Pension uprating - background

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The current statutory requirement is that the basic State Pension (BSP) must be increased each April at least in line with prices. Since, 1980, the September Retail Prices Index (RPI) has been used as the basis for this. In 2001, the Labour Government made a commitment, to increase the basic State Pension (BSP) by a minimum of 2.5 per cent or prices, whichever is higher. In September 2009, RPI inflation was negative. Because of this, those parts of the State Pension that are just linked to the RPI – such as the additional State Pension and deferred retirement increments - were held flat in cash terms in April 2010.

In its May 2006 Pensions White Paper the Labour Government announced its intention to restore the link between increases in the BSP and average earnings, probably from 2012. The *Pensions Act 2007* made the restoration of the earnings link by the end of this Parliament (i.e. 2015, at the latest) a statutory requirement.

This note charts the history of the statutory duty to increase the State Pension since its introduction in 1973 to May 2010.

The new Conservative Liberal Democrat Coalition Government announced on 12 May 2010 that the earnings link would be restored from April 2011, with a "triple guarantee" that pensions would increase by the higher of earnings, prices or 2.5%. In the emergency Budget on 22 June, the Chancellor of the Exchequer announced that in future the Consumer Price Index (CPI) would be used as the measure of inflation. This is covered in a separate Library Standard Note SN/BT 5649 *Pension Uprating – 2010 onwards.*

The Library's Social and General Statistics Section produces an annual standard note giving details of that year's uprating of all the main social security benefits since 1999. The most recent version is SN/SG/5198, *'2010 Benefit Uprating'.*

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1 Background

1.1 Introduction of statutory duty to uprate, 1973

A statutory duty to increase state pensions annually in line with inflation was first introduced by section 39 of the *Social Security Act 1973*, although the first uprating under a statutory duty did not take effect until 7 April 1975. Before this, pensions, and other national insurance benefits, had been increased at irregular intervals by a series of *National Insurance Acts.* These Acts did, however, keep pensions well up in line with price inflation and they usually covered earnings inflation as well. The Appendix to this note gives details of increases in the basic national insurance state pension since its introduction in July 1948 and compares it with price increases.

Another innovation, which actually came into effect in 1973, was the differential uprating of long and short term national insurance benefits. Retirement, widow's and invalidity pensions were increased by 14.8% (from £6.75 to £7.75 a week): unemployment and sickness benefit went up by 8.8% (from £6.75 to £7.35). Paul Dean, a Junior Minister at the DHSS, explained the rationale for this during the debate in Standing Committee on the *National Insurance and Supplementary Benefits Bill 1972/73*:

> People receiving the short-term benefits often return to work within a few weeks and can postpone longer-term requirements – for example, clothes and household equipment – until they are back in employment. Moreover they often have, in addition to the earnings-related supplement for the first six months, deferred wages, holiday pay, income tax refunds, employer's sick pay and other savings to help tide them over their period off work. Those receiving pensions and other long-term benefits are more dependent, however, on the benefit they receive. This in essence is the reason why we felt on this occasion that it was appropriate that those who are dependent on the benefit, who are on the benefit for a long period of time, should have a higher level of increase than those on the short term benefit.[1]

Section 39 of the *Social Security Act 1973* placed a duty on the Secretary of State to review the rates of social security benefits and to increase them at least in line with price inflation. Speaking on second reading of the Bill, Sir Keith Joseph, the Secretary of State for Social Services, drew the attention of the House to the provision which:

> fulfils the Government's pledge, welcomed by both sides, that there should be a statutory obligation to review benefits annually.[2]

1.2 Introduction of the earnings link, 1974

The Labour Party's manifesto for the February 1974 general election promised to increase pensions in line with earnings. A new Labour Government would:

> Bring immediate help to existing pensioners, widows, the sick and the unemployed by increasing pensions and other benefits to £10 for the single person and £16 for the married couple, within the first Parliamentary session of our Government. Thereafter these figures will be increased annually in proportion to increases in average national earnings. We shall also follow this by replacing the Conservative Government's inadequate and unjust long-term pensions scheme by a comprehensive scheme

[1] SC Deb (F) 17 May 1973, c 85. Note that earnings related supplements to short-term benefits were abolished by the *Social Security (No 2) Act 1980*, with full effect from January 1982.

[2] HC Deb 28 November 1972, c 246

> designed to take future pensioners off the means test and give full equality of treatment to women.[3]

The Labour Government elected in February 1974 moved rapidly to increase pensions and to introduce the statutory earnings link. Before section 39 of the *Social Security Act 1973* could come into effect on its appointed day (6 April 19975), it was amended by section 5 of the *National Insurance Act 1974*. This provided for the long term benefits to be increased in line with earnings or prices, whichever was more favourable. Short term benefits would still be increased in line with prices. Speaking in the Budget debate on 28 March 1974, Barbara Castle, the new Secretary of State for Social Services, said that the Government intended to make its generous pension uprating stick:

> That is why, for example, the Bill will alter the previous Government's statutory obligation on the Secretary of State to have regard to movements in prices in the annual upratings. We shall embody in the Bill in its place the statutory obligation to have regard to movements in earnings where these would be more advantageous to the beneficiary. As we get on top of inflation the value of that to the pensioner and to other beneficiaries will become increasingly clear.
>
> Looking at the figures over the years, we find that pensions merely inline with prices would never be sufficient and that we must link pension increases in future to the movement in average national earnings so that pensioners can be guaranteed a continuing share in our increasing national prosperity.[4]

The requirement to increase pensions in line with the higher of prices or earnings was eventually consolidated in section 125 of the *Social Security Act 1975.*

1.3 Breaking the earnings link, 1980

The Conservative Government, elected in 1979, was committed to controlling inflation and reducing taxation. Its election manifesto had promised to "look for economies in the cost (about £1.2 billion) of running our tax and social security systems". During the election campaign, James Callaghan, the Prime Minister, had suggested that the Conservatives were thinking of breaking the link with earnings,[5] and in his first Budget, Sir Geoffrey Howe, the new Chancellor, announced that:

> the Government have decided that for the future the requirement for the statutory uprating of pensions should be based on price movements, and we shall be introducing legislation to that end.[6]

The following day, Patrick Jenkin, the new Secretary of State for Social Services, explained that the "ratchet effect" created by the obligation to increase pensions by the higher of prices or earnings was unsustainable in the long run:

> In the light of experience in the last three years and other factors, we have been driven to the conclusion that the statutory obligation to uprate long term benefits each year in line with either prices or earnings, whichever is the higher, is not sustainable in the long term. Much has been written about the so-called "ratchet effect". In years when earnings exceed prices, the real value of pensions increases. When prices exceed earnings, and when the living standards of the working population fall, the real value of the pension is maintained. It has been pointed out that the result over a period of

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3 *Let us work together – Labour's way out of the crisis*

4 HC Deb 28 March 1974, c 643

5 Speech, 14 April 1979

> years is that the proportion of the national income absorbed by pensions, and correspondingly, the proportion absorbed by the contributions necessary to pay those pensions, must inevitably rise, throwing an ever heavier and heavier burden on the working population.
>
> The guarantee that really matters is the guarantee against rising prices. I shall therefore be introducing legislation shortly to amend the provision relating to the uprating of benefits, so as to provide that pensions and long term benefits, as well as short term benefits, should be increased at least in line with the movement of prices.
>
> I should like to make it clear, however, that it remains the Government's firm intention that pensioners and other long term beneficiaries can confidently look forward to sharing in the increased standards of living of the country as a whole. That has always been the intention and achievement of Conservative Governments. It remains the intention of the present Government.[7]

The legislation was the *Social Security Act 1980*, section 1 of which amended section 125 of the *Social Security Act 1975* to link long-term benefit increases to prices, not earnings.

1.4 "Historic" and "forecasting" measures of inflation, 1975-1983

Neither the *Social Security Act 1973* nor the *National Insurance Act 1974* specified exactly how the Secretary of State was to measure inflation for the purpose of benefit uprating. To begin with, Barbara Castle used the "historic" method for the first two statutory upratings: the pension increase was linked to what had actually happened (in this case to earnings) over a previous period. Thus in April 1975, pensions were increased by 16%, slightly more than "the latest known movement in earnings over a period of nine months – roughly the length of time between the upratings last July and next April".[8] And, in November 1975, pensions were increased by 14.6% "in line with the movement in earnings of nearly 15% that has taken place in the period from August 1974 to March 1975".[9]

However, in April 1976, Barbara Castle decided to switch over to the "forecasting" method and to base the uprating on an estimate of what inflation would be between the two upratings. She said:

> Now that the rate of inflation is coming down it would no longer be appropriate to base the uprating on a reference period which lies wholly in the past. However we are confident that the proposed increases of 15 per cent will be considerably larger than the actual and likely movements of earnings and prices from the time of the last uprating to November. …
>
> It is clear that if we had adopted the historic method an additional burden would have been put on the worker and the wage earner of £500 million for this uprating, and it would have had inevitable consequences in due course for the contribution rate.
>
> I ask the House to say whether, in striking a balance at a time of difficulty between carrying out in full our promises to pensioners and recognising the heavy sacrifices that we are asking wage earners to make, we have not achieved social justice.[10]

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6 HC Deb 12 June 1979, c 252
7 HC Deb 13 June 1979, c 439
8 Barbara Castle, HC Deb 13 November 1974, c 416
9 Barbara Castle, HC Deb22 Mat 1975, c 1642
10 HC Deb 7 April 1976, c 426 and 431

The switch to forecasting was widely seen as a way of saving money because it missed out eight months of high inflation (March 1975 – November 1975 when prices rose by 16%). However, the change to forecasting was upheld by the Courts. Mr Justice Megarry even argued that this was the correct interpretation of the legislation.[11]

The forecasting method was used at every uprating between November 1976 and November 1982. "Overprovisions" in 1976 and 1977 were not clawed back in 1977 and 1978. The "overprovision" in 1980 was clawed back in 1981 and an "overprovision" in 1982 was partially clawed back by a reversion to the historic method in 1983. "Shortfalls" on long term benefits in 1978 and on all benefits in 1981 were made good in 1979 and 1982. Shortfalls on short term benefits in 1978 and long term benefits in 1979 were not made good in subsequent years.

