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The new State Pension - background

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Summary

The new State Pension (nSP) was introduced on 6 April 2016 for people reaching State Pension age from that date. People who had already reached State Pension age continue to be entitled to a State Pension under the old rules (*Pensions Act 2014,* s1).

The old State Pension had two tiers:

- the basic State Pension, which is paid at a flat-rate (£119.30pw in 2016/17) for those with at least 30 'qualifying years' - of National Insurance (NI) contributions or credits); and
- the additional State Pension (aSP), which is partly earnings-related. It was provided through the State Earnings-Related Pension Scheme (SERPS) between 1978 and 2002 and, from 2002 through the State Second Pension (S2P). It was possible to contract-out of the aSP into an occupational or personal pension which met set requirements. An individual who was contracted-out paid a lower rate of NI in recognition of the fact that they were foregoing aSP rights for that period.

The nSP is single tier. It is set just above the basic level of means-tested support - £155.65pw in 2016/17.

Thirty-five 'qualifying years' are needed for the full amount. Those with fewer than 35 qualifying years receive a pro-rated amount, subject to them having at least ten qualifying years. The Government intended that individuals should qualify on the basis of their own contribution record, so the special rules allowing people to derive or inherit State Pension entitlement on the basis of the contribution record of a (former) spouse or civil partner ended, with some transitional protection.

Because the nSP is single-tier, there is no option to contract-out of it. This means that from April 2016, employees who were previously contracted-out start to pay the same rate of NI and build up State Pension rights on the same basis as other employees.

There are transitional arrangements to deal with past contribution records – for example, people who had already built up more than the full amount of the nSP in April 2016 and people who had been contracted-out during working life.

This notes looks at the implementation of the nSP, the transitional arrangements for dealing and the discussion of gainers and losers.

Information about the new State Pension is on Gov.UK and in DWP leaflet Your State Pension explained (April 2016).

This note looks at the development of the proposals for a single-tier State Pension. A separate Briefing Paper - CBP-07414 The new State Pension – transitional questions (August 2014) focuses on how the reforms affect individuals in transition. The reform background is discussed in more detail in SN 5787 State Pension reform - 2012 (January 2013). The timetable for increases in the State Pension age is discussed in Library Briefing Paper SN-06546 (March 2016).

1. Background

1.1 Overview of the State Pension system

The old UK state pension has two tiers.

The **first tier** is provided by the State and consists of the basic State Pension (bSP) which is a contributory, flat-rate benefit. People with a full record of National Insurance Contributions (NICs) qualify for the bSP when they reach State Pension age (SPA). The level of a full bSP in 2016/17 is £119.30 pw. The number of qualifying years needed for a full basic State Pension was 30 for people reaching SPA on or after 6 April 2010.[1]

Pensioners with relatively low incomes may also qualify for means-tested support through the Pension Credit. This has two elements. The Guarantee Credit tops up weekly income to a "standard minimum guarantee" (£155.60 for a single person and £237.55 for a couple in 2016/17). Additional amounts are payable in respect of severe disability, certain caring responsibilities and housing costs. The qualifying age is linked to the SPA for women. The Savings Credit may provide an additional amount (up to £13.07pw in 2016/17) for those aged 65 or over who have made some provision for their retirement.

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

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

SERPS and S2P derive from contributions on earnings between lower and upper earnings limits. Entitlement can continue to build up throughout working life.[3] Under legislation already in place, the additional State Pension is becoming less earning-related and more flat-rate over time.[4]

From the time of its introduction in 1978 it was possible to "contract out" of the additional State Pension into a private pension scheme that met certain requirements. Where an individual was contracted-out into a salary-related scheme, they and their employer pay lower NICs, reduced by the amount of the "contracted-out rebate."[5]

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1 *Pensions Act 2007*, s1
2 Between 1961 and 1978, earnings related provision was provided through Graduated Retirement Benefit
3 For more detail, see HC Library Briefing Paper SN0255 State Second Pension
4 *Pensions Act 2007,* sections 10-12
5 For more detail, see SN 4822 Contracting-out of the State Second Pension

