in outcomes not intended under the original policy, as envisaged in the 1940s, to support dependent spouses. Provided a person has at least one qualifying year of UK NI contributions or credits, a State Pension (including any derivable entitlement) is payable anywhere in the world, enabling the dependents of UK contributors to benefit, even if they have never been to the UK. The factors resulting in the decline in the domestic demand for derived entitlement do not apply in overseas cases, as demonstrated by the fact that among married men (who have been able to qualify for the married person's pension only since 2010), 70 per cent of the caseload with derived entitlement resides overseas.
>
> Furthermore, where both parties in a couple have a State Pension entitlement lower than the full married person's threshold of £66, which may be the case if they have not lived in the UK for a significant proportion of their working lives, each party can use the other's NI record to top up their own State Pension entitlement to this level.
>
> The Government believes that, in order to deliver a simple, modern State Pension which recognises people's contributions to the economy and wider society, it is

[206] Ibid Q179
[207] Ibid

> necessary to remove the facility to rely on a spouse or civil partner's NI record at the earliest opportunity. Furthermore, the Government believes that the broad crediting regime to sufficiently recognise individuals' contributions to society has been in place for long enough to ensure that no one who reaches State Pension age today will have those contributions overlooked.[208]

In December 2013, it published analysis looking at whether people would be getting a smaller state pension at any point in their retirement.[209] It found that some 290,000 people would be affected at some point up to 2030.[210]

Debate in Parliament

At Public Bill Committee Stage, Shadow Pensions Minister, Gregg McClymont, moved an amendment that would require the Government to conduct a review to determine the costs and benefits of permitting women within 15 years of SPA to retain the right to derive State Pension entitlement on the basis of their (former) spouse's contribution record:

> In relation to women without a national insurance contribution record who relied on a husband's national insurance contributions and would under existing arrangements have accrued a benefit based on such spousal contributions, the Government shall conduct a review to determine the costs and benefits of permitting women within 15 years of state pension age as at 6 April 2016 to retain their accrued rights. Such a review shall be conducted within six months of Royal Assent of this Act and a report thereof laid before Parliament.[211]

Sheila Gilmore said that when people had made plans based on a reasonable expectation of being able to use their husband's contributions, it was not fair to remove this right from them abruptly. Some might have been eligible for NI credits but not claimed them, for example.[212]

Pensions Minister, Steve Webb, responded that:

> There is an issue about legitimate expectations, which is why the rather complex transitional procedures that we have put in place provide protection for the vast majority of people. I will reiterate the numbers we think we are talking about. We have the figures for men, which are obviously much smaller, but we think that by 2020, of all the women who become single-tier pensioners over that five-year period, roughly 5% will lose out—that is the 30,000 number—from the non-availability not just of a derived pension as a widow, but a derived pension as a married woman whose husband is still alive. All of that together is less than 5% of the people we are talking about.
>
> Of course, we could roll on every feature of the old system into the new system for another 15 years. At the same time as we are being asked to do that, we are also being asked to give clear communications. We are trying to bring about a reform that enables people to plan for their retirement, to know where they stand, to know what they will get, and there is a trade-off here.[213]

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[208] DWP, Government Response to the Fifth report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013

[209] Ibid. This included pensioners who were still married in 2020 and whose single-tier pension is between the 'married woman's pension' (£66 pw in 2013/14) and the 'widows pension' (£110.15 pw) and who therefore might be entitled to a higher pension under the current system once widowed

[210] HL Deb 18 December 2013 c 341

[211] PBC Deb 2 July 2013 c175

[212] Ibid c182

[213] Ibid c184

Some of those losers would be eligible for Guarantee Credit.[214] He said another review would delay implementation. Furthermore:

> It would create new cliff edges, bring in only women and not men, and greatly complicate the transition for a relatively small number of people for whom other provisions are in place – the guarantee credit, the opportunity to pay voluntary contributions and so on.[215]

Gregg McClymont's amendment was defeated on division by 8 votes to 4.[216]

The issue was raised again in the Lords by Baroness Hollis, who moved amendments to protect those ordinarily resident in the UK, who were within 15 years of pension age who would have received a higher pension based on their (former) spouse or civil partner's contributions:

> The Government have rightly helped 10,000 women—it is a diminishing number—who paid a reduced stamp and have put them effectively on to the equivalent of the former 60% dependant pension. At the same time, they are taking that same pension from about 5,000 married women who would otherwise qualify for it each year. This amendment calls for a transitional period of 15 years, as urged by the Select Committee on Work and Pensions on this part of the Bill, having taken a considerable amount of evidence, including some very effective evidence from Age Concern.
>
> This amendment seeks to help women, not many of them, who have, for one reason or another, lived their lives among an older—shall we call it, although I do not mean this to be patronising at all, *Daily Mail* model—without any expectation that the Government were going to change the rules around them. […]
>
> We phased in the rise in people's pension age over a decade. We are scrapping the pension that they might have drawn at pension age, effectively overnight. I do not think that is fair. If we feel the need to give adequate warning when raising the state pension age, as we did, we should provide adequate warning and therefore transitional arrangements for the most obvious group of real, not notional, losers. It is not difficult. We have the precedent of the reduced married women's stamp, which we should follow.[217]

Lord Freud responded by laying out the Government's argument for removing derived entitlement by reference for the criteria the single-tier: "fairness, simplicity and sustainability". It believed that fairness meant:

