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Single-tier State Pension - transitional questions

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Summary

There are two parts to the current 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 new 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.

One of the principles of the reform was that the new State Pension would be set above the basic level of means-tested support. In 2016/17, the starting rate will be £155.65 pw, just above the single rate of the Standard Minimum Guarantee (£155.60 pw). 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 the special rules for marriage divorce or bereavement will end, with some transitional protection.

As implementation approaches, people have increasingly been asking what the reforms will mean for individuals. This notes looks at the transitional arrangements and the gainers and losers from the introduction of the new State Pension.

The background to the reforms are discussed in more detail in Library Note SN06525, The new single-tier State Pension (1 December 2015).

1. Background

1.1 The current State Pension

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 2015/16 is £115.95pw. 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" (£155.60 for a single person and £237.55 for a couple in 2016/17). 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 (up to £13.07pw in 2016/16) for those aged 65 or over who have made some provision for their retirement.

The **second tier** consists of provision which is (partly) earnings-related. The first earnings-related pension provided by the state was the Graduated Retirement Benefit (GRB), which ran between 1961 and 1975. Since 1978, earnings-related provision has been through the additional State Pension i.e:

- 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 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

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1 *Pensions Act 2007*, s1

2 Between 1961 and 1978, earnings related provision was provided through Graduated Retirement Benefit

3 For more detail, see HC Library Briefing Paper SN0255 State Second Pension

4 *Pensions Act 2007,* sections 10-12

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

now possible to contract-out into a Defined Benefit (or salary-related) pension scheme.[6]

The Pensions Minister's blog explains contracting out:

> Being "contracted-out" generally means that you are paying lower National Insurance rates than the standard full rate for employees.
>
> You will be paying lower National Insurance as you are opted out of State Second Pension (S2P). Your employer pays lower National Insurance too.
>
> You can only be contracted-out if you are building up another pension that is at least as good as the S2P you would have received from the State. The idea is that some of your private employer pension will replace the S2P you would have built up if you were paying the full rate of National Insurance.
>
> If you earn under £34,300 a year, you are also building up some S2P from the state – known as 'S2P top-up', in addition to your private pension.
>
> So contracting-out means being part of a pension scheme that allows you to pay lower National Insurance to the State and build up an alternative pension instead of S2P.
>
> **You cannot opt out of the basic State Pension** - you will still qualify for that in the normal way, even if you are contracted-out.[7]

And its impact on State Pension entitlement:

> Depending on whether you were never contracted out, or always contracted out, or only contracted out some years but not others, the formula we use for calculating your State Pension will be different.
>
> **If you never contracted out**
>
> As we saw in the previous blog, the most straightforward would be if you have never contracted out. Then we can calculate your total State Pension by just adding up all the parts that you have built up in the old system.
>
> **Never contracted-out**
>
> State Pension = BSP **+** Grad **+** SERPS **+** S2P
>
> **If you were always contracted out**
>
> If you have always been contracted out of the State Pension since contracting-out first started in 1978, then you would not have built up any SERPS. You may have a little bit of S2P top-up (see blog 2 which explains this). So your State Pension could consist of:
>
> **So if you have always been contracted-out:**
>
> State Pension = BSP **+** Grad **+** S2P top up
>
> **If you have been contracted out only some of the years, but not all years**

[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 Latest – Understanding the State Pension part three: am I 'contracted out' and what does it mean

> If you have been contracted out of some of the Additional State Pension in the past, but not in every year, then calculating your State Pension is more complicated. This blog helps explain how we take account of contracting out, when working out your National Insurance State Pension. Don't forget that you could only contract out of the Additional State Pension, and not the basic State Pension.

1.2 The new State Pension

A new State Pension (nSP) is to be introduced for future pensioners from 6 April 2016. Current state pensioners will continue to get their State Pension in line with existing rules.[8]

Key features of the nSP are that:

- It will combine the two tiers of the existing system – the basic and additional State Pension;
- It will be set above the level of the Pension Credit standard minimum guarantee (i.e. £155.65 pw in 2016/17);[9]
- It will be uprated at least in line with earnings, possibly according to the triple lock, with the precise policy on uprating to be decided shortly prior to implementation;
- 35 'qualifying years' - of National Insurance (NI) contributions or credits - will be needed for the full amount. Those with fewer than 35 qualifying years will receive a pro-rata amount, subject to them having at least ten qualifying years;
- The expectation is that people qualify on the basis of their own NI record, so with some transitional protection, the right to derive or inherit an entitlement based on the contributions of a (former) spouse or civil partner will end;
- The option to contract out will end (as there will no longer be an additional State Pension to contract-out of) and from April 2016, all employees will all pay the same rate of NI and build up State Pension rights on the same basis;
- Other features of the existing system to end in April 2016 are Savings Credit and the 25 pence age addition for people aged 80 and over;
- Deferring a claim to the State Pension will still be possible, although the reward for doing so will be less generous than under the current system.

In the longer term, the intention is that the new system will be simpler, providing a clearer foundation for private saving. However, in the short-term it is complex because of the transitional arrangements needed to deal with NI records up to April 2016.

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8 *Pensions Act 2014*, s1

9 Draft State Pension (Amendment) Regulations 2016

2. Impact

The proportion of gainers and losers – and the extent to which they gain and lose – will change over time.[10]

2.1 Gainers and losers – short term

One of the requirements of the State Pension reforms was that it "must be cost neutral in each and every year to avoid placing an unsustainable burden on future taxpayers."[11] This means that they result in "some future pensioners receiving slightly more income in retirement than if the existing system continued and others receiving slightly less."[12] In its report on the draft legislation, the Work and Pensions Committee commented that for most people the impact was "likely to be marginal".[13]

DWP explains that in 2016, the first year of reform, the majority of people receive the same level of State Pension income as they would have done under the current system. (This is because a check is made at implementation and if an individual's valuation under the current system is higher than under the new system, then that higher amount is their starting rate for the nSP.) However, around 20% of males and 40% of females will have a notionally higher outcome as a result of the nSP transition valuation.[14]

Over the first 15 years of the scheme, around three-quarters of people have a notionally higher State Pension than under the current system:

> In the first 15 years of the new State Pension (nSP) system, around three-quarters of people who reach State Pension age under the new system will have a notionally higher State Pension than under the old system. This means that by 2030, over three million men, and over three million women will have benefitted from a notionally higher State Pension. This proportion then begins to gradually diminish over time, falling to around two-thirds by 2040 and just over half by 2050.
>
> Because contributions under the current system will be recognised in the new State Pension system, subject to the minimum qualifying period, at the point of implementation nobody will have an amount that is lower than the pension they could have become entitled to based on their own pre-implementation contributions under the current system's rules.