The detailed rules changed over time but the basic idea was that an individual could only be contracted-out if they were building up another pension that was at least as good as the S2P they would have received from the State. The idea is that some of their private employer pension would replace the S2P they would have built up if they were paying the full rate of National Insurance.[6]

When the individual who had been contracted-out reached SPA, a deduction was made from the addition State Pension they would have earned had they remained contracted-in. A DWP blog post explained how this worked

> **If you never contracted out**
>
> […] the most straightforward would be if you have never contracted out. Then we can calculate your total State Pension by just adding up all the parts that you have built up in the old system.
>
> **Never contracted-out**
>
> State Pension = **BSP + Grad + SERPS + S2P**
>
> **If you were always contracted out**
>
> If you have always been contracted out of the State Pension since contracting-out first started in 1978, then you would not have built up any SERPS. You may have a little bit of S2P top-up (see blog 2 which explains this). So your State Pension could consist of:
>
> **So if you have always been contracted-out:**
>
> State Pension = **BSP + Grad + S2P top up**
>
> **If you have been contracted out only some of the years, but not all years**
>
> If you have been contracted out of some of the Additional State Pension in the past, but not in every year, then calculating your State Pension is more complicated. This blog helps explain how we take account of contracting out, when working out your National Insurance State Pension. Don't forget that you could only contract out of the Additional State Pension, and not the basic State Pension.

The option to contract-out into a defined contribution scheme was removed from 6 April 2012 and from then until April 2016 it was only possible to contract-out into a defined benefit pension scheme.[7]

1.2 The Labour Government's reforms 1997-2010

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

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

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

- The replacement of the State Earnings Related Pension Scheme (SERPS) with the State Second Pension (S2P) in April 2002, with the aim of boosting the pension entitlements of "those on low incomes and carers" and to help moderate earners build up better second pensions.[8]
- The introduction of Pension Credit in October 2003 with the dual aim of tackling pensioner poverty (through the Guarantee Credit element) and boosting the incentive for future pensioners to save for their own retirement (through the Savings Credit element).[9]

The Pensions Commission, chaired by Lord Turner of Ecchinswell, was established in December 2002 in response to growing concerns that people were not saving enough for their retirement and that measures taken to encourage private sector provision were not succeeding.[10] The Commission's second report, published at the end of 2005 recommended two key elements of reform. To encourage and support private pension saving, it recommended:

> The creation of a low cost, national funded pension savings scheme into which individuals will be automatically enrolled, but with the right to opt out, with a modest level of compulsory matching employer contributions, and delivering the opportunity to save for a pension at a low Annual Management Charge.[11]

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

> Reforms to make the state system less means-tested and closer to universal than it would be if current indexation arrangements were continued indefinitely. In order to achieve this while maintaining the standard of living of the poorest pensioners it will need to be more generous on average. In the long-term this implies some mix of both an increase in taxes devoted to pensions expenditure and an increase in State Pension Ages.[12]

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

- A reduction in the **number of qualifying years** (i.e. years with sufficient national insurance contributions paid or credited) required to achieve a full basic state pension from 44 (for men) and 39 (for women) to 30, for people reaching State Pension age from 6 April 2010.
- **Home Responsibilities Protection** (HRP) would be converted from a system which reduces the number of qualifying years required to a system of positive credits for each week of relevant

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

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

10 Pensions Commission, Pensions: Challenges and Choices: The First Report of the Pensions Commission, October 2004, pix

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

12 Ibid, p6

responsibilities. There would be credits for each week of receipt of Child Benefit for a child up to the age of 12 for both BSP and the State Second Pension (S2P) (rather than 16 for HRP and 6 for S2P). It would be possible to **combine** periods with earnings (and, therefore, paid contributions) and periods with credits (e.g. for caring responsibilities) to make up a qualifying year for S2P purposes.