It was not until 1981 that the forecasting method was clearly specified in legislation by section 1 of the *Social Security Act 1981*. This change was not seen as a great issue of principle at that time: rather, it was a piece of technical tidying up. Patrick Jenkin, then Secretary of State for Social Services, did not even refer to it in his second reading speech and any question of the uprating method was completely overshadowed by the 1% "clawback" of the 1980 "overprovision" in discussion in Committee.

In his Budget statement on 15 March 1983, Sir Geoffrey Howe, then Chancellor of the Exchequer, announced that the Government would be reverting to the historic method of measuring inflation for benefit uprating purposes. He justified the switch on the grounds of the greater certainty it would bring: there would be no more need to deal with over or under provision:

> The House will remember that, because prices have been falling faster than expected, the provision in last November's uprating for the rise in prices in fact exceeded it by 2.7 per cent.
>
> The forecast method of uprating, which gave rise to this situation, has never worked well, for a forecast made at Budget time of what the rate of inflation will be at the time the uprating takes place the following November is necessarily uncertain. Increases can therefore be larger or smaller than intended. There have been years when prices have been under-estimated, as in 1981, when there was a 2 per cent underprovision, which we made good in the following year, and other years, such as 1980 and 1982, when the error has gone the other way. In each case there has necessarily been a year's delay before the error of previous years could be corrected.
>
> The system of trying to forecast inflation, introduced in 1976, is a fragile basis for calculations of such importance to millions of our fellow citizens. Given the experience of the past seven years, the Government believe that it would now be right to restore the more certain system that prevailed before 1976. This is the system by which benefit upratings are calculated on what has actually happened to prices, rather than on what might happen in future – if the forecast proves right.
>
> From this November, therefore, we shall return to the historic, or actual, method. The necessary legislation will be introduced immediately.
>
> The uprating this November will be based on the rise in prices in the 12 months to May this year. That figure will be announced by the Department of Employment in the usual way, and will be the basis for the uprating statement as soon as possible after that.

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[11] *Metzger and others v DHSS* (1977) and (1978)

> We have chosen the May figure because it is the latest month we can use as the basis of the calculation and still make sure that all recipients get their increase in November.
>
> The uprating will be based on whatever the May figure turns out to be. At this stage, of course, it is impossible to say exactly what it will be.[12]

Commentators were not slow to point out that, as well as bringing greater certainty, the return to the historic formula also solved the problem of what to do about the 2.7% "overshoot" in the November 1982 uprating. Had the Chancellor retained the forecasting system and clawed back the overshoot, pensions would only have increased by 3.3% in November 1983. On the other hand, had he yielded to the considerable pressure not to clawback the 2.7%, they would have risen by 6% which would have cost some £280.8 million more than a 3.3% rise in 1983-84. As it was, the anticipated "historic" increase of around 4% was expected to cost some £72-98 million more.[13]

Section 1 of the *Social Security and Housing Benefits Act 1983* legislated for the historic method, requiring the Secretary of State to review the level of pensions (and other long term benefits) in the month of June each year to see whether they had retained their value in relation to the movement of prices over the year ending on the 31 May immediately preceding.

1.5 Change to the April uprating date, 1987

From 1975, upratings occurred in November each year, but as part of the 1985 "Reform of Social Security", the Conservative Government decided to align the tax and benefit years by moving the uprating date to April. This ensures that the tax and benefit years are aligned. The Green Paper, *Reform of Social Security*, published in June 1985, said:

> 13.14 The Government propose also to make a permanent change in the timing of the uprating of social security benefits. At present benefits are uprated in November. This means that the benefit rates change at different times from other changes affecting personal incomes, notably tax and contributions. The Government therefore propose to move the uprating date to the beginning of April so that tax and benefit changes will, in future, coincide. This will have the added advantage that local authorities will only have to make housing benefit changes once a year: at present they have to make one set of changes in April when rent and rates go up and another in November when the benefit rates change.
>
> 13.15 the first April uprating will be in April 1987. To provide a smooth transition to this new uprating time, the Government propose to bring April forward the uprating due in November 1986 to July 1986. Following the November 1985 uprating, there will thus be two upratings at eight-month intervals before the new annual pattern of April upratings begins.[14]

Section 63 of the *Social Security Act 1986* enshrined this change.

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[12] HC Deb 15 March 1983, cc 143-144

[13] First Report from the Social Services Committee 1982/83, *DHSS aspects of the Chancellor's Autumn Statement*, HC 123, 26 January 1983, Evidence, p 3

[14] CMND 9517, paras 13.14-13.15

1.6 Interval between announcement and increase

Members of Parliament are sometimes asked why there is an interval of several months between the announcement of benefit rates and them taking effect. Pensions Minister, Steve Webb recently explained that time is needed to change legislation and benefit systems in time for uprating in April:

> Gordon Banks: To ask the Secretary of State for Work and Pensions pursuant to the answer of 28 June 2010, *Official Report,* columns 393-94W, on state retirement pensions, for what reasons the month of September is used as the base for these calculations. [5569]
>
> Steve Webb: The Consumer Prices Index figure for September is the most up to date that can be used which allows time for the necessary activities involved in changing both the legislation and benefit systems in time for the uprating date in April. This was also true of the Retail Prices Index when that index was used as the benchmark for price inflation.
>
> The September figures are published by the Office for National Statistics in mid-October and feed into the forecasts prepared for the pre-Budget report, The Uprating Statement to Parliament is made in November or December followed by the Uprating Order which is laid and debated in the new year.
>
> This timetable is important so that new claims to state pensions and pension credit, which can be made up to four months in advance, can be processed using the correct rates of benefit. It also allows adequate time to notify all 19 million benefit recipients of any changes to their benefit.[15]

Furthermore, the fact that a consistent and continuous measure of inflation is used ensures that changes in prices in one year will feed through into benefit rates in the next. In 2008, the then Pensions Minister, Mike O'Brien said:

> There is a statutory requirement to review all social security benefits each year and to increase certain benefits from April each year. The increase applied to most contributory and non-contributory benefits is calculated using the increase in the Retail Prices Index for the 12 months ending in the preceding September. This ensures that benefits keep their value in broad terms. The inflation figures are based on a year-on-year comparison of prices. Therefore any recent fluctuations in inflation will be taken into account in the benefit increases that will take effect from the following April.[16]

In other words, the April increase may not reflect the actual increase in the cost of living faced by the claimant at that time. When inflation is increasing, the uprating arrangements mean that claimants effectively lag behind. When inflation is falling, the opposite will be true and claimants will gain more. Over time, the differences should roughly cancel each other out.

2 Legislation until *Pensions Act 2007*

The legislative position on pension uprating then remained virtually unchanged up until the *Pensions Act 2007.* The relevant legislative authority was section 150 of the *Social Security Administration Act 1992.* In a nutshell what this meant was that the basic State Pension, the additional (earnings-related) State Pension, deferred retirement increments and the Graduated Pension had to be increased each April at least in line with price increases over

15 HC Deb, 5 July 2010, c109W; See also HC Deb 14 April 2000, c303w
16 HC Deb, 29 Sep 2008 ,c2399W

the previous review period (in practice, the year to the preceding September). They could be increased by more than this if the Secretary of State so chose. Pension Credit, on the other hand, did not have to be increased at all, though the Secretary of State could increase it as he thought fit. Section 150 said:

150 Annual up-rating of benefits

(1) The Secretary of State shall in each tax year review the sums—

(a) specified in the following provisions of the Contributions and Benefits Act— (…)

(ii) section 44(4) [*the basic state pension*] …

(c) which are the additional pensions in long-term benefits [*additional or earnings related pension, SERPS or S2P*] (…)

(d) which are the increases in the rates of retirement pensions under Schedule 5 to the Contributions and Benefits Act [*deferred retirement increments*] (…)

[(l) specified in regulations under section 2 or 3 of the State Pension Credit Act 2002 [*Pension Credit*]

in order to determine whether they have retained their value in relation to the general level of prices obtaining in Great Britain estimated in such manner as the Secretary of State thinks fit.

(2) Where it appears to the Secretary of State that the general level of prices is greater at the end of the period under review than it was at the beginning of that period, he shall lay before Parliament the draft of an up-rating order—

(a) which increases each of the sums to which subsection (3) below applies by a percentage not less than the percentage by which the general level of prices is greater at the end of the period than it was at the beginning; and

(b) if he considers it appropriate, having regard to the national economic situation and any other matters which he considers relevant, which also increases by such a percentage or percentages as he thinks fit any of the sums mentioned in subsection (1) above but to which subsection (3) below does not apply; and

(c) stating the amount of any sums which are mentioned in subsection (1) above but which the order does not increase.

(3) This subsection applies to sums—

(a) specified in Part I, [paragraphs 1 to 6 of Part III], Part IV or Part V of Schedule 4 to the Contributions and Benefits Act;

(b) mentioned in subsection (1)(a)(ii) or (iii), [(aa),] (b), (c), (d), [(dza),] (e) or (g) above. [*Includes state basic, additional and deferred pensions*]

(…)

(7) If the Secretary of State considers it appropriate to do so, he may include in the draft of an up-rating order, in addition to any other provisions, provisions increasing any of the sums for the time being specified in regulations under … the State Pension Credit Act 2002 or which are additions to income support under regulations made under section 89 of the 1986 Act.

(8) The Secretary of State shall lay with any draft order under this section a copy of a report by the Government Actuary or the Deputy Government Actuary giving that Actuary's opinion on the likely effect on the National Insurance Fund of such parts of the order as relate to sums payable out of that Fund.