> […] means ensuring an adequate state pension for people who have contributed to the system. That is why we are recycling the savings from aspects of the current system being abolished, including derived entitlement, to give a boost to individuals who have historically been excluded from additional state pension, such as carers, the self-employed and the low-paid.[218]

The Government estimated that to continue running the basic pension derived entitlement provisions for people reaching State Pension age up to 2030-31 would cost around £200 million per annum in the 2030s for Great Britain. If, as the Government believed, it was not

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[214] Ibid c85
[215] Ibid c187
[216] PBC Deb, 11 July 2013, c426
[217] HL Deb 18 December 2013 c334. For the full debate, see c333-350
[218] Ibid c340GC

possible to restrict transitional protection to those ordinarily resident in the UK, there would be additional costs in respect of those overseas.[219]

Lord Freud said introducing transitional provision for this group would introduce complexity, for example, requiring the Government to tell people about their entitlement under the current system as a married person and how this might change if they were widowed.[220] He concluded by saying:

> I hope that by now it is clear why we have not put in place transitional arrangements and why we have no intention to undertake a review to this effect. We have, however, put in place some protection, specifically to ensure that women who had paid the reduced rate election within 35 years of pension age will get roughly what they thought they would receive. Putting in place protection for these individuals is right: they have clearly participated in the labour market and have contributed. The difference between them and the wider group of people who would have relied on derived entitlement is that those people made an explicit deal with the state.[221]

Baroness Hollis described his position as "harsh and unfair" - the women affected were going to lose their entitlement to a derived pension virtually overnight, with limited time to change their situation.[222]

Communicating the impact

The Work and Pensions Committee noted evidence of confusion about the impact on individuals, with "some people believing that everyone would automatically be entitled to £144 a week and others fearing that they will lose any higher State Pension entitlement they may have built up." It noted that for most people, the overall impact was likely to be marginal:

> 7. The overall impact of the introduction of the Single-tier Pension is that a significant number of people will receive more State Pension, mostly in the short to medium term. We welcome this improvement in State Pension provision, particularly as some of the key gainers will be women, carers and other people with gaps in their working lives who will benefit significantly. The main losers will be people who are not able to fulfil the minimum qualifying years requirement and "notional" losers who would have been able to accrue higher State Second Pension (S2P) in the current system. (Paragraph 55).
>
> 8. However, for most people the overall impact, whether they gain or lose, is likely to be marginal. The reform could be seen as evolutionary and simply continuing at a faster rate the redistributive effects of the changes made with the introduction of S2P in 2002, which widened the coverage of the additional State Pension and made it more flat-rate and less earnings-related. Moreover, while the STP may be higher than the basic State Pension which some people would have received under the current system, the net amount some of them receive in weekly income from the State may be less, because of the loss of means-tested benefits (paragraph 56).[223]

The Committee therefore recommended early publication of a "high-level DWP communications strategy for informing the public about the reforms".[224]

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[219] Ibid c340GC; DEP 2014-0001
[220] Ibid c341 GC
[221] Ibid c342 GC
[222] Ibid c351 GC
[223] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013
[224] Ibid, para 82

The Government has recognised that the importance of communications in helping individuals understand the implications of the single-tier and has said that information will be provided in advance of implementation:

> Accordingly, in advance of implementation, the DWP will provide State Pension statements with an estimate of an individual's State Pension to date, based on the rules of the current system. These will be accompanied by a leaflet with simple information and case studies that will help people to understand how they will be affected by the single-tier changes and how the foundation amount will be calculated. When the single tier is introduced and all pre-implementation contribution years are recorded on an individual's NI record, we will be able to provide State Pension statements with a single-tier foundation amount valuation and explain how future qualifying years may build on this. People who want to find out more about their specific calculation will be able to contact the DWP.[225]

In addition, it addressed some FAQs in a Single-tier State Pension factsheet.

Post-implementation, DWP intends to offer an on-demand statement service, which will be predominantly digital. At Committee Stage in the House of Lords, Lord Freud explained:

> The Department for Work and Pensions currently offers a state pension statement service, which allows people to request an estimate of how much state pension they may get, based on their national insurance record to date. Last year, […] six hundred thousand statements were provided. I assure the noble Lord that we intend to continue to provide people with an on-demand state pension statement service after the introduction of single tier in 2016. Our intention is that the service will be predominantly, though not exclusively, digital—

A paper setting out the communications strategy in more detail explained that:

> 1.6 In phase one, from Royal Assent of the Pensions Bill, we will ensure that information is available though: the GOV.UK website; our stakeholder networks; our standard business letters and leaflets; and media activity.
>
> 1.7 Phase two will begin from the summer of 2014 when we will focus on those people aged over 60 who have limited time to prepare for the changes and those who are affected by key issues such as derived entitlement. We will engage them with detailed messages delivered through the type of channels that they are influenced by. We will select these channels in line with existing attitudinal research, supported by our media planners.
>
> 1.8 We will also undertake a trial during this second phase to understand what message and channel is most effective for the promotion of the State Pension statement service and which results in improved retirement planning outcomes. This trial will include various approaches, including direct mail.
>
> 1.9 The findings of this trial will then feed into the third phase of our strategy from October 2015, which will see the expansion of our activity across all age groups to raise awareness and to drive people towards our tools and services.
>
> 1.10 Throughout these phases we will also will set out to reassure current pensioners and those who reach State Pension age before April 2016 that they will keep what they have built up in the current State Pension system, highlight the need to check they

[225] DWP, *Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill*, Cm 8620, May 2013

have claimed everything they are entitled to and where appropriate, to inform them how they can increase their State Pension.[226]

The debate on this is discussed in more detail in Library Note SN 6817 *Single-tier State Pension: contribution conditions* (March 2014).