- A new specific **credit for carers** would be introduced for people caring for a severely disabled person for 20 hours or more a week.
- The "25 per cent de minimis rule" and the requirement for **one year's paid contributions** would be removed. People reaching SPA before 6 April 2010 had to satisfy two contribution conditions to get any basic state pension at all. They must actually have paid (as opposed to have been credited with) contributions for one qualifying year. Secondly they must have at least 25% of the number of qualifying years required for a full pension.

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

> 2.3 Currently around 35 per cent of women reaching State Pension age in Great Britain are entitled to a full basic State Pension, compared with around 85 per cent of men. Around 50 per cent of women reaching State Pension age in 2010 would have been entitled to a full basic State Pension without reform.
>
> 2.4 Women's State Pension coverage will improve significantly as a result of reform. Women will increasingly build up individual State Pension entitlement based on their own contributions regardless of their marital or partnership status, with caring contributions valued equally with paid contributions. Under reform an estimated three-quarters of women reaching State Pension age in 2010 will be entitled to a full basic State Pension. By 2025, this will rise to around 90 per cent, the same proportion as men, and as a result of reform half a million extra women pensioners over State Pension age will be entitled to a full Basic State Pension.[13]

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

> 3.24 During the next Parliament, therefore, we will re-link the uprating of the basic State Pension to average earnings. Our objective, subject to affordability and the fiscal position, is to do this in 2012, but in any event at the latest by the end of the next Parliament. We will make a statement on the precise date at the beginning of the next Parliament.[14]

To help pay for this, legislation was passed to increase the State Pension in stages – from 65 to 68 over the period April 2024 to April 2046.[15]

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

> […]The introduction of the new personal accounts scheme will mean that for the first time everyone will have access to a

[13] DWP, Gender Impact Assessment of Pension Reform, 5 December 2007
[14] DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006, para 3.34
[15] Cm 6841, para 3.34; *Pensions Act 2007*, section 13

> genuinely low-cost private savings vehicle. We do not want the State Second Pension to duplicate this, which is why we are able to reinforce and speed up its change in focus to a flat-rate top-up benefit for years spent working, caring or parenting.
>
> 3.48 Accruals will start to become flat rate more quickly at the same time as we start to uprate the basic State Pension by earnings. We estimate that the State Second Pension will become completely flat rate in around 2030, or shortly afterwards.[16]

For more on the background, see Library Standard Note SN 5787 State Pension reform – background (January 2013) and IFS, History of state pensions in the UK from 1948 to 2010 (June 2010).

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

2. The Coalition Government's consultation

2.1 2011 Green Paper

On 16 November 2010, the then Pensions Minister, Steve Webb, confirmed that the Government was considering a number of options for simplifying the state pension system but that final decisions had not yet been made.[17] In Budget 2011, the Government said it would look to reform the state pension for future pensioners so that it provided "simple, contributory, flat-rate support above the level of the means-tested Guarantee Credit."[18]

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

- **The complexity and uncertainty of outcomes in the state pension** – makes it difficult for people to know what they will get when they retire, meaning it is more difficult to plan and save for retirement.
- **High levels of means testing** – can deter people from saving as the incentives are not sufficiently clear and too many pensioners are forced to rely on Pension Credit to top up their income. Around a third of pensioners do not claim the Pension Credit they are entitled to.
- **Significant inequality remains in the system** – groups such as women, the low paid and the self-employed tend to have lower state pensions.[19]

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

> 40. In an attempt to simplify the state pension and give people greater clarity over what they will get when they retire, the *Pensions Act 2007* legislated to remove the earnings-related component of the State Second Pension so that the state pension will evolve into two separate flat-rate components by the 2030s.
>
> 41. One of the reasons for this change was that a flat-rate pension, in contrast to the complexity of the partly earnings-related State Second Pension we have today, would make the state pension more transparent and make it easier for people to work out what they will get from the state when they retire.
>
> 42. However, it takes time for the greater simplicity and clarity provided by a flat-rate pension to come into effect – the first person will not retire with a completely flat-rate pension until the 2080s.[20]