(9) If a draft order laid before Parliament in pursuance of this section is approved by a resolution of each House, the Secretary of State shall make the order in the form of the draft.

(10) An order under this section—

(a) shall be framed so as to bring the alterations to which it relates into force—

(i) in the week beginning with the first Monday in the tax year; or

(ii) on such earlier date in April as may be specified in the order;

(…)

(11) So long as sections 36 and 37 of the National Insurance Act 1965 (*graduated retirement benefit*) continue in force by virtue of regulations made under Schedule 3 to the Social Security (Consequential Provisions) Act 1975 or under Schedule 3 to the Consequential Provisions Act, regulations may make provision for applying the provisions of this section

[(a) to the amount of graduated retirement benefit payable for each unit of graduated contributions,

(b) to increases of such benefit under any provisions made by virtue of section 24(1)(b) of the Social Security Pensions Act 1975 or section 62(1)(a) of the Contributions and Benefits Act, and

to any addition under section 37(1) of the National Insurance Act 1965 (addition to weekly rate of retirement pension for widows and widowers) to the amount of such benefit.]

Section 150 has been temporarily modified to allow the basic State Pension to be uprated in April 2010 even though the September RPI did not increase (see section 3 below).

3 The operation of the prices link since 1980

3.1 VAT on fuel, 1994

Apart from the adjustments connected with over and under provision when the forecasting method was in use and the transitions to the historic method and the April uprating, the Conservative Government of 1979-1997 almost always increased the pension in line with prices and no more. The one exception was the April 1994 uprating when the single pension was increased by 50p more than inflation to compensate for the extension of VAT to fuel costs.

On 1 April 1994 domestic supplies of fuel & power became liable to VAT at the reduced rate of 8%. It had been the Conservative Government's intention that these supplies would be charged the standard rate of VAT - currently 17.5% - the following year. However in December 1994 the Government was defeated on a Budget Resolution vote on this question, and was required to introduce amending legislation so that these supplies continued to be charged VAT at 8%.[17]

The Chancellor, Kenneth Clarke, announced the compensation for pensioners in his Budget statement on 30 November 1993:

> Thirdly, and most significant, I intend to make a special addition to pensions and to the benefits linked to it over and above the normal uprating in line with the retail prices index. Over the next two years, I propose to give all pensioners exactly the same extra help with their fuel bills as those pensioners on income-related benefits will be getting.
>
> This extra help will build up over time. By April 1996, the weekly retirement pension for a pensioner couple will be £1.85 a week higher than it would otherwise have been without the VAT increase. A single pensioner will receive £1.30 a week more.
>
> The help for pensioners that I have outlined will not precisely match increases in fuel bills in each and every household, because not everyone has an average fuel bill, but on average, pensioners are likely to find that, after taking account of falling real fuel prices, the extra help they receive will broadly cover changes in fuel bills, including VAT, over the course of this Parliament.
>
> This is the first break since 1980 from our policy of uprating pensions strictly by the retail prices index. It must be regarded as wholly exceptional, and it cannot be repeated whenever a particular tax or price increase is opposed on the grounds that retired people should not pay it. In a very difficult year for public spending, this amounts to a huge package of extra help with VAT bills.[18]

The following day, Peter Lilley, the Secretary of State for Social Security, put it slightly differently:

> My right hon. and learned Friend the Chancellor explained that I plan to give everyone on income support except pensioners and disabled people extra help next April before the higher heating bills arrive, so their benefits will be uprated by 3.9 per cent., which is higher than most people in work will receive. A further 2 million people above the income support level, who get housing benefits or familiar credit, will receive a similar increase.
>
> I was also determined to help those who have worked, saved and earned modest pensions, and who normally get no extra help. So, from next April, on top of uprating for inflation, all pensions will be increased by 50p a week for single pensioners and 70p for couples. The following year, extra help for VAT on fuel will be £1 a week for single pensioners and £1.40 for couples. From the third year onwards, that extra help will be as much as £1.40 for a single pensioner and £2 for a couple. All those on widow's benefit, invalidity benefit, severe disablement allowance and disability premium will get the same extra help.[19]

In the event the additional increase foreshadowed for April 1995 was not implemented because the second stage of the VAT increase was withdrawn.

3.2 Commitment to uprate the Basic State Pension by at least 2.5 per cent

The Labour Government elected in May 1997 carried on with this strict adherence to the prices link until April 2001. Price inflation in the year to September 1999 was only 1.1% so

[17] The reduced rate is now 5%

[18] HC Deb 30 November 1993, c 925

[19] HC Deb 1 December 1993, c 1037

the April 2000 pension increase came out at only 75p for a single pensioner. This notoriously small increase[20] persuaded the Chancellor, Gordon Brown, to announce a minimum increase in pensions.

In his Pre-Budget Statement on 8 November 2000, the Chancellor announced that he and the Secretary of State for Social Security had decided that:

> Over the next two years, pensioner incomes should rise faster than inflation – indeed, faster than earnings – so from April next year we propose that, for a single pensioner, there should be a cash increase of £5 a week; and for a married couple, a rise of £8 a week. I can tell the House that in the following year we can also guarantee the pension will rise above prices – a cash increase of £3 for single pensioners and £4.80 for married couples. Over two years, therefore, there will be a cash rise of £8 for single pensioners and £12.80 for couples – for pensions, £2.6 billion more: more than the link with earnings would give.[21]

In his Pre-Budget Statement on 27 November 2001, the Chancellor announced that he and the Secretary of State for Work and Pensions had decided that "in future" the basic state pension would rise by the higher of 2.5% pa or inflation:

> For all Britain's 11 million pensioners, I can also announce a fourth guarantee: that the Secretary of State for Work and Pensions and I have decided that the basic state pension will always rise by at least £100 a year for single pensioners and by £160 for couples. In future, the state pension will rise by at least 2.5 per cent., or more if inflation is higher—at least £100 more each year on the basic pension.[22]

This policy has been maintained since the May 2005 General Election, as the reply to PQ on 15 June 2005, makes clear:

> **Pensions**
>
> Andrew Rosindell: To ask the Secretary of State for Work and Pensions what plans the Government have to increase the state pension. [2957]
>
> Mr. Timms: We will continue with our policy of increasing the basic state pension annually by 2.5 per cent. or the increase in the September Retail Prices Index whichever is higher.[23]

This commitment was again confirmed in Pre-Budget Report 2009 (paragraph 5.43).

3.3 £60 additional payment – January 2009

In April 2009, the basic State Pension (BSP) rose by 5% (the increase in the Retail Prices Index to September 2008) to £95.25 a week in April 2009; £152.30 for couples. Responding to comments on the uprating statement on 11 December, Work and Pensions Minister Tony McNulty explained that current rates and increases were "significantly better" than they would be by simply re-establishing the link between increases in the BSP and earnings.[24] The "relevant earnings factor" for 2009/10 uprating purposes was 3.5%.[25]

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20 See, eg, "Paltry 75p a week rise is an insult to all pensioners", *Sunday Express*, 23 April 2000, and "Pensions war hots up over 75p a week rise", *Sunday Mirror*, 9 April 2000

21 HC Deb 8 November 2000, c 326

22 HC Deb 27 November 2001, cc 836-837

23 HC Deb 15 June 2005, c 437W

24 HC Deb, 11 December 2008, c697

25 See SNSG/4901, '2009 Benefit Uprating'

An additional payment of £60 would be made in the New Year, "equivalent to bringing forward the uprating of the basic State Pension" to January:

> 5.82 To support pensioners more broadly, the level of the full State Pension will rise in line with prices by £4.55 to £95.25 a week in April 2009. For those women whose entitlement is based on their husbands' pension, the full couples' rate increases to £152.30. In addition, in order to provide further support for pensioners during the economic downturn, the Government announces that it will make a payment in the New Year of £60 for each pensioner, equivalent to bringing forward uprating of the basic State Pension from April to January. Around 12.5 million pensioners will benefit. A £60 payment will also be made to 2.5 million individuals who are in receipt of certain other benefits (5).
>
> (5) Eligibility will be the same as for the Christmas Bonus. [26]

The payment was legislated for in the *Christmas Bonus (Specified Sum) Order 2008*.[27]

In making a lump sum payment, the Government has said that its intention was to help people "in vulnerable groups and on fixed incomes, in the light of the current economic conditions." It therefore wanted to make payment as quickly as possible:

> This increase will go to all those who qualify for a Christmas Bonus and is intended to help people in vulnerable groups and on fixed incomes, in light of the current economic conditions. (The payment is equivalent to an amount which covers bringing forward uprating of a full basic State Pension from April to January.) It is imperative that this payment can be made to recipients as quickly as possible as part of the fiscal stimulus package and as closely as possible to the normal date for receipt of the Christmas Bonus in December. This has implications for the legislation and operational delivery of the increased payment.[28]

3.4 Negative inflation – April 2010

In Pre-Budget Report 2008, the Government said its economic projections showed RPI inflation as negative in September 2009. In response to this, it would maintain the cash value of RPI-indexed social security benefits in 2010-11. In 2011-12, when the RPI was projected to be positive, the same benefits would be increased from their 2010-11 levels in line with standard indexation:

> **Box 5.1 The effect of negative RPI inflation on the value of tax and benefits**
>
> The Government's economic projections show RPI inflation as negative in September 2009. This means general prices using this measure of inflation are expected to fall. RPI inflation for that month is used to index income tax, tax credits and national insurance allowances, thresholds and limits for 2010-11. September measures of inflation are also used to index social security benefits.
>
> With projected negative RPI inflation, the Government would maintain the cash value of tax allowances and thresholds, and the RPI-indexed social security benefits, consistent with statute. Holding these constant with lower prices means that in 2010-

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[26] HM Treasury, Pre Budget Report, Cm 7484, November 2008, http://www.hm-treasury.gov.uk/d/pbr08_chapter5_179.pdf

[27] SI 2008/3255

[28] *Explanatory Memorandum to the Christmas Bonus (Specified Sum) Order 2008 (SI 2008 No 3255)*; See also, Library Standard Note SN/SP/632, "The Christmas Bonus and the associated £60 one-off payment for 2008/09".