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[10] 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'

[11] DWP, A State Pension for the 21st century, Cm 8053, April 2011, Exec Summ, p8

[12] DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, p45

[13] 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

[14] DWP, Impact of New State Pension (nSP) on an Individual's Pension – Longer Term Effects of nSP, January 2016, p9

> All impacts discussed in this document are notional – no current pensioner will experience a change in the amount of state pension they currently receive as a result of the reforms. [15]

The proportion of women gaining is higher than men (75% compared to 70%):

> **Reduction of gender inequalities**: Around 650,000 women reaching State Pension age in the first ten years will receive an average of £8pw (in 2015/16 earnings terms) more, due to the new State Pension valuation of their National Insurance record.
>
> Over 75% of females and 70% of males stand to notionally gain from the nSP over the first 15 years.[16]

2.2 Gainers and losers – longer term

By 2060, expenditure is expected to be lower as a proportion of GDP than if the current system continued:

> Expenditure on pensioner benefits is projected to be broadly the same under the new system (within 1% of total expenditure, and within 0.1% of GDP) until the 2040s. Over the longer term expenditure growth is slower and by the early 2060s expenditure is projected to be lower by 0.5% of GDP compared to running the current system forward over the long term.[17]

In 2013, the then Pensions Minister, Steve Webb, explained that a higher flat-rate pension was affordable because the amount of State Pension people could build up in future would be capped:

> 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.[18]

The Government argues that this needs to be set in context, taking account of auto-enrolment. In evidence to the Work and Pensions Committee, Baroness Altmann said:

> While that new state pension is rolling out—it is important to set this in context—and boosting people in general to give them a higher state pension, we have also introduced the major reform of auto-enrolment, so people will be building up a private pension. The aim is that it will have this flat-rate amount eventually. That is a foundation that the state gives you. Currently you need to count that base as whatever the state gives you plus whatever you have in the contracted-out bit of your private pension scheme. But on top of that you will have a private pension. From 2030 onwards

15 DWP, Impact of New State Pension (nSP) on an Individual's Pension – Longer Term Effects of nSP, January 2016, p5
16 Ibid
17 DWP, Updated impact of the single-tier pension reforms, July 2014
18 HC Deb, 14 January 2013, c607

> there are more people who might have got more if we had continued with the old system, but the old system was unsustainable.[19]

Figure 2 below shows that more than half of people reaching SPA in 2040 are notional losers (compared to the position if the current system continued):

Figure 2: Proportion of all pensioners reaching SPa each year, with changed notional lifetime in retirement State Pension outcomes under nSP; median weekly amounts averaged over lifetime in retirement (2015/16 earnings terms)

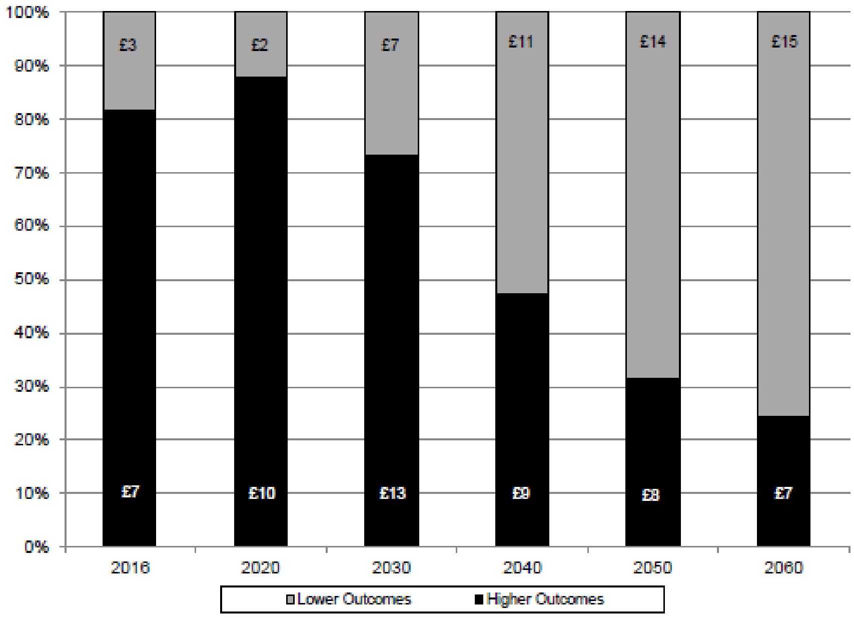
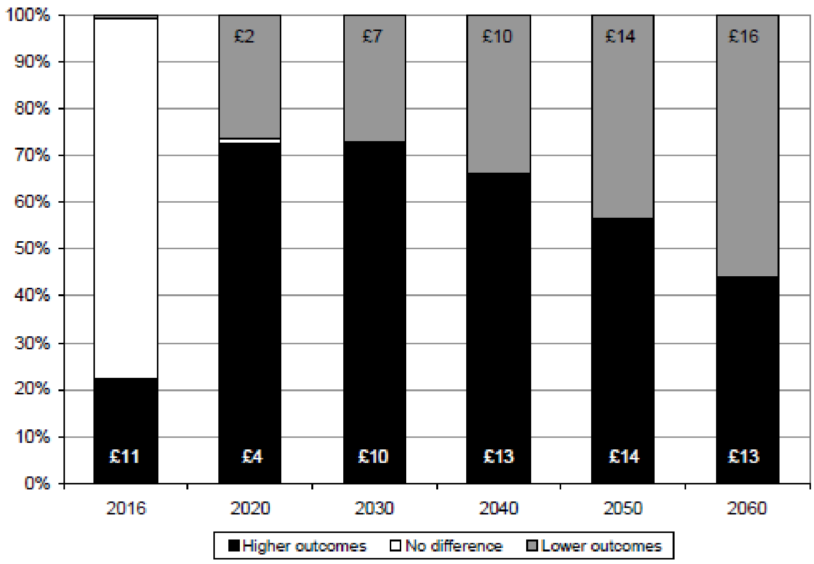