6.6 The abolition of contracting out

The current State Pension has two tiers – the BSP and additional State Pension. Since its introduction, it has been possible to contract-out of the additional State Pension into an occupational pension scheme that meets certain requirements. In return, the employee and their employer pay reduced National Insurance Contributions (NICs), through what is known as the “contracted-out rebate”.

With the introduction of the single-tier pension, the additional State Pension will close and, by extension, the option to contract out of it. The White Paper explained that for employees, this will mean an increase in their NIC rate. However, their contributions after the date of implementation will count towards the single tier pension in the same way as those paid by other employees:

> 72 When the single-tier pension is introduced and contracting out ends, all employees who were members of a contracted-out scheme immediately before introduction will cease to receive the ‘contracted-out rebate’ and will start to pay full National Insurance contributions. This will mean an increase in the rate of contributions that they pay equivalent to 1.4 per cent of their earnings (between the LEL and the UAP *), bringing them into line with the rate of National Insurance that is paid by other employees. In return, contracted-out employees’ qualifying years after the implementation of the single-tier pension will count towards the single-tier pension in the same way as others.
>
> *The LEL is £5,564, the UAP is £44,040 (2012/13 annualised figures). Whilst NI liability does not begin until earnings reach the primary threshold, the contracted out rebate is actually calculated from the LEL.[227]

The Work and Pensions Committee recommended that the Government undertake more analysis of those employees who could lose out and might face difficulties in the shorter term:

> 103. We accept that, on average, employees who were previously contracted-out will not lose out in the longer term from having to pay increased National Insurance and pension scheme contributions, because most will gain enough in increased State Pension to compensate for this. However, within this average, some individual employees could lose out and some may face difficulties in the shorter term, especially if current wage restraints continue. We recommend that the Government undertakes more analysis of which employees might fall into this category, so that Parliament can properly consider what measures, if any, might be put in place to limit losses.[228]

For individuals, the loss of the contracted-out rebate will mean an increase in the rate of NICs that they pay equivalent to the value of the rebate (calculated as 1.4 per cent of their earnings between the LEL and the UAP), bringing them into line with the rate of NI that is paid by other employees. This will mean an increase of £23 per month for an individual on

[226] Dep 2014-0266

[227] DWP, The single-tier pension: a simple foundation for saving, CM 8528, January 2013, Chapter 3, para 72

[228] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013

approximately median earnings, the loss of the rebate.[229] In return, they will start to accrue state pension rights on the same basis as other employers. The Government estimates that "around 15% of people retiring in the first twenty years of single tier do not get enough extra state pension to compensate for the extra NICs paid."[230]

Impact on employers

There are also implications for employers who sponsor contracted-out schemes, as the loss of the contracted-out rebate will mean they need to start paying the standard rate of NICs (an increase for each contracted-out employee of 3.4 per cent of relevant earnings).[231]

Private sector

The Government said in the White Paper that it believed it was necessary, to safeguard the ongoing viability of Defined Benefit pension schemes in the private sector, to give employers limited powers to change scheme rules without trustee consent (for example, by reducing future pension benefits or increasing employee contribution rates).[232]

Section 24 of the Act provides for the ending of the option for sponsoring employers of Defined Benefit (salary-related) pensions to contract their employees out of the additional State Pension. **Schedule 14** would provide employers with a limited 'statutory override' of scheme rules, to enable them to make changes to adjust for the additional NI cost.

Issues raised in debate included whether there were sufficient protections regarding the operation of the over-ride. At Lords Committee stage, Baroness Drake asked how the amount employers would be able to recoup would be valued:

> We have no clear indication from the Government about how they will value what it is that can be recouped. As I asked when speaking the other day, is it the net or the gross loss? Will it be crystallised in terms of the 2016 value of the rebate? These are quite significant issues. On one level, setting out some actuarial assumptions in the regulations may be a good thing, although we would perhaps want to see the actuarial assumptions first. But we have no way of seeing them and when we do, the regulation will be subject to the negative procedure.[233]

Lord Freud said the intention was that the current rebate rate of 3.4% will be used for these calculations".[234] Baroness Drake questioned the fairness of this:

> Employers will be allowed to recoup the value that is crystallised in 2016, but everyone knows that if there had not been changes the post-2016 value would have gone down. In addition, the employer's NI charges are an expenditure that can be taken into account and set against tax. If those two elements are not built in, is that not a little unfair in term of the rules for recoupment—a little imbalanced?[235]

Lord Freud said the Government was consulting stakeholders on regulations to implement the provisions. These would not be ready to present to Parliament until May or June. They would be subject to the negative parliamentary procedure.[236]

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[229] DWP, Single-tier Impact Assessment, October 2013, section 5.2
[230] Ibid para 135
[231] Ibid Executive Summary, para 19
[232] DWP, The single-tier pension: a simple foundation for saving, CM 8528, January 2013
[233] HL Deb 13 January 2014 c5-6GC
[234] For further detail, see DEP 2014-0032 and DEP 2014-0001
[235] HC Deb 13 January 2014, c10-11GC
[236] Ibid, c3GC

At Report Stage, Labour Peer Lord Whitty moved an amendment to ensure that:

> The rights of trustees are protected and that their legal responsibilities are recognised; that the trustees will be involved in any alteration of the scheme; and that consultation will be conducted in accordance with the terms of the scheme.[237]

Lord Freud responded that employs would need to find ways to recoup the costs that the loss of the contracted-out rebate would bring. The override provided for limited changes to future accruals and/or future contributions where the scheme rules would otherwise prevent that. It did not permit employers to ignore other rules about how the scheme operates:

> For example, it does not mean that an employer can avoid notifying trustees or members of a change, or refuse to carry out a consultation, if scheme rules would require this. Indeed, existing legislation requires that members are consulted on any significant rule changes before they are made[…] that will remain the case.[238]

There were safeguards in the legislation:

> Schedule 14 provides important safeguards, such as limits on the use of the override to prevent an employer from making changes beyond those necessary to recoup their increase in national insurance contributions, the need for an actuary to certify the changes and protection for members' accrued rights. We will put further safeguards in regulations—for example, to ensure that the employer cannot create their own assumptions for the purposes of the calculation but must draw on existing assumptions used by the scheme.[239]

Lord Whitty remained concerned that the Government had effectively "overridden the governance structure of work-based occupational schemes by attacking the very fundamentals of trusteeship." He withdrew his amendment.[240]

Protected persons

In January 2013, the Government launched a specific consultation on whether to allow a statutory override to private sector employers in formerly nationalised industries which include employees with "protected persons status."'[241] On 12 February 2014, the Government announced that it would honour the promises made at privatisation:

> We had to consider the best and fairest course of action in an area where the arguments are both finely balanced and highly polarised. The Government has decided that it should honour the promises that were made at the time of privatisation and which, in many cases, have been affirmed by Government Ministers subsequently. The Government thinks it is reasonable that issues arising from the end of contracting out for this small number of workers should be resolved through negotiation. Therefore the Government proposes that employers should not be allowed to use the statutory

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[237] HL Deb 24 February 2014 c799
[238] Ibid c803
[239] Ibid c803; See also DEP 2014-0032
[240] Ibid c807
[241] DWP, Abolition of contracting out – consultation on a statutory override for Protected Persons Regulations, January 2013; These were regulations that had been in place when some nationalised industries were privatised in the 1980s and 1990s, requiring the new private sector employer to continue to provide pension benefits for existing scheme members that were at least as good as those they were receiving in the public sector.

override to alter their pension schemes in relation to members with protected person status.[242]

The Government amended the Bill to this effect at Report Stage to exclude protected persons from the scope of the statutory override.[243]

This is discussed in more detail in Library Note SN 6725 *Pensions: possible statutory override for protected persons* (8 April 2014).

Public sector

The Government has said that employers in the public sector will not be able to pass on the cost of increased employer NICs to their employees. This reflects a commitment made by the Government during recent negotiations on public service pension reform:

> 71. The Government has given a commitment to Parliament that the reforms to public service pensions should endure for 25 years, setting a high bar for future scheme changes in the Public Service Pensions Bill. Public service employers will therefore not be able to pass the cost of increased National Insurance contributions onto their employees by reducing the value of pension scheme benefits or by increasing employee contribution rates to their pension schemes.[244]

The Pensions Policy Institute has noted that sponsors of public service pension schemes would face higher NICs but that the overall impact on the budgets of public service scheme sponsors would "depend on whether HMT increases sponsors budgets by the amount of the higher NICs or not."[245] This is discussed in more detail in section 6.7 below.

6.7 Exchequer impact

One of the requirements of reform, as set out in the April 2011 Green Paper was that any option for reform "must be cost neutral in each and every year to avoid placing an unsustainable burden on future taxpayers."[246] The Impact Assessment for the Pensions Bill shows that the single-tier is expected to result in a reduction in the overall expenditure on pensioner benefits from the state in the longer term compared to the situation if the current system continued:[247]

> 153. Chart 6.1 below shows the projected spending on pensions and pensioner benefits under the current system and single tier (using the assumed start level and uprating), as a proportion of GDP>

[242] HC Deb 12 February 2014 c61-2WS: DWP, Abolition of contracting out: statutory override for Protected Persons – Government response to public consultation (February 2014).