> 11, their real terms value would rise in relation to RPI, and that people would be better off in real terms. Analysis in real terms shows the effect on tax and benefit changes in terms of people’s purchasing power.
>
> The basic State Pension is indexed by RPI inflation or 2.5 per cent, whichever is greater. This means that there will be an even larger real terms benefit for pensioners in 2010-11. Some benefits are uprated by earnings, and negative RPI inflation increases the real terms value of those increases. For 2011-12, when RPI inflation is projected to be positive, allowances, thresholds and benefit levels will be increased from their 2010-11 levels in line with standard indexation. This will maintain the real terms gain from 2010-11 for future years.

In the event the September RPI was negative (minus 1.4 per cent).

In October 2009, the Government made a temporary amendment to section 150 of the Social Security Administration Act 1992 to allow the state pension to be increased in 2010 even though the RPI had not increased. Lord McKenzie explained why the amendment was necessary:

> My Lords, this amendment is intended to give the Government the flexibility to uprate the basic state pension by the commitment of 2.5 per cent and to uprate other social security benefits as the Secretary of State thinks fit, even though the level of prices, as measured by the retail prices index, has not increased.
>
> Announcements of the following year’s benefit rates are made at the Pre-Budget Report and the subsequent uprating statement. The proposed rates of benefit that will apply from 2010 will be announced in the normal manner. Noble Lords will therefore appreciate that I am not in position to pre-empt those announcements in our deliberations on this amendment. That said, as the Chancellor made clear in this year’s Budget, the Government’s commitment to increase basic state pension annually by a minimum of 2.5 per cent stands, and other benefits will not be reduced in the event of negative inflation. The new clause proposed by this amendment allows the Government to fulfil their promise to pensioners.
>
> It may helpful to noble Lords if I give a brief technical explanation of why we have tabled this amendment. The proposed new clause is inserted into the *Social Security Administration Act 1992*. This provision dates back to the mid-1970s, a time of double-digit inflation, when the likelihood of negative inflation is unlikely to have been at the forefront of the draftsman’s mind. Section 150 of the *Social Security Administration Act 1992* requires that the Secretary of State reviews the rates of benefits and pensions in each year to establish whether they have kept their purchasing power. Where the general level of prices has increased, the Secretary of State is required to lay the draft of an uprating order. Since the power was introduced, the benchmark for the review of prices has been the retail prices index. Since 1980, the reference point has been the retail prices index for September, which this year is minus 1.4 per cent. This technical amendment, for 2010 only, allows the Secretary of State to make an uprating order in the absence of an increase in prices, as measured by the retail prices index, and to deliver the increase in the basic state pension from April, which will be worth around £1 billion to pensioners over the year.
>
> The amendment makes a change to Clause 51 and ensures that the new power will come into force on Royal Assent. It will therefore allow there to be a benefit uprating for

> April 2010 in line with the normal uprating timetable. I feel sure that this will have the full support of noble Lords. I beg to move.[29]

The *Welfare Reform Act 2009* received Royal Assent on 12 November. The amendment is section 23.

3.5 Consumer Prices Index as measure of prices

In his emergency Budget on June 2011, Chancellor of the Exchequer, George Osborne announced that in future “the CPI would be used for the price indexation of benefits and tax credits”.[30] This is discussed in more detail in Library Standard Note SN/BT 5649 *Pension Uprating – 2010 onwards.*

4 Restoring the State Pension earnings link, 2012?

4.1 Background

When asked whether they would link future pension increases to earnings, the previous Labour Government – until the publication of the Pensions White Paper in May 2006 – had always replied that this did nothing to help the poorest pensioners, on whom they want to concentrate resources:

> **Mr. Wray:** To ask the Secretary of State for Work and Pensions what plans he has to increase the basic state pension; and if he will re-introduce the link to earnings. [106092]
>
> **Mr. McCartney:** We have already announced that from April 2003, the basic state pension will increase to £77.45 for single pensioners and to £123. 80 for married couples. Additionally, the minimum income guarantee will increase to £102.10 for single pensioners and £155.80 for couples. Restoring the earnings link does nothing to help poorer pensioners. We will be spending around £7.5 billion extra on pensioners in 2003–04 as a result of measures introduced since 1997. This includes around £3.5 billion that is being spent on the poorest third of pensioners—almost six times as much as an earnings link in the basic state pension since 1998 would have given them. Increases in the basic state pension over the last three years have given single pensioners £1.10 a week more than an earnings link would have given them and £1.75 a week more for couples.[31]

The restoration of the link between increases in the BSP and average earnings was recommended by the Pensions Commission in its Second Report*, A New Pension Settlement for the Twenty-First Century,* published in November 2005. The Commission was set up by the Government to "review the evolution of the UK's system of pension provision". It argued that reforms to the state pension system were needed to underpin private saving. It recommended that the Government should:

> Index the [basic State Pension] to average earnings growth over the long-term: ideally starting in 2010 or 2011 as the public expenditure benefit of the rise in women’s [State Pension age] begins to flow through ... making this indexation affordable long-term by

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[29] HL Deb 22 October 2009 c918
[30] HM Treasury, *Budget 2010*, June 2010, para 1.106
[31] HC Deb 1 April 2003 c677W

> raising the SPA gradually, broadly in proportion to the increase in life expectancy, for instance to 66 by 2030, 67 by 2040 and 68 by 2050.[32]

The Pensions White Paper, *Security in retirement: towards a new pension system*, published on 25 May 2006, announced that the Government intended, "subject to affordability and the fiscal position" to re-link the uprating of BSP to average earnings in 2012. At the very latest the link would be restored "by the end of the next Parliament" (i.e. by 2015 at the very latest). This was partly to ensure that state pensions provided a firm foundation for private saving and partly to prevent the spread of means-testing which could have a serious disincentive effect to private pension saving. To fund the restoration of the link, the state pension age would be increased – to 66 over the two years starting in April 2024, to 67 over the two years starting in April 2034 and to 68 over the two years starting in April 2044:

> 3.20 There are a number of reasons to think that an earnings link represents an appropriate response to long-term demographic change. We have outlined how our reforms since 1997 have led to pensioner incomes being at their highest-ever level. Having significantly reduced pensioner poverty, we are now able to create a long-term foundation for saving by restoring the earnings link. We can make clear for the long term the deal between the State and the individual, to allow people to plan with confidence for their retirement.
>
> 3.21 People's expectations for their incomes in retirement are largely based on their earnings and standard of living during working age. If the state system is to serve as a foundation for their retirement planning, it must retain its level relative to these expectations. This will help to address the problem of undersaving by enabling people to predict with confidence what they are likely to receive from the State when they retire, and therefore what they will need to save in addition to meet their expectations.
>
> 3.22 It is also important to ensure that targeted benefits are just that – directed at those in society who need them most. At present, Pension Credit achieves this. The Government has successively raised the Guarantee Credit by earnings and has already committed to do so to 2008 in order to continue to tackle pensioner poverty. We intend to continue this uprating strategy over the long term. But if Pension Credit alone continues to rise with earnings and the level of contributory benefits drifts away from the means-tested safety net, it could mean that more and more people fall subject to means-testing in retirement. This could affect people's incentives to work and save, and dilute the sense of personal responsibility for saving that we want to instil.
>
> 3.23 The Government believes that people must have the opportunity to build a basic State Pension entitlement that can give them confidence in the value of making additional provision. This will also help to encourage people to save through automatic enrolment in the scheme of personal accounts. And we are clear that we cannot allow our progress against pensioner poverty to falter. Taken together, we believe that both the Guarantee Credit and the basic State Pension must retain their value relative to the average earnings of society.
>
> 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.

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[32] Pensions Commission, A New Pension Settlement for the Twenty-First Century, Second Report. November 2005. p 21
http://www.webarchive.org.uk/pan/16806/20070802/www.pensionscommission.org.uk/publications/2005/annrep/annrep-index.html (retrieved 12 December 2008)

3.25 But this is a major undertaking. On its own, linking the basic State Pension to rises in earnings from 2012 would lead to an increase in spending on pensioners of £46 billion or 1.4 per cent of GDP by 2050, in addition to the costs of increasing coverage to state pensions. We have made clear that the Government's economic policies since 1997 have had specific benefits for pensioners and future pensioners. To risk the stability of the economy for the sake of linking the basic State Pension to earnings growth would be counter-productive. This element of the reform package is therefore inextricably linked to two others.

3.26 First, raising the State Pension age in line with increases in life expectancy will help to bring about a behavioural change so that people begin to work longer as they live longer. It will slow the growth in the number of pensioners, while ensuring that pensioners continue to be able to enjoy a roughly constant proportion of their adult lives in retirement. Maximising the impact of this increase, through the measures described in Chapter 4 to help people work for longer, will further help to stabilise the support ratio, ensuring that these reforms remain affordable.

3.27 Secondly, we intend to accelerate the withdrawal from direct provision of earnings-related pensions to provide a simple, flat-rate foundation that rewards working and caring, building on which will be the responsibility of individuals. Reforms to the State Second Pension will speed up the move to make it a flat-rate top-up to the basic State Pension and will reduce expected expenditure on the State Second Pension in the longer term, further helping to fund linking the basic State Pension to earnings. Reforms to the State Pension age and the State Second Pension are described later in this chapter.[33]

Legislative provision for this was made in Section 5 of the *Pensions Act 2007.* This inserted a new section 150A into the *Social Security Administration Act 1992*:

5 Up-rating of basic pension etc. and standard minimum guarantee by reference to earnings

(1) After section 150 of the Administration Act insert—

"150A Annual up-rating of basic pension etc. and standard minimum guarantee (1) The Secretary of State shall in each tax year review the following amounts in order to determine whether they have retained their value in relation to the general level of earnings obtaining in Great Britain—

(a) the amount of the basic pension;

(b) the specified amounts in the case of Category B, C or D retirement pensions;

(c) the specified amounts in the case of industrial death benefit; and

(d) the amounts of the standard minimum guarantee for the time being prescribed under section 2(4) and (5)(a) and (b) of the State Pension Credit Act 2002.