Figure 1 below shows the effect of this on the proportion of all future pensioners. Until 2060, most are notional gainers:

Figure 1: Proportion of all pensioners from 2016 at each time point with changed notional State Pension outcomes under nSP; median weekly amounts (2015/16 earnings terms)



[19] Work and Pensions Committee, Oral evidence, 18 January 2016 Q135

2.3 Who are the gainers and losers?

In the early years, the nSP is expected to benefit people with low amounts of additional State Pension - including people who have taken time out of the labour market due to caring responsibilities before 2002 and the self-employed. As a result, around 650,000 women who reach SPA in the first ten years of implementation will receive an average of £8pw (in 2014/15 earnings terms) than they would have done under the current system.[20]

Another group to gain in the early years are people who were contracted-out during working life and continue to build up State Pension rights after April 2016.[21] This is a result of the transitional arrangements – under which individuals have the chance to 'work off' deductions for contracting-out and thereby build up more State Pension than they would have had under the current system (see section 3.2 below).[22]

The losers include those who had already built up more than the full amount by April 2016 (many of whom will have been contracted-in) and higher earners with long service. This is because the new State Pension is flat-rate rather than earnings-related (see section 3.2 below).[23] According to former Pensions Minister Steve Webb, DWP has a chart setting out the losers and gainers according to whether they were contracted-out or contracted-in.[24]

Other possible reasons for loss include the ending of elements of the current system including the right to derive a State Pension on the basis of a (former) spouse or civil partner's NI record and Savings Credit and the introduction of a minimum qualifying requirement (ten years) (see section 3 below).[25]

DWP has set out the reasons for which an individual might receive a notionally higher or lower outcome under the new State Pension than if the current system had continued. Factors that could lead to higher outcomes include:

> - **The nSP starting amount calculation in 2016**: everyone will have their NI record as it stands in 2016 valued under the current pension system rules and the new State Pension system rules. They are given the higher of these two amounts to carry forward into the new, simpler system. People who have low amounts of additional pension on their NI record are likely to benefit from the nSP valuation. This group will be made up of low earners, people (usually women) who took time out of the labour market before 2002 to care for children and the self-employed.
>
> - **Uprating**: under the current system basic State Pension is uprated by the triple lock (higher of 2.5% or growth in CPI or

20 DWP, Updated impact of the single-tier pension reforms, July 2014 para 87; DWP, Single-tier impact assessment, October 2013
21 Steve Webb's oral evidence to the Work and Pensions Select Committee, 25 November 2015, Q10
22 Oral evidence to Work and Pensions Select Committee, 1 December 2014, Q24
23 Ibid Q10 and Q13
24 Steve Webb's oral evidence to the Work and Pensions Select Committee, 25 November 2015, Q10
25 Oral evidence to Work and Pensions Select Committee, 1 December 2014, Q12

earnings) and additional pension is uprated by growth in CPI. So up to £119.30 of pension is uprated by the triple lock. nSP will be uprated by the triple lock, which means that the first £155.65, an extra £36.35 per week, will be uprated by the triple lock.

- **Building up nSP years**: anyone with less than the full nSP in 2016, and who is below State Pension age in 2017, can build up extra years before they reach State Pension age. So anyone with less than the full nSP but more than 30 years can build entitlement under nSP, at around £4.45 per week for each qualifying year, when they would not have accrued any bSP. This will benefit people who have been contracted out under the current system or have built up low amounts of additional pension in the past (the low earners, people who looked after children and self-employed).

- **The value of a nSP year**: people who would not have built up additional pension after 2016 under the current system (mostly contracted out or self-employed people) would build up £4.45 per week rather than less than £4 per week which is the value of a bSP year. Note that due to the current availability of S2P top-up, those who are contracted out with below median average earnings (i.e. below £27,000) may accrue more than the difference between a BSP and nSP year (i.e. more than 45p per week).[26]

Factors that could lead to a lower outcome include:

- **Minimum qualifying period:** under nSP, people with fewer than 10 qualifying years will not receive any state pension. Under the current system there is no minimum qualifying period.

- **End of ability to derive entitlement:** under the current state pension system people with low numbers of qualifying years can derive entitlement to bSP. People can also inherit additional pension. Under nSP these provisions will be more limited and transitional in nature.

- **Uprating and revaluation:** protected payments (paid where people have more than the full nSP based on the current value of their NI record) will be revalued between 2016 and SPa by growth in CPI. Under the current system this part of the pension would be revalued by earnings growth, which tends to be higher than growth in CPI. Some people with Guaranteed Minimum Pensions (GMPs) might also receive a notionally lower outcome due to the end of the complicated interactions between additional pension and contracting out uprating.

- Building up nSP years: people will not be able to build up more nSP once they reach the full amount. Under the current system, people can build up additional pension every year until SPa. So in the long-term the maximum amount of state pension that can be built up will be lower.