[243] HL Deb 24 February 2014 c805; See also DEP 2014-0210

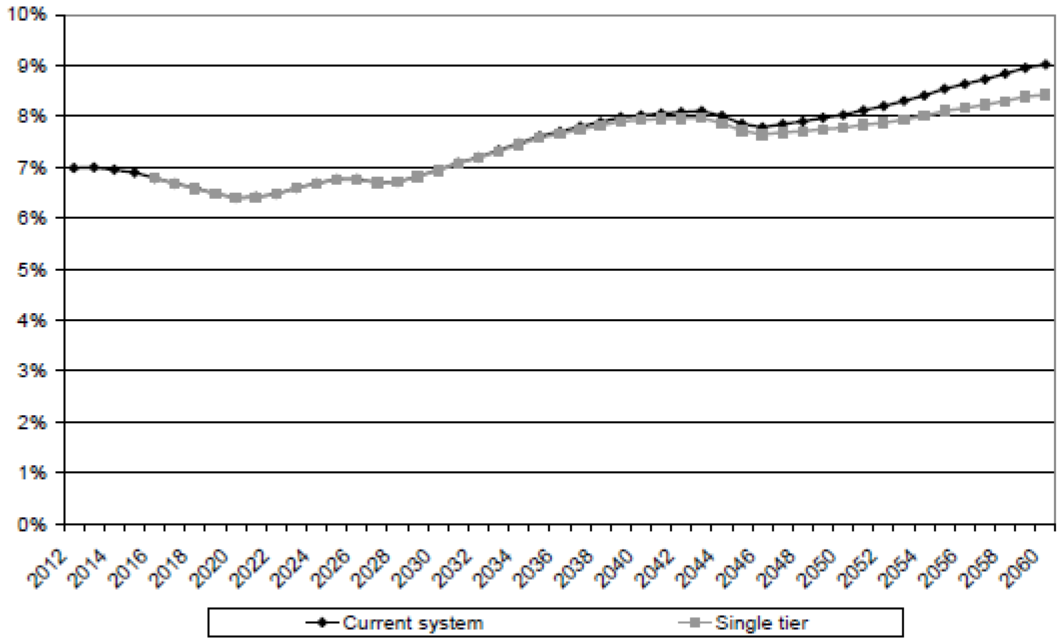
[244] Ibid; Public service pension reforms are discussed in more detail in Library Standard Note SN 5678 Public service pension reform – 2010 onwards

[245] PPI, Written evidence to the Work and Pensions Select Committee, February 2013 para 61

[246] DWP, A State Pension for the 21st century, Cm 8053, April 2011, Executive summary, p8

[247] DWP, Single-tier Impact Assessment, October 2013, section 6.1

Chart 6.1: Overall expenditure on pensions and pensioner benefits under current system and single tier (£144 start level, triple lock), as a proportion of GDP



In addition, the abolition of contracting-out under clause 24 of the Bill (see section 6.6 above) will result in an increase in National Insurance (NI) revenue to the Exchequer: [248]

> 158. Chapter 5 described the impacts of ending contracting out for Defined Benefit pensions, including the increase in National Insurance for employers and employees. This will result in additional National Insurance revenue for the Exchequer. The profile of the increase in National Insurance is shown for selected years in Table 6.1 below.
>
> 159. DWP does not forecast active membership of DB schemes in the public and private sectors. However, the National Insurance forecasts used to estimate costs and benefits of ending DB contracting out do contain some implicit assumptions about future proportions of DB contracted-out membership in both sectors. These assumptions have been provided by the Government Actuary's Department and are explained in more detail in Annex A.

Table 6.1: Increase in National Insurance revenues accruing to the Exchequer, selected years, GB, £ billion, 2013/14 prices

	2016	2020	2030	2040	2050	2060
Public sector employers	3.0	3.0	2.6	2.2	2.7	3.4
Public sector employees	1.2	1.2	1.1	0.9	1.1	1.4
Private sector employers	-	-	-	-	-	-
Private sector employees (includes private sector employers passing on costs)	0.7	0.4	0.1	0	0	0
Total	**5.0**	**4.6**	**3.7**	**3.1**	**3.8**	**4.8**

Source: DWP analysis

Note: Real terms additional revenues fall to begin with as the Upper Accrual Point is fixed in cash terms until the late 2030s as part of the gradual move to flat rating of the current system. From 2040 the extra revenue rises, as the flat-rated amount increases in line with earnings.

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[248] Ibid

Health Secretary, Jeremy Hunt announced on 11 February 2013 that these revenues would help meet the cost of the Government's proposed changes to the funding of social care and support:

> These reforms will cost the Exchequer £1 billion a year by the end of the next Parliament. With the agreement of the Chancellor, these will be met in part by freezing the inheritance tax threshold at £325,000 for a further three years from 2015-16. **The Chancellor and the Chief Secretary have agreed that the remaining costs over the course of the next Parliament will be met from public and private sector employer national insurance contributions revenue associated with the end of contracting out as part of the introduction of the single-tier pension.**[249]

The TUC is concerned that the increased costs for public sector employers will have a detrimental impact:

> 5.4 There may be a longer term impact related to higher employer NICs costs in the public sector. It is right that public sector employers are not able to make changes to public service pension schemes to offset this cost. However, we are concerned that increased National Insurance costs for employers will have a detrimental impact on public services, and jobs and pay in the public sector. The government claims that that the reforms are fiscally neutral, but the exclusion of increased National Insurance revenue from this calculation means that STSP constitutes a significant saving to the Exchequer. We are concerned that, despite the government's explanation that the treatment of this revenue will be determined in the next parliament, a portion of it has already been allocated to fund changes to social care finance. The additional projected revenue should be available to fund the STSP and, in particular, to mitigate adverse consequences for public services.[250]

The Work and Pensions Committee asked the Government to publish an analysis of "the level at which the single-tier pension could be funded if the additional NI revenue was used for this purpose." However, the Government responded that "the additional NI revenue would not be recycled within the State Pension system, but will contribute to other reforms such as the cap on social care costs and the Employment Allowance, as announced in the Budget 2013."[251]

A study for the Joseph Rowntree Foundation commented that:

> With its lower generosity for later cohorts, the single-tier proposals also go some way to addressing the long-term pressures on the UK's public finances posed by our ageing population. By sweeping away many of the complexities of the current system and addressing some of the long-term funding pressures, the latest set of proposals may prove to be more long-standing than those that have gone before. This would be welcome news to people for whom constant changes to the state pension system make planning for retirement difficult.[252]

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[249] HC Deb, 11 February 2013, c592 WS