(2) Where it appears to the Secretary of State that the general level of earnings is greater at the end of the period under review than it was at the beginning of that period, he shall lay before Parliament the draft of an order which increases each of the amounts referred to in subsection (1) above by a percentage not less than the percentage by which the general level of earnings is greater at the end of the period than it was at the beginning.

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[33] Department for Work and Pensions, *security in retirement: towards a new pensions system*, May 2006, Cm 6841, http://www.dwp.gov.uk/pensionsreform/pdfs/chap3.pdf (retrieved 12 December 2008)

(3) Subsection (2) above does not require the Secretary of State to provide for an increase in any case if it appears to him that the amount of the increase would be inconsiderable.

(4) The Secretary of State may, in providing for an increase in pursuance of subsection (2) above, adjust the amount of the increase so as to round the sum in question up or down to such extent as he thinks appropriate.

(5) The Secretary of State shall lay with a draft order under this section a copy of a report by the Government Actuary or the Deputy Government Actuary giving that Actuary's opinion on the likely effect on the National Insurance Fund of any parts of the order relating to sums payable out of that Fund.

(6) If a draft order laid before Parliament under this section is approved by a resolution of each House, the Secretary of State shall make the order in the form of the draft.

(7) An order under this section shall be framed so as to bring the increase in question into force in the week beginning with the first Monday in the tax year following that in which the order is made.

(8) For the purposes of any review under subsection (1) above the Secretary of State shall estimate the general level of earnings in such manner as he thinks fit……..[34]

The legislation requires the first review to determine whether the BSP has retained its value in relation to average earnings to take place in the "designated tax year":

(4) "The designated tax year" means such tax year as the Secretary of State may designate by an order made before 1st April 2011.

(5) The Secretary of State must exercise his power under subsection (4) in such a way as to secure that the tax year immediately following the designated tax year is one that begins before the relevant dissolution date.

(6) "The relevant dissolution date" means the latest date on which, having regard to the maximum period for which a Parliament may exist, the Parliament in existence at the time of exercise of the power could be dissolved.[35]

4.2 Timing

The restoration of the earnings link was supported by both opposition parties when the legislation was before Parliament. The then Shadow Secretary of State for Work and Pensions, Philip Hammond said:

The Secretary of State knows that the 2005 Conservative manifesto pledged to link the basic state pension to earnings. At the time, the Government condemned that pledge as unaffordable. We therefore welcome the conversion to a commitment to the earnings link from 2012 and the simplified contributions rules, which mean that men and women who have worked or cared for someone for 30 years will be entitled to a full basic state pension in their own right. We also accept the increase in state pension age that will partly finance the changes.[36]

The then Liberal Democrat Shadow Secretary of State, David Laws, said:

[34] *Pensions Act 2007*, Section 5
[35] Section 150A *Social Security Administration Act 1992* as amended by Section 5 *Pensions Act 2007*
[36] HC Deb, 16 January 2007, c672

> The range of issues on which there is now agreement between the three political parties is far broader than anybody could have expected, even before the last general election. They agree on the earnings link, on raising the state pension age—traditionally a controversial and sensitive issue—on the issue of women's pensions, and on a number of other key issues, including auto-enrolment…[37]

However, the three major parties have differed as on the date from which this can be afforded.

In the May 2006 Pensions White Paper, the Labour Government said its objective was to restore the earnings link in 2012, subject to affordability and the fiscal position. At the very latest the link would be restored "by the end of the next Parliament" (i.e. by 2015):

> 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.[38]

The then Liberal Democrat Works and Pensions spokespersons David Laws said that a delaying in restoring the earnings link to 2015 would result in an increase in the proportion of pensioners on means-tested benefits.[39] In response, the then Pensions Reform Minister, James Purnell said while the Pensions Commission had proposed that "uprating should begin in 2010", Lord Turner had "since confirmed that a short delay beyond that would not seriously undermine the overall direction of his reform."[40]

The issue was raised again in the course of debate on the *Pensions Bill 2007-08.* The then Minister for Pensions Reform, Mike O'Brien reiterated the Labour Government's position:

> We made a legislative commitment in the *Pensions Act 2007* to restore the link. We have put beyond doubt our intention to restore it. During the next Parliament, 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 that in 2012 or, in any event, by the end of the next Parliament at the latest. That is the bedrock on which our reforms are built, and its introduction is non-negotiable.[41]

In the run up to the general election in 2010, the Labour Party committed itself to restoring the earnings link from 2012.[42]

The Conservative Party committed itself to restoring the earnings link in this Parliament.[43] The then Shadow Chancellor, George Osborne told the party conference in autumn 2009 that a review would be held to look at whether the increase to 66 in the State Pension age should be brought forward to help pay for it:

> Let me affirm today that in the next Parliament we resolve to restoring the earnings link for the basic state pension. That means a more generous state pension for all. But this is another one of those trade-offs any honest government has to confront. All parties accept that to afford that with an ageing population, the state pension will have

37 Ibid, c687
38 DWP, *Security in retirement: towards a new pensions system,* May 2006. Cm 6841
39 Pensions Bill Deb, 30 January 2007, c158
40 Pensions Bill Deb, 30 January 2007, c166
41 HC Deb, 22 April 2008, c1251
42 Labour Party Manifesto 2010, A future fair for all; 6.2
43 Conservative Party Manifesto 2010 – An invitation to join the Government of Britain

> to rise. The women's pension age is already set to start rising over the next decade to 65. And by 2026 the pension age for men and women will reach 66. That is already happening. But most experts – including Lord Turner who made this recommendation – now think that is too far off. So we will hold the review which Turner's report itself proposed and which this government has never held. Our aim will be to bring forward the date when the pension age rises. This already is happening in Holland and in Australia. We will ensure that no increase will happen until the second half of the next decade – in the Parliament after next. For men this means the pension age will not start to rise to 66 until at least 2016. For women this means the pension age will not start to rise from 65 to 66 until at least 2020. No one who is a pensioner today, or approaching retirement soon, will be affected.[44]

The Liberal Democrats said they would:

> Immediately restore the link between the basic state pension and earnings. We will uprate the state pension annually by whichever is the higher of growth in earnings, growth in prices or 2.5 per cent.[45]

The question of whether there should be a legislative commitment to uprate the BSP in line with prices or earnings, whichever was higher, had been debated when the *Pensions Bill 2006-07* was before Parliament. The then Pensions Minister, James Purnell, explained that the Labour Government would want to retain flexibility:

> in situations where there was a large discrepancy between earnings and inflation, with inflation being the higher, in times of genuine economic difficulty when inflation was rising sharply or earnings were falling sharply, the Government might need to help to stabilise the economy. In that instance a commitment to uprate the pension in line with the higher of the two could force the Government to cut back on expenditure elsewhere or to severely limit its contribution to getting the economy back under control.[46]

On 12 May, the new Conservative Liberal Democrat coalition Government said the earnings link would be restored from 2011, with a "triple guarantee", as proposed by the Liberal Democrats:

> We will restore the earnings link for the basic state pension from April 2011 with a "triple guarantee" that pensions are raised by the higher of earnings, prices or 2.5%, as proposed by the Liberal Democrats.[47]

As previously proposed by the Conservatives, a review would be held to "set the date at which the state pension age starts to rise to 66, although it will not be sooner than 2016 for men and 2020 for women."[48] The State Pension age is discussed in more detail in Library Standard Note SN/BT 2234 *Pension age.*

[44] Speech to Conservative Party Conference, 6 October 2009; Conservative Party Press Release, 6 October 2009, Osborne: Specific measures to start tackling Labour's debt crisis; See also, 'David Cameron: Lets win it for Britain,' Speech to Conservative Party Spring Conference, 28 February 2010

[45] Liberal Democrat Manifesto 2010

[46] HC Deb, 27 January 2010, c144

[47] Conservative Liberal Democrat coalition negotiations Agreements reached 11 May 2010

[48] Ibid

5 Other parts of the State Pension

5.1 Additional State Pension

This policy of increasing the state pension by the higher of the RPI or 2.5% applies only to the BSP, not to the additional State Pension (ASP) (commonly known as SERPS or S2P) which is still increased strictly in line with the September Retail Prices Index (RPI). In reply to a PQ in the Lords, Baroness Hollis made it clear that the Government had no plans to link additional State Pension (and the linked public service) pension increases to the basic State Pension:

> SERPS and Public Service Pensions Increase Mechanism
>
> Lord Stoddart of Swindon asked Her Majesty's Government:
>
> Further to the Written Answer by Lord McIntosh of Haringey on 23 November (WA 87), whether they will now re-examine their policy of increasing SERPS and public service pensions annually in line with the September Retail Prices Index to see whether it would be more equitable to make annual increases to these pensions in line with the percentage increase in the basic state retirement pension.[HL18]
>
> The Parliamentary Under-Secretary of State, Department of Social Security (Baroness Hollis of Heigham): No. SERPs and public service provisions increase in line with the Retail Prices Index. We have no plans to alter that arrangement.[49]

Thus, on the occasions when prices have risen at less than 2.5% since April 2000, the BSP has gone up more than the ASP:

Uprating date	*Basic State Pension increase on previous year %*	*Additional State Pension increase on previous year %*
April 2000	1.1	1.1
April 2001	7.4	3.3
April 2002	4.1	1.7
April 2003	2.6	1.7
April 2004	2.8	2.8
April 2005	3.1	3.1
April 2006	2.7	2.7
April 2007	3.6	3.6
April 2008	3.9	3.9
April 2009	5.0	5.0
April 2010	2.5	0.0