- **The value of a nSP year:** under the current system people paying the full rate of National Insurance with fewer than 30 qualifying years are building up bSP at just under £4 per week for each qualifying year and additional pension of at least £1.80 per week for each qualifying year. Under nSP the value of a nSP is £4.45 per week for each qualifying year.[27]

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[26] DWP, Impact of New State Pension (nSP) on an Individual's Pension – Longer Term Effects of nSP, January 2016, p7

[27] Ibid, p8

The IFS noted that the only groups who would get a significantly higher state pension income in the long run are those who spend long periods in self-employment and those who are newly credited in under Universal Credit:

> 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.[28]

2.4 Entitlement to means-tested benefits

The Impact Assessment produced when the legislation was before Parliament explained that the reforms would lead to a reduction in the proportion of people eligible for Pension Credit.[29] Ending Savings Credit for those eligible for the nSP was the main driver of the reduction in the number of people qualifying for Pension Credit, although there was also a reduction in the proportion of pensioners eligible for Guarantee Credit. By 2060, the most common reasons for entitlement to Pension Credit would be having less than 35 qualifying years for the State Pension or being entitled to an additional amount in Pension Credit, for instance due to a disability.[30] The reforms were expected to have little effect on the numbers claiming Housing Benefit, although average awards fall. This was because it takes a lot of additional income to be taken out of HB entitlement altogether.[31]

Updated analysis published in January 2016 said that:

> Due to the structure of the new system, by 2020 eligibility for Pension Credit amongst those who have reached SPa since 2016 is reduced from 12% to 8%, with eligibility ultimately falling to around 3% under nSP by 2060.
>
> Over the longer term, the number of pensioner benefit units eligible for means-tested benefits is reduced by around 300,000 compared to the current system.[32]

[28] JRF, A single-tier pension: what does it mean for individuals? 2014
[29] DWP, Single-tier pension impact assessment, July 2014, p12
[30] DWP, Single-tier Impact Assessment, October 2013
[31] Ibid
[32] DWP, Impact of New State Pension (nSP) on an Individual's Pension – Longer Term Effects of nSP, January 2016, p7

3. Issues in transition

3.1 Future not current pensioners

People reaching State Pension age (SPA) from 6 April 2016 will be entitled to the new single-tier State Pension (i.e. men born on or after 6 April 1951 and women born on or after 6 April 1953). People who have already reached SPA will continue to receive their State Pension under existing rules. [33]

The rationale for introducing the reforms for future pensioners only was that they were being asked to take greater personal responsibility to save for their retirement:

> Against a backdrop of increasing longevity, current generations of workers will have to take greater personal responsibility for saving to achieve the level of retirement income they are likely to expect. With the introduction of automatic enrolment, it is an appropriate time for Government to withdraw from the role of providing an earnings-related pension, and return to a single flat-rate state pension that keeps people out of poverty and provides a firm foundation for saving. [34]

Women born between 1951 and 1953

For more detail, see HC Library Briefing paper SN06620

However, in responses to the Green Paper, many current pensioners expressed concern:

> 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. [35]

MPs continue to be contacted by constituents expressing concern that the new State Pension is to be set at a higher level (£155.65pw) than the current bSP (£119.30 pw in 2016/17). However, the nSP also incorporates the additional State Pension and, as Steve Webb explained in 2013, was designed to be cost-neutral:

> […] the reforms are designed to cost no more than the current system and are not about spending more money on future pensioners, but about spending money more effectively to better support saving for retirement. As a consequence some people will get more under the single-tier reforms than if the current system continued, and some less. [36]

A particular area of confusion relates to having been contracted out. Under the current system, a person who has been contracted-out throughout working life would be eligible for a bSP, possibly a small amount of State Second Pension and an occupational pension (which would have been part-funded by their National Insurance rebate). Sometimes people who have been contracted-out look at the full

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[33] *Pensions Act 2014*, s1; See Library Briefing Paper SN06620 *Single-tier State Pension - women born between 1951 and 1953*, March 2014
[34] DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, p18
[35] DWP, A State Pension for the 21st century: A summary of responses to the public consultation, April 011
[36] HC Deb 29 January 2013 c783-4W

amount of the nSP (£155.65 pw in 2016/17) and think it unfairly high compared to their own State Pension entitlement. However, as discussed in section 3.2 below, under the new system an individual who has been contracted-out will have a deduction from their starting amount in April 2016 to reflect this.[37]

In 2011, the Government estimated that topping up the gross State Pension entitlement of all people who had already reached State Pension age before 2016/17 to a flat-value of at least £140 (the proposed full amount of the single-tier State Pension in 2010/11 cash terms) in 2016/17 would cost around £10 billion a year in the early years.[38] This presumably reflects the fact that many older pensioners – particularly women – have low entitlements under the current system. The Pensions Policy Institute estimated that introducing a single-tier for all pensioners would have reduce pensioner poverty (to 7% of pensioners by 2025 rather than 11% under existing policy) but at a cost to the Exchequer.[39]

The Government rejected the idea of a taper for people reaching State Pension age close to implementation on the grounds of complexity. Furthermore, the reforms had been designed to be cost neutral.[40]

As regards current pensioners, the Coalition Government said that it had put in place measures to support them, including uprating the BSP by the triple lock and protecting pensioner benefits such as the Winter Fuel Payment, free bus passes, free prescriptions, free eye tests and free TV licences.[41] In addition, it introduced a time-limited option of paying class 3A voluntary national insurance contributions for those wanting to increase their additional State Pension entitlement.[42] For more detail see SN07067 *State Pension top up* (January 2015).

3.2 Transitional arrangements

The White Paper explains that transitional arrangements will apply for people with "pre-implementation National Insurance records."[43] In particular, they are needed to: protect the rights of those who at the point of implementation have accrued more than the nSP; 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.