[17] HC Deb, 16 November 2010, c713W
[18] HM Treasury, Budget 2011, HC836, March 2011
[19] Ibid, p13
[20] Ibid, p18

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

> 55. The comparatively poorer state pension outcomes for women can be seen to result from the fact that, historically, women have tended to have lower earnings and were less likely to have a sufficient number of qualifying years to get a full basic State Pension. They were also less likely to be entitled to a comparable level of additional State Pension because periods spent outside the labour market caring for children were not recognised in the additional State Pension until 2002.
>
> 56. As part of the *Pensions Act 2007*, reforms were taken forward in an attempt to reduce inequalities for women in the state pensions system. Key measures included reducing to 30 the number of years needed to qualify for a full basic State Pension and introducing more generous credits for carers to ensure more people, particularly women, could become entitled to a higher level of State Second Pension.
>
> 57. However, it will take time for these measures to translate into improved pension entitlement. The proportion of women qualifying for a full basic State Pension will not catch up with men until around 2020. It will take a further 30 years, until 2050, before women reach comparable outcomes with men in the State Second Pension.[21]

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

> 52. Currently, just under half of pensioners (45 per cent) are eligible for Pension Credit to top up their state pension. This is projected to fall to around a third by 2050 as more pensioners qualify for a full state pension in their own right and benefit from a more generous uprating of the basic State Pension. While reliance on Pension Credit is projected to fall gradually the Government is concerned that, in light of the challenges facing current generations of savers outlined earlier, it does not fall fast or far enough.
>
> 53. It is also worth noting that Pension Credit is not claimed by around a third of pensioners who are entitled to it, a proportion which has proved fairly resilient despite efforts by successive governments to encourage pensioners to take up their entitlement. In 2008/09 between £1.6 billion and £2.9 billion Pension Credit was unclaimed by pensioners, with those who do not claim missing out on an average of around £34 a week.[22]

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

> Option 1: acceleration of existing reforms so that the state pension evolves into a two-tier flat-rate structure more quickly; or
>
> Option 2: more radical reform to a single-tier flat-rate pension set above the level of the Pension Credit standard minimum guarantee.[23]

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

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

Under legislation already in place, the earnings-related part of the S2P is set to be phased out in the early 2030s.[24] Under Option 1, this process would be speeded up so that S2P became flat-rate more quickly:

> 67. The transition to a flat-rate State Second Pension could be speeded up by phasing out the earnings-related component of the State Second Pension more quickly – by 2020 instead of the mid-2030s. Currently, people can build up earnings-related State Second Pension on earnings between around £14,000 and £40,000. Under current legislation this band is being reduced gradually. Under option 1, the upper band of £40,000 would be brought down to £14,000 over seven years. At the end of this period, people would only build up the flat-rate amount of £1.60 for each qualifying year.[25]

The qualifying criteria for both parts of the State Pension would remain broadly the same and the method of uprating would continue as now. The Government's initial view was that under this option, the Savings Credit would need to be retained for future pensioners. It considered that although this option would give people a clearer indication of what they would receive, it would be "relatively slow to deliver improved state pension entitlement".[26]

Option 2 - A single-tier state pension

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

> Everyone with 30 years of contributions or credits reaching State Pension age would receive a weekly flat-rate payment currently estimated at around £140, which would be above the Pension Credit standard minimum guarantee.
>
> Everyone would qualify individually – whether single, married, divorced or widowed and no special rules for marriage, bereavement or divorce.
>
> For self-employed as well as employees (subject to National Insurance considerations).
>
> Uprated by the higher of earnings, prices or 2.5 per cent.
>
> Minimum qualification of seven years of National Insurance contributions or credits.
>
> The following components of the existing system would end for future pensioners:
>
> The State Second Pension, and with it the ability to contract out of the State Second Pension.
>
> Savings Credit, as most people could expect to retire on a state pension that lifted them clear of the Pension Credit standard minimum income guarantee.[27]

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[24] *Pensions Act 2007*, sections 10-12
[25] DWP, A state pension for the 21st century, Cm 8053, April 2011, p26
[26] Ibid, p28
[27] Ibid, p30