The policy for uprating the ASP was raised again in debate on the *Pensions Bill 2006-07,* the legislation which restored the link between increases in the basic State Pension and average earnings. Labour MP Sally Keeble commented that failure to do the same for the ASP could lead to its value being eroded:

> those on lower earnings who get the carers credit, the state second pension will be a really big component of their income after retirement. The other point that I want to

[49] HL Deb 18 December 2000, c 34WA; See also, Pensions Bill Deb, 25 January 2007, cc84-89; HC Deb, 10 December 2009, c523; HC Deb, 1 March 2010, c767

> stress to the Minister is that women are particularly interested in the state second pension, and it is important that their income in retirement is maintained. Of course, women live longer than men, so it is even more important that a pension that is designed for women should retain its value over a longer period. As we have seen with the erosion of the value of the state pension, if a pension is not linked to the rise in earnings, over the longer time that women live during retirement, it will actually lose value.[50]

The then Shadow Work and Pensions Minister Nigel Waterson argued that:

> There is a double whammy because not only are the Government not proposing to uprate the S2P with earnings, as the hon. Lady's amendment points out, but they are going to flat-rate it, which will particularly affect medium and higher earnings.[51]

The then Pensions Reform Minister, James Purnell, responded that:

> It would add a further £14 billion to the annual pensions bill by 2050, which is 0.4 per cent of GDP, but even setting aside the cost, neither we nor the Pensions Commission think that it would be the right thing to do….The Pensions Commission said that pensions in accrual should track earnings and that in retirement, pensions should maintain pensioners' purchasing power, but not necessarily rise beyond that. The commission also made it clear that in retirement it is appropriate to maintain overall pensioner incomes, which includes the state second pension, somewhere between earnings and prices. The Government agree with this view because, when one looks at the spending pattern of pensioners, one finds it is reflected exactly by what they do.[52]

In addition, there would be complex implications for contracted-out schemes:

> We would, in effect, require defined benefit schemes to provide earnings indexation for that part of the occupational pension derived from the state second pension, and the rest of the pension would be indexed in line with inflation. No private scheme could face the burden of such commitment and it is clear that additional funding would be required through the national insurance rebate to provide for future pensioners.[53]

The Minister undertook to monitor the impact of the provisions on women.[54]

In September 2009, the RPI was negative (minus 1.4%). Because of this, the ASP will not increase, although it will maintain its value in cash terms (see section 6 below).

5.2 Deferred retirement increments

People can earn increments to their state pension by deferring taking their pension beyond 60 (women) or 65 (men).[55] From April 2005, the increments are 1% of the weekly pension for every five weeks of deferral (equivalent to 10.4% per year of deferral).[56] The increments are added to both basic and additional pension and, like them, are subject to statutory annual increases at least in line with prices.[57]

[50] Pensions Bill Deb, 25 January 2007, c85
[51] Ibid, c85
[52] Ibid, c88
[53] Ibid, c89
[54] Ibid, c89
[55] for details see SN/BT/2868
[56] Pension Service, *Your guide to state pension deferral (SPD1)* (May 2008)
[57] *Social Security Administration Act 1992,* section 150 (1) (d); HL Deb, 6 November 2009, cWA98

In April 2001, the Labour Government increased the basic State Pension by £5 a week (7.4%). However, the deferred retirement increments were only uprated by 3.3%. In April 2002, they were uprated by 4.1%, in line with the BSP. In April 2003, the deferred retirement increments to the BSP were uprated by 6.6%.[58] This was to make up for the fact that they were increased by 4.1% less than they should have been in April 2001. An article in the *Times* on 14 December 2002 reported:

> The Conservatives accused Gordon Brown yesterday of denying one million prudent pensioners up to £50 a year.
>
> David Willetts, Shadow Work and Pensions Secretary, said that the Chancellor had breached a promise by failing to uprate the value of deferred pensions in line with rises in the basic state pension.
>
> When Mr Brown sanctioned a rise of £5 a week in pensions in April last year, two months before the election, he increased the value of deferred pension increments by 3.3 per cent, or less than half that amount. A Pensions Department spokesman said: "This was addressed in the November uprating statement."[59]

So, BSP increases compared with deferred retirement increment increases to BSP have been:

	BSP increase (%)	Increment increase (%)
April 2000	1.1	1.1
April 2001	7.4	3.3
April 2002	4.1	4.1
April 2003	2.5	6.6
April 2004	2.8	2.8
April 2005	3.1	3.1
April 2006	2.7	2.7
April 2007	3.6	3.6
April 2008	3.9	3.9
April 2009	5.0	5.0
April 2010	2.5	0.0

As this shows, deferred retirement increments will not increase in April 2010, although their cash value will be maintained (see section 6 below).[60] On 1 March 2010, the then Parliamentary Under Secretary of State, Lord McKenzie explained:

> **Asked by Lord Taylor of Holbeach:** To ask Her Majesty's Government whether the percentage uplift to the basic state pension will be applied to the extra portion earned by those pensioners who used the state pension deferral scheme (as set out in booklet SPD1 of April 2006). [HL2001]
>
> **The Parliamentary Under-Secretary of State, Department for Communities and Local Government & Department for Work and Pensions (Lord McKenzie of Luton)**: The proposed 2.5 per cent increase in the rate of the basic state pension from April 2010 will not be applied to the extra state pension payable to those recipients who

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58 HC Deb, 19 November 2002, c16WS; Increments for other parts of the state pension, like AP were uprated by 1.7%

59 "Willetts protest", *Times*, 14 December 2002

60 HC Deb, 1 March 2010, c897W; A full list of proposed social security benefit rates for 2010-11 can be found at on the DWP website or at HC Deb, 14 December 2009, c66WS

have deferred their state pension. The Retail Prices Index showed that prices had fallen for the 12 months ending in September 2009. Given this evidence the Government have decided to maintain the value of increments at 2009-10 rates.

People with increments who deferred their state pension for at least one year since 2005 get a state pension that is 10.4 per cent higher than if they had not deferred. They will also benefit from the 2.5 per cent increase in the basic state pension announced at the Pre-Budget Report. We are writing to every individual in receipt of state pension with an uprating notification which clearly states that, while basic state pension is increasing by 2.5 per cent, increments and additional pension are not.

In addition, the increase in the basic state pension will be reflected in the value of increments being accrued by those who are currently deferring their state pension.

The booklet SPD1 State Pension Deferral-Your Guide is being updated to reflect the change from April 2010 and the other leaflets and website are being updated to reflect the Pre-Budget Report. [61]

6 State Pension rates in 2010-11

There are two parts to the state pension:

- The basic State Pension (BSP), to which people build entitlement on the basis of their National Insurance record. The amount of a person's BSP entitlement depends on the number of "qualifying years" they have built up.

-The second is the additional State Pension (ASP), which is earnings-related. This can be made up of the State Earnings Related Pension Scheme (to which people could accrue entitlement between 1978 and 2002) and the State Second Pension (which replaced SERPS from 2002 onwards).

These parts of the State Pension are uprated in different ways. As outlined in section 3 above, it has been Government policy since 2002 to increase the basic State Pension each year by the highest of 2.5% or inflation (the RPI of the previous September). However, this policy does not apply to the additional State Pension, or to deferred retirement increments, both of which are uprated in line with the September RPI (see section 5 above).

In November 2008, the Labour Government said it expected inflation to be negative in September 2009. In response to this, it would maintain the cash value of RPI linked social security benefits in 2010-11. In 2011-12, when the RPI was projected to be positive, the same benefits would be increased from their 2010-11 levels in line with standard indexation:

Box 5.1 The effect of negative RPI inflation on the value of tax and benefits

The Government's economic projections show RPI inflation as negative in September 2009. This means general prices using this measure of inflation are expected to fall. RPI inflation for that month is used to index income tax, tax credits and national insurance allowances, thresholds and limits for 2010-11. September measures of inflation are also used to index social security benefits.

With projected negative RPI inflation, the Government would maintain the cash value of tax allowances and thresholds, and the RPI-indexed social security benefits, consistent with statute. Holding these constant with lower prices means that in 2010-11, their real terms value would rise in relation to RPI, and that people would be better

[61] HL Deb, 1 March 2010, c330WA

> off in real terms. Analysis in real terms shows the effect on tax and benefit changes in terms of people's purchasing power.
>
> The basic State Pension is indexed by RPI inflation or 2.5 per cent, whichever is greater. This means that there will be an even larger real terms benefit for pensioners in 2010-11. Some benefits are uprated by earnings, and negative RPI inflation increases the real terms value of those increases. For 2011-12, when RPI inflation is projected to be positive, allowances, thresholds and benefit levels will be increased from their 2010-11 levels in line with standard indexation. This will maintain the real terms gain from 2010-11 for future years.[62]

The RPI was in fact negative (minus 1.4%) in September 2009. The ASP (and deferred retirement increments) will be held flat in cash terms in April 2010. In the debate on benefit uprating on 10 December 2009, the then Pensions Minister, Angela Eagle, explained the Government's approach:

> The basic state pension is traditionally uprated in line with the retail prices index, but as my right hon. Friend the Chancellor confirmed in yesterday's pre-Budget statement, the basic state pension will be uprated by 2.5 per cent from April 2010. That means that, from April next year, the basic state pension for a single person will rise by £2.40 to £97.65 a week, while the standard rate based on spouse's or civil partner's contribution will increase to £58.50, giving a pensioner couple a total of £156.15 a week. That above-inflation increase, which is delivered as a result of a commitment by this Government, will ensure that more than 11 million pensioners receive a real-terms increase in the value of their basic state pension.
>
> The uprating of state additional pension feeds directly through to public service pensions and to some aspects of occupational pension schemes. As a result, we are unable to uprate those benefits without creating unintended consequences for occupational pension schemes. In the circumstances, we plan to hold state additional pension flat in cash terms this year. However, the 2.5 per cent increase in the basic state pension will mean that, on average, pensioners in Great Britain will see an overall increase of 2 per cent in their state pension. [63]