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[37] *Pensions Act 2014*, s5

[38] HC Deb, 14 February 2013, c775-6W; DWP, Cost of paying £140 a week State Pension to all pensioners retiring before 2016/17, April 2011; See also, PPI, The implications of Government policy for future levels of pensioner poverty, July 2011; Gross State Pension is the sum of an individual's own basic State Pension, derived rights to basic State Pension, gross Additional Pension inherited Additional Pension

[39] PPI, *The implications of Government policy for future levels of pensioner poverty,* 11 July 2011

[40] HC Deb 29 January 2013 c783-4W

[41] DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, p21, para 5

[42] *Pensions Act 2014,* s25 and Sch15

[43] DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, p27

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:

> • 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.[44]

People who have built up more than the full amount of the new State Pension in April 2016

Presenting the legislation to Parliament, the then Pensions Minister Steve Webb said that where someone had already accrued more than the single-tier amount, this 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.[45]

This will be done by means of a comparison at implementation of their rights under the current system and the new one. The higher of the two will be their starting rate for the nSP. The amount in excess of the full amount of the nSP will count as a "protected payment."[46] Different uprating arrangements will apply to the nSP (which is to be uprated by the triple lock) and the protected payment (in line with prices).[47]

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

[45] HC Deb, 14 January 2013, c606

[46] DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, para 86 and Annex3, p12; *Pensions Act 2014*, s5 and Sch 1 and 2.

[47] DWP, Impact of New State Pension (nSP) on an in

In addition, the individual will not be able to build up any more State Pens, ion right after April 2016. Presenting the proposals to Parliament in 2013, the then 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:

> 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.[48]

People who were contracted-out

The current State Pension has two tiers – the bSP and the additional State Pension, from which it is possible to contract out. Where an individual is contracted-out, they and their employer pay a lower rate of NI in recognition of the fact that they are not building up rights to the additional State Pension.

With the introduction of the nSP in April 2016, there will no longer be an additional State Pension and the option to contract out will end. However, the transition needs to take account of previous periods of contracting out. This is because, as Steve Webb has explained, to do otherwise would be expensive and unfair to others:

> Millions of people, including all of us who have ever been in the Parliamentary Pension Scheme, have paid less NI than our neighbours. We have been contracted out. Our employer paid less; we paid less, and a deal was done that the scheme would replace part of the state benefit. That was the deal. The question is: we get to 2016 and there is no contracting out, there is just one pension, one bit of the system, so what do you do with the past contractors-out? There are two extremes. One is you forget contracting out ever happened, which would be beautiful, simple and clear; I would have loved it. But it would have cost billions because all of us would have suddenly got full State Pensions, not reduced ones, and it would have been grossly unfair on our next-door neighbours, who never contracted out, who paid more NI than we did and still got the same pension. So we could not afford to do it and it would not have been fair. [49]

As explained in the January 2013 White Paper a deduction will be applied to the nSP to reflect contracting out. However, a check will be made to ensure an individual does not receive less than under the current system:

> 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

48 HC Deb, 14 January 2013, c607
49 Oral evidence to the Work and Pensions Select Committee, 25 November 2015, Q4

> reflect the lower rate of National Insurance contributions paid when contracted out.
>
> 85. This calculation will be as follows:
>
> **Single-tier valuation for people who have contracted out**

Single-tier valuation for people who have contracted out:

$$\left(\frac{\text{Number of pre-implementation qualifying years} \times £144}{35}\right) - \text{‘rebate derived amount’}$$

> 86. There will be cases where some people's National Insurance records, when valued under the rules of the current state pension system, would give them a higher valuation than the calculation set out above. Therefore, as a safeguard, after calculating an individual's single-tier valuation, a check will be performed to see if the current system rules would give them a higher valuation. Where this is the case these people will receive their higher valuation as their valuation as their foundation amount.

The Government argued that the deduction was intended to be:

> […] broadly equivalent in value to the workplace pension the rebate funded. This is consistent with the rules of the existing system.[50]

A factsheet explained the calculation in more detail.[51] The relevant legislation is *Pensions Act 2014* (s5 and Sch 1).[52]

As a result, a person who has been contracted-out may find they have a foundation amount that is less than the full amount of the single-tier. However, from April 2016, they will start to pay the standard rate of NI and to build up State Pension rights on the same terms as other individuals. This means that they may 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 accrued before SPA.[53] This approach means that gainers from the introduction of the nSP include some people who have a deduction applied in respect contracting-out but are able to "work this off".[54] The Pensions Policy Institute noted that this was more likely to apply to younger workers who had many years to go to retirement.[55] 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."[56]

Steve Webb recently explained that although the contracted-out gain from the reforms although they did not see it that way:

> They don't perceive it because they say, "He is getting a flat rate and I am not," but I am getting the lower rate plus my teacher's

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[50] DWP, *Single-tier State Pension Factsheet*, 2013 p9
[51] DWP,-*Single-tier transition and contracting out*, 2013, paras 6-9
[52] The amount of the deduction to reflect contracting out is in Sch 1, para 4 (5)
[53] DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, p11, para 24
[54] 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*
[55] PPI, *Single-tier series paper 1: The impact of the Government's single-tier state pension reform*, June 2013
[56] DWP, *Single-tier impact assessment*, October 2013 paragraph 88, para 135

> pension, and now I will get a better State Pension plus my teacher's pension.[57]

From 2018, over 70 per cent of people who were contracted-out are notional gainers from the reforms.[58]

The Government estimates that some 37% of people reaching SPA in 2016/17 will receive the full amount of the new State Pension "directly from the state." The proportion rises to 90% if the additional State Pension they would have built up had they not been contracted-out is included:

> Nearly 90% of people reaching State Pension age in 2016/17 would have the full rate of the new State Pension, or more, if we include the amount of additional State Pension they opted out of or were opted out of when contracted out of SERPS or State Second Pension (S2P) (additional pension).
>
> The percentage of pensioners reaching State Pension age in 2016/17 estimated to receive the full amount of the new State Pension directly from the state is around 37%. By 2020 this percentage will reach around 50% and by 2035 around 84%. Most people who contracted out of SERPS or S2P were required, as a condition of contracting out, to accrue an alternative private pension. This replaced the additional State Pension, which they were contracted-out of.[59]