[250] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, Ev 89

[251] DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013

[252] JRF, A single-tier pension: what does it mean for individuals? March 2014

7 Expected impact of the single tier

7.1 Pension incomes

The White Paper explains the reforms will result in "some future pensioners receiving slightly more income in retirement than if the existing system continued and others receiving slightly less." The introduction of the single tier is expected to benefit people with low amounts of additional State Pension (typically people who have taken time out of the labour market due to caring responsibilities and people who are self-employed):

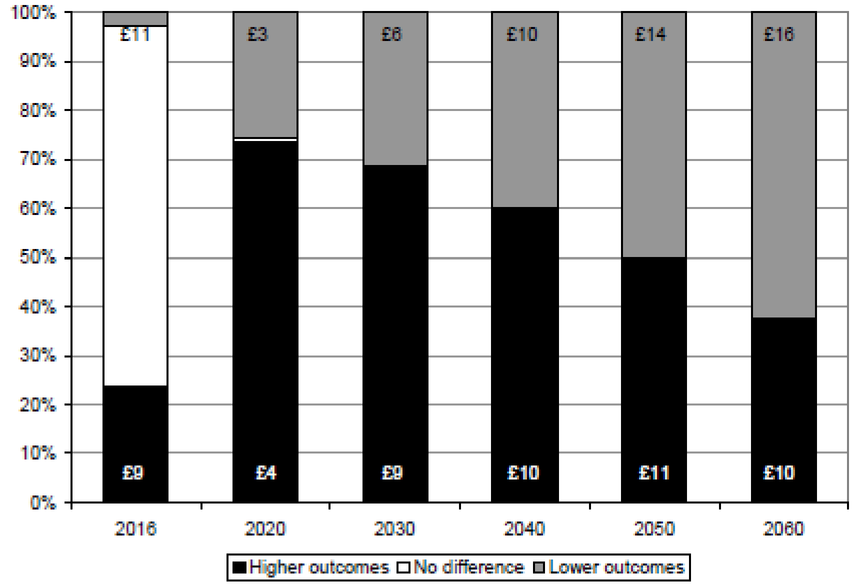
> 87. The main reason that notional outcomes for women improve more quickly in the early years is that the single-tier valuation benefits lower paid and part time workers, who are predominantly women. In 2016, around 40% of women reaching State Pension age would get a notionally higher state pension as a result of the single-tier valuation, with around 1 in 6 men also benefiting from this element of the reform. This mechanism results in the gap between average pension outcomes for men and women closing more quickly for early cohorts.[253]

The Government expects that around "650,000 women who reach State Pension age in the first ten years after the single-tier pension is implemented will receive an average of £8 per week more in state pension (in 2013/14 earnings terms).[254]

The Impact Assessment to the Bill says that:

> 74. Chart 3.1 shows that within a few years of implementation, single-tier reform leads to most single-tier pensioners having a higher state pension than under the baseline of the current system. For each year the chart shows all living pensioners who have reached State Pension age since the implementation of the single-tier pension

Chart 3.1: Proportion of pensioners with changed notional state pension outcomes under single tier; median weekly amounts (2013/14 earnings terms)



> 75. In 2016, the first year of reform, most people receive the same level of state pension income as they would have done if the current system continued. Around 25 per cent of people will have a better outcome as a result of the single-tier transition

[253] DWP, Single-tier impact assessment, October 2013
[254] Ibid para 88

valuation. Even in 2050, approximately half of single-tier pensioners will have an outcome that is higher than under the current system.[255]

The Work and Pensions Committee concluded that for most people, the overall impact of the reforms, whether they gained or lost, was likely to be marginal:

> 55. The overall impact of the introduction of the Single-tier Pension is that a significant number of people will receive more State Pension, mostly in the short to medium term. We welcome this improvement in State Pension provision, particularly as some of the key gainers will be women, carers and other people with gaps in their working lives, who will benefit significantly. The main losers will be people who are not able to fulfil the minimum qualifying years requirement and "notional" losers who would have been able to accrue higher State Second Pension (S2P) in the current system.
>
> 56. However, for most people the overall impact, whether they gain or lose, is likely to be marginal. The reform could be seen as evolutionary and simply continuing at a faster rate the redistributive effects of the changes made with the introduction of S2P in 2002, which widened the coverage of the Additional State Pension and made it more flat-rate and less earnings-related. Moreover, while the STP may be higher than the Basic State Pension which some people would have received under the current system, the net amount some of them receive in weekly income from the State may be less, because of the loss of means-tested benefits.[256]

It summarised winners and losers from the reform as follows:

> *Winners*
>
> - People who have already had significant periods of low earnings or employment gaps, particularly women and carers, who were not well covered by SERPS or S2P credits.
> - Self-employed people, who will be brought fully into the State Pension under the new system and are therefore more likely to receive a higher amount.
> - People who were previously contracted-out of the S2P (and SERPS), particularly those who have time to build-up more pension after the STP introduction date.
>
> *Losers*
>
> - Individuals who may have been eligible for Savings Credit.
> - Individuals with fewer than 7-10 qualifying years.
> - Employees with significant periods contracted-in who will not be able to accrue any further Additional State Pension after 2017.
> - Younger people who entered the labour market after 2002, who would have been able to build up high S2P entitlements under the existing system (because each year of accrual in the new system will be worth £4.11,

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[255] Ibid

[256] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013

> compared with £5.05 for low earners and £5.81 for higher earners, under the present system).[257]