The then Liberal Democrat Work and Pensions spokesperson Steve Webb suggested pensioners might be surprised to find that the 2.5 per cent increase did not apply to the whole pension:

> The Minister mentioned additional pension and the state earnings-related pension scheme, or SERPS. Surely the Government could have indexed SERPS if they had wanted to; pensioners who heard that they were getting 2.5 per cent would hardly have though that the Government were picking and choosing which bits of their pension to index and which bits not to.[64]

In response, the then Pensions Minister Angela Eagle, said this would have been difficult because of the knock-on effect on occupational pensions in the public and private sector:

> There would have been a difficulty with uprating the additional pension rather than holding it flat this year; it would have meant that the public sector would have got the increase, but that those responsible for private sector pensions, which are connected to this, would all have been planning for a zero rate increase and would not have been

[62] HM Treasury, Pre-Budget Report 2009, Cm 7747, December 2009

[63] HC Deb, 10 December 2009, c518-9; See also BBC News, 12 December 2009, 'State pension freeze saves up to £350m'

[64] HC Deb, 10 December 2009, c533W;

> able to increase their pensions in line with the increases we announced in the time available. We therefore felt that it would be better to do it in a more orderly way and keep additional pensions at zero for now. That does not mean that an increase connected to RPI will not come through in due course.[65]

In more detail, the Explanatory Memorandum to the *Social Security Benefits Up-rating Order 2010 (2010 No. 793)* said:

> 7.12 Up-rating AP payable under the State Earnings Related Pension and State Second Pension schemes (SERPS and S2P) has to be considered in the context of pensions more generally as there is a statutory requirement for public sector pensions to be uprated by the same percentage as AP. The cost of up-rating public sector pensions would be broadly double that of up-rating AP. Many occupational pension schemes outside the public sector also uprate their pensions by reference to RPI, however these private sector schemes will have based their financial assumptions on their pensions being frozen because of negative RPI. Increasing the additional pension and consequently public sector pensions would then put pensioners in receipt of the latter at an advantage over their private sector counterparts. For these reasons it is proposed that AP should not be increased in 2010.

The SI was debated on 1 March 2010.[66] It was approved on a deferred division in the Commons on 4 March 2010.

Graduated Retirement Benefit (a forerunner of the SERPS, which ran between 1961 and 1975) will also not been increased in April 2010. The amounts of GRB in payment are low, at around £3 per week on average.[67]

7 Pension Credit uprating

7.1 Guarantee Credit

Pension Credit replaced the Minimum Income Guarantee (MIG) as the main means-tested benefit for pensioners in October 2003.[68] The statutory requirement was for the Secretary of State to review the level of the Pension Credit each year and to increase it if he considers it "appropriate".[69] MIG, itself, had replaced Income Support for pensioners in April 1999. The Government adopted a policy of increasing MIG (and later the guarantee part of the Pension Credit) by average earnings, with the aim of concentrating resources on the poorest pensioners. In his Budget statement on 9 March 1999, the then Chancellor Gordon Brown announced that

> This Government created a minimum income guarantee for pensioners. Today I can confirm that next April this minimum income guarantee will be increased not just in line with prices but in line with earnings.[70]

The Pre Budget Report published in November 1999 promised to uprate MIG in line with average earnings throughout the remainder of that Parliament:

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65 HC Deb, 10 December 2009, c533

66 HC Deb, 1 March 2010, c750-768

67 Explanatory Memorandum to the *Social Security Benefits Up-rating Order 2010 (2010*

68 for details of how the Pension Credit works, see SN/BT/1439

69 paragraph 16 of schedule 2 of the *State Pension Credit Act 2002* inserted the relevant provision in section 150 of the *Social Security Administration Act 1992*, see section F above

70 http://archive.treasury.gov.uk/budget/1999/speech.html (retrieved 12 December 2008)

5.47 The Government has also focussed additional help on pensioners in most need:

> a minimum income guarantee for pensioners who were unable to build up significant or adequate pension provision during their working lives. This guarantees a minimum income of £75 a week for a single pensioner and £116.60 a week for pensioner couples, subject to income and capital rules. The Government will increase the minimum income guarantee in line with earnings growth in April 2000 to £78.45 for single pensioners and £121.95 for couples. The Government will continue to uprate the minimum income guarantee in line with average earnings throughout the remainder of this Parliament;[71]

The commitment to earnings-linked increases was continued for the 2001-2005 Parliament. The 2001 Pre Budget Report said:

> **Tackling pensioner poverty**
>
> 5.43 The Government's first priority has been to help those in greatest need. The pattern of pensioner incomes today reflects that of earners. Like earners, the richest fifth of pensioners are now three times better off than the poorest fifth. Too many pensioners have not shared in the rising prosperity of the country.
>
> **Minimum Income Guarantee**
>
> To address this growing divide, the Government has reformed Income Support for pensioners by introducing a more generous Minimum Income Guarantee (MIG). … The Government is committed to raising the MIG in line with earnings throughout this Parliament, to ensure that pensioners can share in rising prosperity.[72]

Budget 2003 – just before the introduction of Pension Credit - said:

> …the Pension Credit will replace the MIG, bringing pensioners incomes up to the guaranteed minimum entitlement. The minimum entitlement will be linked to the growth in average earnings throughout this Parliament, ensuring that more pensioners are able to share in rising national prosperity.[73]

Before the May 2005 General Election, Ministers made it clear that the earnings link for Pension Credit would be maintained at least until the end of the current spending round in 2008. In a debate on the *Social Security Benefit Uprating Order* on 22 February 2005, Alan Johnson, the then Secretary of State for Work & Pensions said:

> Both next year and in the spending round to 2008, the pension credit will rise by average earnings. By 2008, there will be 600,000 fewer pensioners in poverty than there would have been if we had followed the policy of the Conservative party and only uprated the guarantee in line with prices. The guarantee credit will rise so that no single pensioner need live on less than £109.45 a week and no couple on less than £167.05 a week. More than 3.2 million pensioners are now in receipt of pension credit, with take-up strongest among the very poorest.[74]

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[71] Cm 4479, para 5.47
[72] Cm 5318, para 5.44
[73] HM Treasury, Budget 2003, para 5.48; http://www.hm-treasury.gov.uk/bud_bud03_index.htm (retrieved 12 December 2008)
[74] HC Deb 22 February 2005, c 197; This was confirmed after the election, see HC Deb 16 March 2005, cc 265-266

In his Budget Statement on 16 March 2005 Gordon Brown said Pension Credit would rise by 13% by 2008:

> I can announce that, under the figures for the next three years published today, pension credit will—from now to 2008—rise by 13 per cent., in line with earnings.
>
> In 1997, the poorest pensioner received just £69 a week. By 2007, that will be £119 a week. All couples with incomes of less than £212 are now eligible for the pension credit. In total, the pension credit, which will continue to rise in line with earnings, will benefit 3.2 million pensioner households and, in all, 3.7 million pensioners.[75]

In its May 2006 Pensions White Paper, the Labour Government announced that it would be increasing the Guarantee Credit part of Pension Credit in line with earnings "over the long term":

> 3.60 The Government has committed to uprating the Guarantee Credit in line with earnings until 2008. We can now announce an intention to continue this uprating strategy over the long term. This will ensure that the gains we have made against pensioner poverty are secure into the future. As now, the Guarantee Credit will provide a guaranteed minimum level of income in retirement for those who have been unable to provide adequately for their own retirement. It will also provide a higher income for people with severe disabilities and other specific groups.[76]

Legislative provision for this was made in the *Pensions Act 2007* with effect from the date of Royal Assent.[77] This requires the Secretary of State to review the amount of both the Guarantee Credit to "determine whether they have kept their value in relation to the general level of earnings." Where the Secretary of State:

> considers the level of earnings has increased during the review period, he will be required to lay a draft of an up-rating order before Parliament increasing the amounts referred to in paragraph 146 above by a percentage which is not less than the relevant increase in earnings over the review period.[78]

In other words, the legislative requirement is to increase the Guarantee Credit at least in line with the increase in average earnings.

Uprating for 2008-09

In Budget 2007, the Government committed itself to specified increases in the Guarantee Credit for 2008 and 2009:

> …we will raise the pension credit guarantee from £114 a week this year, to £119, then £124, increasing to £130 a week in 2009-10 - £6,750 a year - the pension credit raised by earnings as we move towards our commitment of linking the state pension to earnings.[79]

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75 http://www.hm-treasury.gov.uk/bud_budget05_speech.htm (retrieved 11 December 2008)

76 Department for Work and Pensions, *Security in retirement: towards a new pensions system*, May 2006, Cm 6841, http://www.dwp.gov.uk/pensionsreform/pdfs/chap3.pdf (retrieved 11 December 2008)

77 Section 150A (7), *Social Security Act 1992,* as amended by the *Pensions Act 2007, s5*

78 *Pensions Act 2007*, Explanatory Notes, para 146-7

79 Budget Speech 21 March 2007

On 19 August 2008, the then Shadow Chancellor George Osborne published a document which argued that in April 2008, the Guarantee Credit was uprated at a rate which was lower than the rate of inflation actually experienced by pensioner households:

> Pensioner inflation is now considerably higher than CPI inflation because pensioners spend a much higher percentage of their income on high-inflation goods, like heating, light, and food. [80]

The Institute for Fiscal Studies published a report on "The Inflation Experience of Older Households" in October 2008. This found that there was "often considerable variation in household inflation rates within a single year or a single month." Over the whole period 1997 to 2008, average inflation for pensioners had been nearly the same as for non-pensioners:

> Over the whole period between 1997 and 2008, average inflation for pensioners (5.8 per cent) has been virtually the same as for non-pensioners (5.9 per cent), but the ranking changes frequently from year to year and differences within any one particular year can be large.[81]

However, in August 2008, average pensioner inflation was "significantly higher" (7.4 per cent) than the 5.4% rate for non-pensioner households. Increases in fuel and food prices had had a particular impact on older pensioners.[82]

Uprating for 2009-10

In 2009, the relevant factor for uprating Guarantee Credit was 3.5% (the increase in the headline rate of average earnings to July 2008). However, the Pre-Budget Report confirmed an increase to £130 a week. This was an increase of 4.8%, reflecting the forecast rate of earnings growth made at the time of the 2007 Budget.