The future of Pension Credit

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

> 103. Whatever the shape of the state pension, the Government recognises that there will always need to be a safety net benefit to help those pensioners who do not have sufficient resources to meet their basic needs in retirement.
>
> 104. Pension Credit currently fulfils this support for pensioners' basic needs, and will continue to support today's pensioners who have insufficient resources for their basic needs in retirement.[28]

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

> 111. As Chapter 2 outlined, there are two potential options for reform of state pension. Under Option 1 Savings Credit would be retained. Option 2 on the other hand would see the abolition of Savings Credit for future pensioners as the vast majority of future pensioners would have a single-tier pension which lifted them above the basic level of support provided by Pension Credit.
>
> 112. Pension Credit is an effective safety net in helping to keep today's pensioners out of poverty. However, we are interested in views as to whether a continuation of the current system of Pension Credit for future pensioners would help achieve the Government's principles of a state pensions system that is simple, fair, promotes personal responsibility, and is affordable and sustainable. Any reforms would need to [be] delivered without increasing public spending in any year.[29]

Who would the reform apply to?

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

> Both options are for future pensioners; pensioners who have already reached state pension age by the date of reform would not be affected, so no existing recipient of state pension would see their income reduced.[30]

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

> The first option involves bringing forward existing reforms so that the state pension would evolve into a two-tier, flat rate system more quickly. The second, more radical, option is to move to a single-tier state pension. Both options are for future pensioners; pensioners who have already reached state pension age by the date of reform would not be affected, so no existing recipient of state pension would see their income reduced. For future pensioners, we would also continue to honour the contributions that people have built up to the date of reform.[31]

The Green Paper said one of the main issues to address in the transition to a single-tier would be "recognising people's pension records under

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28 Ibid
29 Ibid
30 HC Deb, 4 April 2011, c795 ff
31 Ibid

the existing system in a way that is fair, but facilitates transition to the new system as quickly as possible":

> This could be achieved by calculating pension records under the existing system and then, during transition to the new system, recognising amounts in excess of the currently estimated single-tier pension of £140. This would mean people with higher amounts of additional State Pension before the introduction of single tier would receive correspondingly higher weekly payments than the current estimate of £140.[32]

Under the single-tier option, from the date of change, S2P would be closed and no new rights to it would be built up. Contracting-out would also end and, with it, the related National Insurance (NI) rebates. The Green Paper explained that this would mean "sponsors and members of Defined Benefit schemes contracted out of the state second pension would face an increase in National Insurance contributions, so that they would pay the same rate of National Insurance as other employers and employees."[33] They would also start to accrue entitlement to the State Pension on the same basis as other people.

The Green Paper noted that under the single-tier option, people who had been contracted-out would "receive their single-tier pension from a combination of their state and contracted-out scheme, as happens now."[34] In other words, their single-tier would be reduced to reflect the fact that, while contracted-out, they paid a lower rate of National Insurance (NI).[35] Calculating entitlement to the new pension taking account of periods spent contracted out of the State Second pension in a way that was "fair but facilitates transition to the new system as quickly as possible" would be one of the main issues to address in managing the transition to a single-tier.[36]

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

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

[32] DWP, A state pension for the 21st century, Cm 8053, April 2011, chapter 2, para 95
[33] Ibid, para 79
[34] Ibid
[35] Ibid
[36] Ibid, para 95

> country or who have had very little contact with the National Insurance system.[37]

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

> This would result in significantly higher state pensions for many, but would also lead to some accruing lower state pension. The biggest gainers would be those who under the current system would not receive the Pension Credit and would also receive a lower State Pension than the proposed new flat-rate amount. This includes those who would not take up their Pension Credit entitlement, and those not eligible on grounds of their partner's income. The losers would be those with relatively high lifetime earnings who would have otherwise gone on to accrue state pension rights above £140 per week.[38]

Cost

One of the Government's principles for pension reform was it should be affordable: "any options for reform must be cost neutral in each and every year to avoid placing an unsustainable burden on future taxpayers."[39] As regards its proposal for a single-tier pension:

> Our assessment indicates that a state pension currently estimated at around £140 would be cost neutral. The model set out here could be funded within the overall spending on state pensions. This would be achieved through the abolition of the Savings Credit, closure of the State Second Pension and the introduction of a seven year minimum qualifying rule for future pensioners. The revenue from ending contracting out (the National Insurance rebate) has been excluded from this assessment of costs. Final proposals are subject to confirmation, including on affordability, and will reflect the projections set out in the Office for Budget Responsibility's forthcoming Fiscal Sustainability Report.[40]

In its initial response to the Green Paper, the Institute for Fiscal Studies was sceptical that gains from stopping future accruals to the State Second Pension would be sufficient to finance significant winners in the near future.[41] However, the Pensions Policy Institute, based on an analysis of the Government's Green Paper proposals, said:

> The reform would be broadly cost neutral to introduce, depending on exactly how the system is implemented. PPI estimates suggest the single-tier would be broadly cost neutral, costing less than the current system by less than 0.1% between 2019 and around 2050, and costing more than the current system by about 0.1% by 2055.[42]

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[37] Ibid para 92-96
[38] IFS Observations, A simple flat-rate pension, but not any time soon, 6 April 2011
[39] DWP, A state pension for the 21st century, Cm 8053, April 2011, p8
[40] Ibid, chapter 2, para 90. See also, HC Deb, 4 April 2011, c805
[41] IFS Observations, A simple flat-rate pension, but not any time soon, 6 April 2011
[42] PPI, An assessment of the Government's options for state pension reform, (June 2011)

Responses to the consultation

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

> The responses show that there is broad support for reform of the state pension system, and in particular for the idea of a single tier pension. But they also highlight how many more details there are to think about and work through before any firm decision is taken on whether to pursue reform.
>
> This summary of responses outlines the many comments from organisations and individuals who responded to our request for views. It is not intended to be a Government response to the consultation in that it does not set out what we will do next. We need to think carefully about the issues raised during this consultation before making any decisions.[43]

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

> There was widespread consensus among organisations who responded, regardless of their preferred option, that the current state pension system should be reformed, largely because of its complexity.
>
> The consultation indicated broad support for the single tier option, with around three quarters of organisations who responded supporting a single tier pension in principle.
>
> There was little support for the faster flat rating option. Around half of organisations who responded said they would not support it, mainly because it did not end the complexities of the current system. Only two said that given a choice between faster flat rating and single tier they would choose faster flat rating. Their reasons were potential increases in National Insurance contributions for the self-employed, and the belief that retaining a two tier system would allow greater policy flexibility in the future. A small number of organisations did not support either option but instead said that they would prefer the continuation of the current system.
>
> Respondents identified a number of specific issues about the proposed reforms that they felt required further assessment.[44]

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

> The majority of the approximately 1,600 responses received from members of the public expressed strong disappointment that the proposals for reform would only apply to future pensioners. The great majority of these responses were from people who were pensioners themselves.[45]

Questions were also raised about the treatment of those who had already accrued rights in excess of the single-tier amount.[46]

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[43] DWP, A state pension for the 21st century: A summary of responses to the public consultation, CM 8131, July 2011

[44] Ibid, Executive summary

[45] DWP, A state pension for the 21st century: A summary of responses to the public consultation, CM 8131, July 2011, Executive summary; See also PPI, The implications of Government policy for future levels of pensioner poverty, July 2011, Executive summary

[46] See also, HC Deb, 25 June 2012, c4

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

> A number of organisations indicated that if ending contracting out for Defined Benefit schemes was to be an inevitable part of simplification of the state pension system, there were a number of ways the Government could help employers, employees and schemes to make the transition to a new system. Trades unions who responded expressed concern that ending contracting out would trigger the closure of Defined Benefit schemes. They were also concerned about the potential increases in National Insurance contributions for employees.[47]

Respondents also commented that there would be a "long and complex transition to a new system" and that communication to individuals would be a major challenge.[48]