The IFS published a report in July 2013 looking at the short-run and long-run effects of the proposed reforms, which it said differed dramatically.[258] A study published by the Joseph Rowntree Foundation in March 2014 said those who gained in the short-term would include the self-employed and people undertaking activities that did not qualify for the additional State Pension before 2002. In the longer-term, the new single-tier would be less generous to most people:

> Some people who will reach state pension age in the first four years after implementation would receive a significantly higher state pension income under the single-tier system than they would get under the current system. In particular, this applies to those who had significant periods out of paid work to care for children or due to disability before 2002, and the long term self-employed.
>
> Across this group as a whole, 43% would get a higher state pension income at state pension age under the new system than under the current one. 26% would see an increase of at least £5 per week, while 13% would see an increase of at least £10 per week.
>
> Some of the increases in pension income seen by those who will reach state pension age in the first four years after implementation would, however, be offset by the loss of means-tested benefits.
>
> In the longer term, the new single-tier pension would be less generous than the current pension system for most people. People particularly worse off will be those who contribute to the system for longer, whether that contribution is through paid employment, caring responsibilities or receipt of disability-related benefits.
>
> The only groups who will get a significantly higher state pension income under the proposed system in the long-run are those who spend long periods in self-employment and those who will start to receive credits to the state pension for the first time under Universal Credit.[259]

The TUC said in August 2013 that many people currently building up rights to the State Second Pension (S2P) would get less when they retired as a result of its replacement with the single-tier State Pension. Although the Government expected that private pension saving would "plug the gap", its research had found that it would not be "until 2032 that private sector workers on median salaries get more from a combination of their private and state pension than they would have got under the current arrangements".[260]

The TUC said it supported the single-tier pension in principle but believed the initial proposed rate was "far too low":

> While the government is right to move towards a simple, single state pension, setting it at just £144 a week is far too low and will mean many future pensioners will be worse

[257] Ibid

[258] IFS press release, 'Women approaching retirement and the self-employed to gain from single-tier pension reforms, employees in their thirties to lose', 11 July 2013; Crawford R et al, A single-tier pension: what does it really mean? IFS Report R82, July 2013' See also Crawford R et al, A single-tier pension: what does it mean for individuals

[259] JRF, A single-tier pension: what does it mean for individuals, 2014

[260] TUC press release, Many private sector workers will be worse off under state pension reforms, 19 August 2013; The TUC research was undertaken by Bryn Davies of Union Pension Services Ltd and is at **www.tuc.org.uk/tucfiles/639/state pension reform full results.xls**.

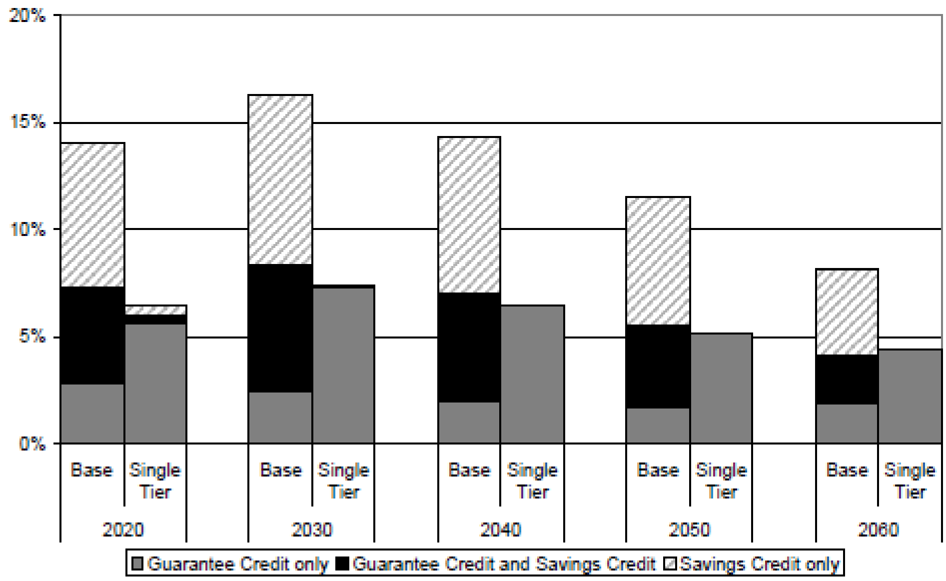
off. The government should raise the single tier pension rate, and look to raise minimum contribution rates into workplace pensions once auto-enrolment has had time to establish itself, so that fewer people lose out under the government's pension reforms.[261]

7.2 Entitlement to means-tested benefits

The Impact Assessment explains that the reforms lead to a reduction in the proportion of people eligible for Pension Credit, with the main driver for this being the abolition of Savings Credit. By 2060, the most common reason for entitlement to Pension Credit would be having fewer than 35 qualifying years or being entitled to an additional amount:

> The introduction of the single- tier pension leads to a reduction in the scope of Pension Credit for two reasons. A higher state pension means that fewer pensioners require Guarantee Credit to top up their income under the single tier, and Savings Credit is no longer required to ensure that people benefit from additional saving. The scale of the expected reduction in eligibility is shown in Chart 4.1.

Chart 4.1: Eligibility for Pension Credit from 2020 to 2060 amongst the population reaching State Pension age after implementation of single tier



"Base" represents the cumulative flow of single-tier pensioners under the current system rolled forward, so is not comparable to figures elsewhere for entitlement that include pensioners reaching State Pension age before 2016. Guarantee Credit figures include small numbers entitled to Universal Credit.