GMP increases

Related to the above, there will be changes to the arrangements for index-linking Guaranteed Minimum Pension (GMP) entitlements. An article in the *Telegraph* in March 2015, claimed that some people stood to lose significant amounts as a result:

> […] when the Government started the move to a single-tier state pension, no provision was made for making inflation-related payments to those reaching state pension age after April 2016. They are the likely losers, and they probably number in the millions. And how much will they lose? That will depend on the size of their contracted-out pension, the rate of inflation and how long they live. But with inflation factored in at 2pc-3pc, actuaries estimate the figure at up to £20,000 for men and slightly more for women, because they live longer.[60]

However, the position is more complex than this implies. The reforms include more generous uprating arrangements for the new State Pension (at least in line with earnings and possibly according to the triple lock) than is the case for GMPs and the additional State Pension (in line with prices).[61] Furthermore, as discussed above, people with

[57] Oral evidence to the Work and Pensions Committee 25 November 2015, Q24
[58] DWP, Impact of the New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP, January 2016, p13-4; Table 4.a
[59] HL 903 State Retirement Pensions 29 June 2015; DWP, Impact of the New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP, January 2016, figure 5
[60] 'Will you lose out under the new State Pension?' *The Telegraph,* 6 March 2015; See also, 'Revealed: Why millions WON'T get the £155 new state pension they're expecting', *This is Money,* 21 May 2014
[61] *Pensions Act 2014*, Sch 12 (19)

years of working life ahead of them in April 2016 have the opportunity to "work off" their contracted-out deduction.

In more detail, a GMP is a defined benefit that occupational pension schemes were required to provide as a condition of contracting-out of the additional State Pension between 1978 and 1997. The intention was to ensure that individuals were not worse off than they would have been had they remained contracted-in.[62]

Under the current system, responsibility for index-linking GMPs is divided. Occupational pension schemes have a statutory responsibility for uprating GMP rights accrued between 1988 and 1997 subject to a 3% cap.[63] Increases over and above this (i.e.; increases on rights accrued between 1978 and 1988 and in excess of 3% on rights accrued between 1988 and 1997) are effectively provided via the additional State Pension. A PQ from January 2014 explained:

> Additional state pension and GMPs are linked in that when a person reaches pensionable age, the total amount of GMP is subtracted from the total amount of additional state pension built up between 1978 and 1997, and any net amount is paid. This subtraction of the total GMP amount is called a 'contracted-out deduction', and reflects that reduced national insurance was paid during the period of contracting out in return for meeting legislative requirements. This calculation is performed each year that the pension is payable.
>
> There is no statutory obligation on schemes to pay increases on GMPs accrued between 1978 and 1988. However, additional state pension built up during that period is subject to increases. When the contracted-out deduction is subtracted from the additional state pension, the remaining additional state pension includes an increase linked to prices. In this way, an amount broadly equivalent to the GMP, but which is in fact additional state pension, is subject to an increase. Schemes are under an obligation to pay increases on GMPs accrued between 1988 and 1997, subject to a cap of 3%.[64]

The requirement on schemes to index-link GMPs accrued between 1988 and 1997, subject to a 3% cap does not change in April 2016. However, the additional State Pension is being removed for future pensioners from that date, meaning that part of the current mechanism for index-linking GMP rights is no longer in place. However, this does not necessarily mean people with GMP rights will be disadvantaged. In January 2016, DWP explained:

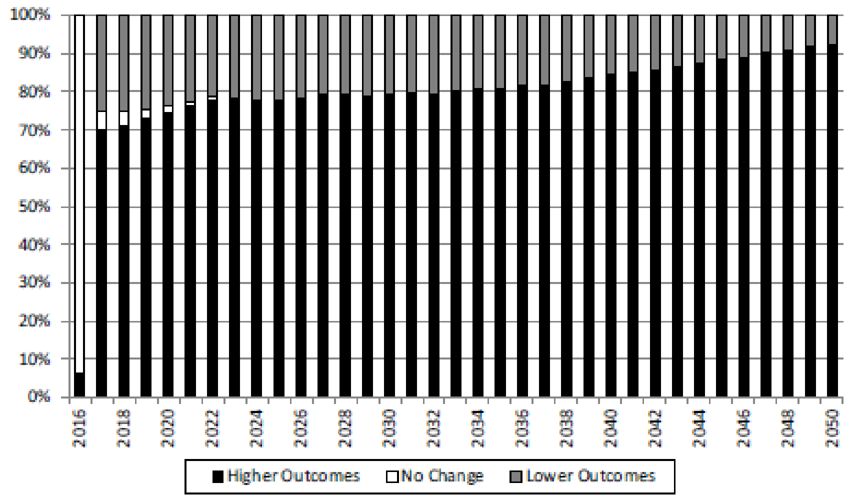
> This complex arrangement will end under the new State Pension system and could lead to some people getting a lower notional outcome.
>
> However, there are two key factors that offset these potential notional losses. Firstly, this group will be highly likely to benefit from more of their pension being uprated by the triple lock as explained above. Secondly, people with periods of contracting-out on their National Insurance record are likely to be able to build additional qualifying years from 2016/17 which will add 1/35th of

62 *Pension Schemes Act 1993*, s13-8
63 Ibid s15
64 HC Deb 6 January 2014 c51W

> the full nSP amount to the amount they receive, up to the full rate.[65]

DWP estimates that in 2018 around a quarter of those contracted-out between 1978 and 1987 are notional losers, with the proportion falling over time:[66]

Figure 8a: Outcomes for individuals who were contracted-out between 1978/79 and 1987/88



In evidence to the Work and Pensions Select Committee on 1 December 2015, Steve Webb said that the probable losers would be those with "huge GMPs."[67]

This is discussed in more detail in Library Note SN 4956 GMP annual increases (June 2015).