> 5.81 The Government recognises the importance of continuing to support pensioners appropriately through the global economic downturn and of providing a safety net for the very poorest. To provide additional support for the poorest pensioner households, the standard minimum income guarantee in Pension Credit will have an above indexation increase, rising by £5.95 to £130 a week for single pensioners and by £9.10 to £198.45 a week for pensioner couples.[83]

Uprating for 2010-11

In 2010, the Standard Minimum Guarantee will increase by 2 per cent, i.e. by £2.60 a week to £132.60 for single pensioners and by £3.95 a week to £202.40 for couples.[84] The then Pensions Minister Angela Eagle said:

> For the poorest pensioners, my right hon. Friend the Chancellor also confirmed that the standard minimum guarantee in pension credit will rise from next April by £2.60 a week for single pensioners and £3.95 for couples. That means that, from April next year, no single pensioner need live on less than £132.60 a week, and no couple on less than £202.40 a week. That represents a real-terms increase of more than a third for the poorest pensioners since 1997. The above-earnings increase in the pension credit guarantee underlines the Government's ongoing commitment to tackling pensioner

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[80] Conservative Party, 'An Unfair Britain: Why Labour have failed on fairness', 19 August 2008

[81] IFS, 'The Inflation Experience of older Households', IFS Commentary No. 1-06, October 2008;

[82] Ibid; Library Standard Note SNEP/2107, 'Retail Prices Index' looks at how the RPI and the Pensioner Price Index have changed over time since 1990

[83] HM Treasury, Pre Budget Report, Cm 7484, November 2008; For rates of Guarantee Credit (and its predecessor benefits) from 1997, see SN/SG/ 4901, '2009 Benefit Uprating'.

[84] DWP Press Release, 'Continued help for the most vulnerable', 16 December 2009

> poverty, which has already ensured that there are 900,000 fewer pensioners in relative poverty today than there were in 1998-99. In fact, the Government have spent around £100 billion more on pensioners since 1997 than we would have done if we had simply allowed the policies of the previous Government to continue.[85]

7.2 Savings Credit

The May 2006 Pensions White Paper announced changes to the uprating of Savings Credit, with the intention of curtailing the spread of means-testing. The Savings Credit threshold, which had been set at the level of the basic State Pension,[86] would be increased in line with earnings from 2008. From 2015, the maximum Savings Credit would be frozen in real terms:

> 3.62 To ensure that, before implementing the earnings link of the basic State Pension, means-tested provision continues to be focused on those with small savings, we will take steps from 2008 to target the Pension Credit on this group.
>
> 3.63 We think this is reasonable because the State Second Pension has, since 2002, provided generous provision for low-paid employees. Those who earn between the National Insurance contribution Lower Earnings Limit and £12,500 a year (and those credited in) accrue a pension at a flat rate as though they were earning £12,500 a year and at twice the old SERPS accrual rate. This means low-paid employees get a more than fair return on their contributions. This must, over time, influence the design of the Savings Credit.
>
> 3.64 The Savings Credit will continue to reward people who make provision for their retirement. However, as State Second Pension matures, more and more people will have built up State Second Pension entitlement. We agree with the Pensions Commission's assessment that the starting point for calculation of the Savings Credit should be raised as this happens. From 2008 we will uprate the lower threshold of the Savings Credit by earnings. From 2015 the maximum Savings Credit will be frozen in real terms.
>
> 3.65 The impact of this, alongside our reforms to the structure and coverage of the other aspects of the State Pension and the introduction of a low-cost scheme of personal accounts, will be a considerable reduction in the numbers of people whose entitlements will be means-tested in the future. Under current uprating policies projected forward, around 70 per cent of pensioner households will be entitled to some Pension Credit by 2050. Under our reforms, that figure will be reduced to around a third. This will further help to clarify people's savings decisions and retirement planning.[87]

The objective, as stated above, is to ensure that "means-tested provision continues to be focused on those with small savings". The Pensions Policy Institute (PPI) comments that some people currently eligible for Savings Credit will receive less as a result:

> The White Paper proposes a tighter squeeze on Savings Credit than the Pensions Commission's proposal. From 2008 (at least 4 years before BSP starts to be earnings indexed) the level above which income becomes eligible for Savings Credit (currently the full BSP level) will be indexed in line with earnings. Less income will become eligible for Savings Credit than in the current system. Low-middle earners currently eligible for Savings Credit will receive less as a result. This will particularly affect older pensioners, who are less likely to have a full BSP and more likely to have low

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85 HC Deb, 10 December 2009, c518-9

86 See, for example, Work and Pensions Committee, *Pension Credit,* Second Report 2001-02, HC 638-II, Ev 100

87 Ibid

SERPS/S2P pensions; so will find less saving qualifying for Savings Credit. Some pensioners currently receiving Savings Credit will no longer be eligible when entitlement is re-calculated at the end of their assessed income period.[88]

In evidence to the Work and Pensions Committee on 7 June 2006, the then Secretary of State for Work and Pensions, John Hutton, was asked whether in people might question the fairness of this in the future. He said:

> I think it is a question for all of us to address. I have just been pressed over here by someone suggesting that we should continue to restrict the spread of means-testing, and I agree, we should. This is what it means. This is how we do it. You cannot query the means but then desire the outcomes. There is no comfort blanket here, I am afraid.[89]

In April 2009, the maximum Savings Credit increased by 3.5% (the increase in the headline rate of average earnings to July 2008). The Savings Credit threshold was increased by more than this: 5.2%. The Savings Credit threshold for a single person in 2009 is higher (£96.00) than the basic State Pension (£95.25).

Uprating for 2010-11

As explained in SN/SG 5198 *2010 Benefit Uprating*, this year the increase in average earnings (1.8%) is higher than the change in prices so the Savings Credit threshold might have been expected to increase in line with this. However, the Basic State Pension will be increased by 2.5% in April 2010. In order to preserve the differential between the Savings Credit threshold and the state pension, the same 2.5% factor has been used to increase the threshold. The Saving Credit threshold therefore rises by 2.5% from £96.00 to £98.40 pw (single) and £153.40 to £157.25 pw (couple). The maximum amounts of savings credit are set at 60% of the difference between the threshold and the standard minimum guarantee. This results in small changes in the Savings Credit maxima. From April 20010 these will rise from £20.40 to £20.52 pw (single) and £27.03 to £27.09 pw (couple)

The Savings Credits rates for 2009-10 and 2010-11 are in the table below:[90]

	2009/10 (£ per week)	**2010/11 (£ per week)**
Threshold – single	£96.00	£98.40
Threshold – couple	£153.40	£157.25
Maximum – single	£20.40	£20.52
Maximum - couple	£27.03	£27.09

88 House of Commons Work and Pensions Committee, Pension Reform, Fourth Report of Session 2005-06, HC 1068-II, Ev 406, para 8.

89 Ibid, Q 348

90 A full list of proposed social security benefit rates for 2010-11 can be found at on the DWP website or at HC Deb, 14 December 2009, c66WS.

8 Appendix - State Pension rates from 1948 onwards

The information for 1948-2004 in the following table is taken from Table 5.1 of the DWP's The Abstract of Statistics for Benefits, Contributions and Indices of Prices and Earnings, 2004 edition.[91]

Date	**Single Basic State Pension £pw**	**Increase over previous rate %**	**Change in RPI between upratings %**
July 1948	1.30	-	-
September 1951	1.50	15.4	18.4
September 1952	1.625	8.3	6.7
April 1955	2.00	23.1	7.5
January 1958	2.50	25.0	13.0
April 1961	2.875	15.0	4.8
May 1963	3.375	17.4	7.8
March 1965	4.00	18.5	5.8
October 1967	4.50	12.5	8.9
November 1969	5.00	11.1	11.5
September 1971	6.00	20.0	16.5
October 1972	6.75	12.5	8.5
October 1973	7.75	14.8	9.9
July 1974	10.00	29.0	13.5
April 1975	11.60	16.0	17.7
November 1975	13.30	14.7	11.7
November 1976	15.30	15.0	15.0
November 1977	17.50	14.4	13.0
November 1978	19.50	11.4	8.1
November 1979	23.30	19.5	17.4
November 1980	27.15	16.5	15.3
November 1981	29.60	9.0	12.0
November 1982	32.85	11.0	6.3
November 1983	34.05	3.7	4.8
November 1984	35.80	5.1	4.9
November 1985	38.30	7.0	5.5
July 1986	38.70	1.0	1.7
April 1987	39.50	2.1	4.4
April 1988	41.15	4.2	3.9
April 1989	43.60	6.0	8.0
April 1990	46.90	7.6	9.4
April 1991	52.00	10.9	6.4
April 1992	54.15	4.1	4.3
April 1993	56.10	3.6	1.3
April 1994	57.60	2.7	2.6
April 1995	58.85	2.2	3.3
April 1996	61.15	3.9	2.4
April 1997	62.45	2.1	2.4
April 1998	64.70	3.6	4.0
April 1999	66.75	3.2	1.6
April 2000	67.50	1.1	3.0

91 http://www.dwp.gov.uk/asd/asd1/abstract/Abstract2004.pdf (retrieved 28 August 2008)

April 2001	72.50	7.4	1.8
April 2002	75.50	4.1	1.5
April 2003	77.45	2.6	3.1
April 2004	79.60	2.8	2.5
April 2005	82.05	3.1	3.2
April 2006	84.25	2.7	2.6
April 2007	87.30	3.6	4.5
April 2008	90.70	3.9	4.2
April 2009	95.25	5.0	-1.2
April 2010	97.65	2.5	5.3