2.2 2013 White Paper

In the March 2012 Budget, the Chancellor announced that that the Government would reform the State Pension into a single tier.[49] On 12 July 2012 the Pensions Minister announced that further detail would be set out in a White Paper.[50] The White Paper was published on 14 January 2013. The Government announced that it intended to introduce a single-tier state pension for future pensioners (i.e. people reaching State Pension age after the date of implementation):

> 14. The single-tier pension will:
>
> • be set above the basic level of means-tested support (the Pension Credit Standard Minimum Guarantee, currently £142.70 per week for a single pensioner). The current legislative requirement to increase the basic State Pension at least in line with average growth in earnings will also apply to the single-tier pension. For illustrative purposes, this document assumes uprating of the single-tier pension by the triple lock, in line with coalition policy for uprating the basic State Pension;
>
> • replace the State Second Pension, contracting out and outdated additions, such as the Category D pension and the Age Addition. The Savings Credit element of Pension Credit will also close to pensioners reaching State Pension age after the implementation of the single-tier pension;
>
> • require 35 qualifying years of National Insurance contributions (NICs) or credits for the full amount. There will also be a minimum qualifying period of between seven and ten qualifying years (modelled as ten throughout this document). Those with fewer than 35 qualifying years but above the minimum qualifying period will receive a proportionally smaller single-tier amount;

[47] DWP, A state pension for the 21st century: A summary of responses to the public consultation, CM 8131, July 2011, Executive summary
[48] Ibid
[49] NAPF press release, 12 March 2012
[50] HC Deb, 12 July 2012, c65-6WS

> • be based on individual qualification, without the facility to inherit or derive rights to the state pension from a spouse or civil partner; and
>
> • continue to allow people to defer claiming their state pension and receive a higher weekly state pension in return. The deferral rate will be finalised closer to the planned implementation date. It will no longer be possible to receive deferred state pension as a lump-sum payment.
>
> 15. Additional transitional arrangements will protect the position of those who have a pre-implementation National Insurance contribution record and are described below. [51]

Annex 3 of the White Paper went into more detail.

Initial responses

Responding to the publication of the White Paper, the then Shadow Pensions Minister, Gregg McClymont, said the Opposition welcomed the "principle of a simplified state pension", although he raised a number of specific issues, including the fact that existing pensioners would not qualify (and in particular a cohort of women who would not qualify although a man born on the same date would); the Government's plans regarding the extra revenue to the Exchequer that would result from the abolition of contracting-out; and the decision to require 35 qualifying years for the full amount rather than 30.[52]

The White Paper was welcomed by the National Association of Pension Funds (now the Pension and Lifetime Savings Association), which said a single-tier pension would offer "an easily-understood foundation" on which people could plan their retirement.[53] The proposal to allow employers to offset the increase in their NI payments (consequent on the abolition of contracting-out) was welcomed by the CBI.[54]

The IFS said that overall, the proposals looked like they would bring about a "welcome simplification". However, there would be "a fairly complex pattern of winners and losers from the reform in the short-term" and the main effect in the long run would be "to reduce pensions for the vast majority of people, while increasing rights for some particular groups (most notably the self-employed)".[55]

The National Pensioners' Convention opposed the proposals, arguing that they were "far from radical enough to tackle the serious problem of pensioner poverty and hardship facing millions of both current and future pensioners."[56]

[51] DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528)
[52] HC Deb, 14 January 2013, c608
[53] NAPF press release, 'State pension revamp sets strong foundation for the future' 14 January 2013
[54] CBI Press release, 'CBI: consultation plans crucial to protecting final salary schemes and jobs', 18 January 2013; See also, 'CBI – state pension reforms will bring 'clarity and certainty' to retirement saving', 14 January 2013
[55] IFS Observations, Welcome simplification of state pension but younger generations lose, 14 January 2013
[56] The State Pension White Paper, National Pensioners Convention Briefing, January 2013