Public service pension increases

There are specific legislative requirements applying to public service pensions – which must be annually increase in line with prices (the CPI).[68] HM Treasury guidance explains that there is provision in the legislation to prevent double increasing of the GMP element:

> 26. To prevent double pensions increase on the GMP element, section 59(5) of the 1975 Act limited public service pensions increase to the part of the public service scheme pension which exceeds the GMP (which is uprated by DWP). Where the additional pension paid by DWP equals or exceeds the GMP element in payment in a public service pension, the GMP entitlement is deducted from the public service pension before any pensions increases are applied at the next review […][69]

In June 2015, the Cabinet Office said in response to an FOI request that "the question of indexing public service pensions after April 2016 is still

[65] DWP, Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP, January 2016
[66] Ibid
[67] Oral evidence to the Work and Pensions Committee, 1 December 2015, Q24
[68] he *Pensions Increase Act 1971* and sections 59 and 59A of the *Social Security Pensions Act 1975* as amended
[69] A note on the operation of pensions increase legislation for public service pension schemes, May 2001

under consideration by the Treasury."[70] In December, the *Telegraph* quoted a Treasury official was quoted a Treasury official as saying a decision had still not been reached:

> As a result of the changes to the state pension system, the Government – as a large employer – is currently considering how best to address changes to public service pension schemes and their members, which includes the treatment of Guaranteed Minimum Pension indexation.[71]

Pension consultants Mercer said that this would add to the pension costs on employers sponsoring public service schemes.[72]

The end of contracting-out

With the introduction of the single-tier pension, the additional State Pension will close and, by extension, the option to contract-out of it. For individuals, the loss of the 'contracted-out rebate' will mean an increase in their rate of NICs (equal to 1.4 per cent of their earnings between the LEL and the UAP), up to the standard rate for employees.[73] In return, they will start to accrue State Pension rights on the same basis as other employees. The Government estimates that:

> […] approximately 90% of people who start to pay higher National Insurance contributions (NICs) and reach State Pension age over the first two decades after implementation will receive enough extra State Pension over their retirement to offset the increase in NICs, and any potential adjustments to their occupational pension schemes.[74]

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).[75] For employers in the private sector, the Government legislated to allow employers a limited 'statutory override', to enable them to make changes to scheme rules without the consent of the trustees to adjust for the additional NI cost resulting from the loss of the rebate. It thought this was necessary to safeguard the ongoing viability of Defined Benefit pension schemes in the private sector.[76] After consultation, it decided to exclude from the operation of the override "protected persons" (i.e. employees with pension rights protected under arrangements put in place when some formerly nationalised industries were privatised).[77] In addition, public sector employers will not be able

[70] Cabinet Office, FOI response, 18 June 2015
[71] 'State pension: public sector workers may get inflation-linked benefits after all', The Telegraph, 6 December 2015
[72] 'State pension reform: quirk of legislation could cost local authorities and contractors £1bn', 11 January 2016
[73] DWP, *Single-tier Impact Assessment*, October 2013, section 5.2
[74] DWP, Impact of New State Pension (nSP) on an individual's Pension Entitlement – Longer Term Effects of NSP, January 2016, p13
[75] Ibid, para 140
[76] *Pensions Act 2014*, s24 and Sch14; DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013
[77] HL Deb 24 February 2014 c805; See also DEP 2014-0210; See HC Library Briefing Paper SN06725 *Pensions: possible statutory override for protected persons*, 8 April 2014

to pass on the increase in cost to their employees, reflecting commitments made on public service pension reform in 2011/12.[78]

Being a member of a private sector scheme that is contracted-out (and where the employer may use the statutory override) makes it less likely that the individual will recoup the full cost of additional contributions by working additional years.[79]

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 (Category B(L)), payable at around 60% of the contributor's basic State Pension entitlement (£69.50 pw in 2015/16, if the contributor has a full basic State Pension) provided both members of the couple have reached SPA.
- A widow(er) or surviving civil partner may be eligible for a Category B basic State Pension based on the contributor's record and to inherit additional State Pension (with the amount that can be inherited depending on when the contributor died and their date of birth);
- A person who is divorced or whose civil partnership has been annulled (and who has not remarried or entered a new civil partnership before SPA), may be able to substitute their former spouse 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.[80]

Because the Government's intention was for people to qualify for the new State Pension on the basis of their own contributions, it said that there would "no rationale" for allowing people to "inherit or derive state pension income based on the National Insurance record of their spouse or civil partner." However, there would 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."[81] The transitional rules are complex and depend on when the dependant (the person hoping to claim on their (former) spouse or civil partner's record) and contributor reach SPA. [82] In broad terms, where the dependant reaches SPA after 6 April 2016 they are not able to derive an entitlement based on the (former) spouse or civil partner's record (although they may be able to inherit some additional State Pension) unless they are covered by

[78] CM 8528; chapter 3, para 71; HC Library Briefing Paper RP012/57 *Public Service Pensions Bill*, October 2012
[79] Ibid
[80] For more detail, see DWP, *State Pension entitlements derived from a current or former spouse's or civil partner's national insurance contributions,* March 2013, Annex A
[81] Ibid; DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, Annex 3.D
[82] For more detail see DWP, *State Pension entitlements derived from a current or former spouse's or civil partner's national insurance contributions*, March 2013

specific transitional protection arrangements for women who opted to pay reduced rate NICs as a married woman before 1977:[83] The White Paper explained:

> 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.
>
> 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.[84]

In its report on the draft legislation, the Work and Pensions Select Committee said the Government should consider finding a solution for women close to SPA and affected by this change in the rules:

> 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.[85]

In response to Opposition calls for a review, the then Pensions Minister Steve Webb responded that:

> 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.[86]

The Government estimated that some 290,000 people would be affected at some point up to 2030 (some 4% of those reaching SPA up to that point) by the loss of derived entitlement to the BSP. In one year – 2020 – the figure would be 30,000.[87]

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[83] Library Briefing Paper SN01910 *Married women and state pensions* October 2014

[84] DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013; *Pensions Act 2014* (s11-12).