> 103. Under the current system, eligibility for Pension Credit (or Universal Credit where only one member of a couple is above the qualifying age for Pension Credit) amongst the single-tier population is expected to peak at around 15 percent in the mid-2020s and fall to around 10 per cent by 2060. Under the single tier, eligibility for Pension Credit is halved compared to the current system in the first few years following implementation, and ultimately falls to around five per cent by 2060.

> 104. Ending Savings Credit for single-tier pensioners is the main driver of the reduction in the number of people qualifying for Pension Credit, although there is also a reduction in the proportion of pensioners eligible for Guarantee Credit. The reduction in

[261] Ibid

the numbers within scope of the Guarantee Credit is the result of most single-tier pensioners under the single tier having a state pension above the level of the Standard Minimum Guarantee.

105. There are a number of reasons why a small number of pensioners remain eligible for Pension Credit tier, despite the full single-tier pension being above the Standard Minimum Guarantee. An individual may:

- Have fewer than 35 qualifying years and so not have a full single-tier pension;
- Receive an additional amount within Pension Credit, such as the Severe Disability Additional Amount26;
- Be a member of a couple still receiving Savings Credit because one member reached the qualifying age before it was removed;
- Be a member of a 'mixed age couple', where one member is below State Pension age with little or no income, making them eligible for Guarantee Credit or Universal Credit based on their combined income.

106. By 2060 the most common reasons for entitlement to Pension Credit will be having less than 35 qualifying years or being entitled to an additional amount, for instance due to a disability. Entitlement to an additional amount becomes more important in explaining the continued scope of Pension Credit in later years. This change is partly due to the ageing of the single-tier population. As the single-tier population ages, there are greater numbers of older pensioners who are more likely to be entitled to the Severe Disability Additional Amount.[262]

The Impact Assessment published alongside the White Paper noted that that there was "little impact on Guarantee Credit eligibility resulting from the single tier (less than 2 percentage points), so this has a limited impact on the proportion of pensioners that are eligible to be "passported" to the full amount of Housing Benefit and Council Tax Benefit."[263]

In evidence to the Work and Pensions Select Committee, the IFS said:

• The removal of the Pension Credit Savings Credit (PCSC) on its own will reduce the maximum income at which someone will be entitled to means-tested benefits, and so on its own should reduce means-testing.

• In the short-term, retrospective crediting for the single tier pension should increase state pension entitlements for some and so also reduce dependence on means-tested benefits. However, the reduction in the long-run generosity of the state pension system will have the opposite effect.[264]

The PPI noted that:

VIII. By setting the illustrative level of the proposed single-tier state pension above the level of the Guarantee Credit (GC) element of Pension Credit, and removing the Savings Credit element of the Pension Credit for individuals reaching SPA after the single-tier pension has been introduced, the proportion of people over SPA eligible for Pension Credit is likely to be significantly reduced.

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262 DWP, Single-tier Impact Assessment, October 2013
263 See also, DWP, Single-tier Impact Assessment, January 2013, para 111
264 Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, Ev 65

IX. However, even with the level of the proposed single-tier pension above the GC level, relatively high levels of means testing could remain in the future as a result of not all individuals qualifying for a full single-tier pension, some individuals having extra needs leading to higher Pension Credit entitlement, and continued eligibility to Housing Benefit and Council Tax Benefit.[265]

7.3 Incentives to save

One of the aims of the reforms is to simplify the state pension so that it is easier for people to plan and save for their retirement.[266] This is in the context of the workplace pension reforms, which started to be introduced from October 2012. Under these reforms, employers will be required to automatically enrol employees into a qualifying workplace pension scheme and to make a minimum level of contributions to their employee's pension.[267] The Government intends to publish a combined assessment of both the effects of the single-tier state pension and auto-enrolment in Spring 2013.[268]

The IFS noted that the effect of the state pension reforms on incentive to save were complex and varied across the population:

- The effect of the proposals on incentives to save are complex and vary across the population.
- On its own, the reduction in the long-run generosity of the state pension should increase incentives to save privately – although incentives would be reduced for those whose loss of income was sufficient that would expect to qualify for Housing Benefit and Council Tax Benefit.
- The abolition of PCSC [Pension Credit Savings Credit] means that some groups will expect to face a lower marginal effective tax rate on their private savings – as they will no longer qualify for PCSC – while some people will expect to face a higher marginal effective tax rate – as Pension Credit Guarantee Credit will be withdrawn at a rate of 100%.
- To the extent that the proposed policy would increase individuals' certainty about what pension they will get from the state, this will affect savings behaviour – although the direction of this effect is ambiguous.[269]

Chris Curry of the Pensions Policy Institute told the Committee that:

> I think the real impact on levels of saving is not necessarily likely to come through the economic incentives within the system. How people can understand the system, how it can be explained to them and whether people can tell them, "Yes, you should be saving," goes back to what Baroness Hollis was saying, in that the certainty in the system may or may not make people think they ought to save or ought not to save, but at least it means people can talk to them about it, and so whether they will benefit or not should be clearer. Hopefully, that might have a positive impact.[270]

[265] Ibid Ev 77
[266] DWP, A state pension for the 21st century, April 2011, Executive Summary, p8
[267] For more detail, see Library Standard Note SN 6417 Pensions: automatic enrolment - 2010 onwards
[268] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, Ev 65
[269] Ibid
[270] Ibid Q73