[85] Work and Pensions Committee, *The Single-tier State Pension: Part 1 of the draft Pensions Bill*, 5th Report of 2012-13, HC 1000, 4 April 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

[86] PBC Deb 2 July 2013 c175-184; See also HL Deb 18 December 2013 cc333-50.

[87] HL Deb 18 December 2013 c 341 [Lord Freud]; DWP, *Single-tier State Pension: summary of impacts*, October 2013

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.[88] In other cases, the transitional arrangements will depend on when the survivor and deceased reach SPA.[89]

3.3 Communications

As the Work and Pensions Committee noted in its report on the draft legislation, there is evidence of confusion about what these reforms will mean for individuals:

> […] with some people believing that everyone will automatically be entitled to £144 a week [the proposed full amount in 2013/14], and others fearing that they will lose any higher State Pension entitlement they may have built up. Many people do not know whether they are or ever have been contracted-out so are unable to assess the implications for themselves of its abolition.[90]

In November 2015, the Committee asked Steve Webb – as the Minister behind the reforms - whether the policy had been "mis-sold". He did not think it had been mis-sold but did think that in an effort to get the message across, it may have been over-simplified:

> **Q19 Craig Williams:** Thanks for that question. That takes me on to my question quite neatly because your successor, Baroness Altmann, said recently that aspects of the reforms had been miscommunicated in the past, and agreed that the new State Pension has been mis-sold. Was the flat rate message oversimplified or was it overemphasised, especially given what we have been talking about—that the majority of people will not get that flat rate? Do you agree with your successor on that point?
>
> ***Steve Webb***: Oddly enough, no. […] The relevance of this is that Ros Altmann I think was asked, "Do you think the new State Pension has been mis-sold?" I don't think she woke up in the morning thinking, "I am going to announce to the world it has been mis-sold." I think the seed was sown, shall we say. I don't think it was mis-sold. I do think it is incredibly difficult to communicate any measure of detail beyond the headline. The basic thing is we are moving towards a flat rate pension, and we are, and anyone in their 20s, 30s and 40s is more likely to get the flat rate than not. As soon as you say to a journalist, "Oh, yes, contracting-out" you have lost them, and then you do not communicate anything at all, so it is always a balance. Of course there is a risk of oversimplifying. It may be I oversimplified, but if we had not simplified the message, we would not have got a message across at all and nobody would have known anything was coming. That was the challenge. As I have said, everybody is

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88 DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p96
89 Ibid, p97
90 Work and Pensions Committee, The single-tier State Pension: Part 1 of the draft Pensions Bill, Conclusions and Recommendations, para 14

> different. The system affects everybody differently. Perhaps we oversimplified but I don't think, in a dishonest way.[91]

He argued that the best approach was for people to apply for personalised statements:

> People are so diverse and have such different histories in the State Pension system that you cannot get a general message across. So my priority was personal statements […] My first priority was statements for people closest to pension age, first those within five years, then those within 10 years, and now anyone over 55 can get a personalised statement and that will help them to plan.[92]

The Work and Pensions Committee is currently conducting an inquiry into how the reforms are being communicated.[93] In an interim report, it expressed concern that the statements being issued were "insufficiently clear." It noted that DWP had "demonstrated a willingness to adjust statements in response to customer feedback."[94]

3.4 Building up entitlement to the new State Pension

Requirement for 35 qualifying years

Qualifying years for the purpose of the new State Pension are built up in the same way as for the current basic State Pension.[95]

The Government initially proposed requiring 30 qualifying years for a full BSP.[96] However, by the time of the January 2013 White Paper, it had decided on 35.[97] The then Pensions Minister, Steve Webb, argued that this 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 be asking people to be doing something creditable or contributing for roughly two thirds of their adult life. When people do not have 35 years, the amount is reduced pro rata, as with the current system.[98]

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[91] Oral evidence to the Work and Pensions Select Committee, 25 November 2015, Q29
[92] Oral evidence to the Work and Pensions Select Committee, 25 November 2015, Q3
[93] Work and Pensions Committee, Understanding the new State Pension inquiry launched, 27 October 2015
[94] Work and Pensions Committee, Understanding the new State Pension – interim report on pension statements, Sixth Report of 2015-16, January 2016
[95] DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, Annex 3, para 16; *Pensions Act 2014*, s2 and 3
[96] DWP, A State Pension for the 21st century, Cm 8503, April 2011, p30
[97] DWP, The single-tier pension: a simple foundation for saving, Cm 8525, January 2013, p91, para 14
[98] PBC Deb 2 July 2013 c141-2

The Government estimated that around 85% of people reaching SPA in 2020 would have at least 35 qualifying years.[99] The proportion reaching SPA with 30 qualifying years is around 90%.[100]

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.[101]

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 needed to 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.[102]

The new state pension will also have a minimum requirement of ten qualifying years.[103] The rationale is to target expenditure on those who have made a "significant economic or social contribution to this country during their working lives."[104] Periods of insurance or residence in another EEA Member State can help satisfy the requirement.[105]

The Government estimates that 2 to 3 per cent (9,000 to 12,000) of individuals in Great Britain would be affected by a 10 year minimum qualifying period, compared to 18 to 23 per cent (6,000 to 10,000 people) of the total number of individuals living overseas.[106]

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99 Cm8528, p91, para 14
100 DWP, Gender Impact Assessment of Pension Reform, 5 December 2007, para 2.4
101 PBC Deb, 11 July 2013 c425-6
102 *Pensions Act 2007*, section 1
103 *Pensions Act 2014*, s2
104 DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p92; HC Deb 3 December 2013 c17-18WS; *State Pension Regulations 2015 (SI 2015/173)*, regulation 13
105 Explanatory Note to SI 2015/173, para 7.23
106 DWP, Single-tier impact assessment, October 2013, Table 3.1

BRIEFING PAPER
Number CBP-07414, 19 February 2016