3. Legislation

The Government published its draft Pensions Bill on 18 January 2013, including proposed reforms to the State Pension (the single-tier pension).[57] The Work and Pensions Select Committee conducted pre-legislative scrutiny of the single-tier elements in the draft Bill.[58] It supported the principle of the single-tier State Pension but stressed the importance of effective communications.[59] The Government's response to the Committee's report, published on 10 May 2013, included a summary of the changes compared to the draft Bill published in January.[60]

The *Pensions Bill 2013-14* was introduced in the House of Commons on 9 May 2013. The Bill completed its Public Bill Committee stage on 11 July 2013. Part 1 of the Bill (State Pension) was debated over four sessions:

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

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

- Those women born between April 1951 and 1953 who will not be eligible for the single-tier State Pension, although a man born on the same date may be (see Library Note SN 6620);
- The requirement to have 35 qualifying years for a full State Pension (see below); and
- The abolition of the right to derive entitlement to the State Pension on the basis of the contributions of a (former) spouse or civil partner (see page 45 below).[61]

The Bill had its Report Stage and Third Reading in the House of Commons on 29 October 2013.[62]

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

57 Gov.UK, Draft Pensions Bill
58 Work and Pensions Select Committee press release, 22 January 2012, 'Committee to examine the Government's State Pension reform plans'
59 Work and Pensions Committee press release, MPs publish report on State Pension reforms, 4 April 2013
60 DWP, Government response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013
61 See Public Bill Committee Proceedings 11 July 2013 (eleventh and twelfth sittings)- votes on New clauses 1-3.
62 HC Deb 29 October 2013 c776 - 872

- Provide for a new class of Voluntary National Insurance contributions (class 3A) to enable people reaching State Pension age before 6 April 2016 to increase their entitlement to the additional State Pension;[63]
- Increase entitlement to NI credits for spouses and civil partners accompanying Service personnel abroad;[64]
- Exclude schemes with 'protected persons' regulations from the application of the 'statutory over-ride'.[65]

One backbench amendment, opposed by the Government, was made to the Bill at Report Stage. This was in the name of Labour Peer, Baroness Hollis of Heigham. Its purpose was to enable regulations to be made providing for circumstances in which a person may opt to have a year treated as a 'qualifying year' for the purposes of the single-tier pension if, by aggregating income from two or more jobs, their earnings exceeded the earnings factor for that year. The House of Commons rejected the amendment on 17 March 2014. The then Pensions Minister, Steve Webb thanked her for raising the issue but thought a stronger evidence base was needed before deciding how to proceed. He set out plans to take this work forward.[66]

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

The majority of the provisions for the new state pension are in Part 1 of the Act, with details in regulations – such as the *State Pension Regulations 2015 (SI 2015/173):*

> • specify the minimum number of years of National Insurance contributions or credits a person will need to qualify for any new state pension *[see section 6.2 below]*;
>
> • specify the rate at which a person who defers claiming their new state pension will accrue an increase to their new state pension when they finally claim it *[see section 6.4 below];*
>
> • provide that the new state pension will not be payable to prisoners, except in certain circumstances *[see section 6.8 below];*
>
> • make transitional provisions enabling a person in the new state pension scheme to inherit a deferral payment where their deceased spouse or civil partner had deferred an old state pension; and
>
> • amend regulations relating to the sharing of state scheme rights following divorce or dissolution of a civil partnership, as a consequence of new arrangements for state pension sharing.[67]

Further SIs to be published around the end of 2015 will provide for the starting rate of the new pension, among other things.[68]

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63 HL Deb 13 January 2014 c12GC
64 HL Deb 24 February 2014 c772
65 HL Deb 24 February 2014 c805
66 HC Deb 17 March 2014 c566
67 Explanatory Memorandum to the State Pension Regulations 2015 SI 2015 No 173
68 Ibid para 4.2

4. Expected impact

4.1 Exchequer

One of the requirements of reform, as set out in the April 2011 Green Paper was that any option for reform "must be cost neutral in each and every year to avoid placing an unsustainable burden on future taxpayers."[69]

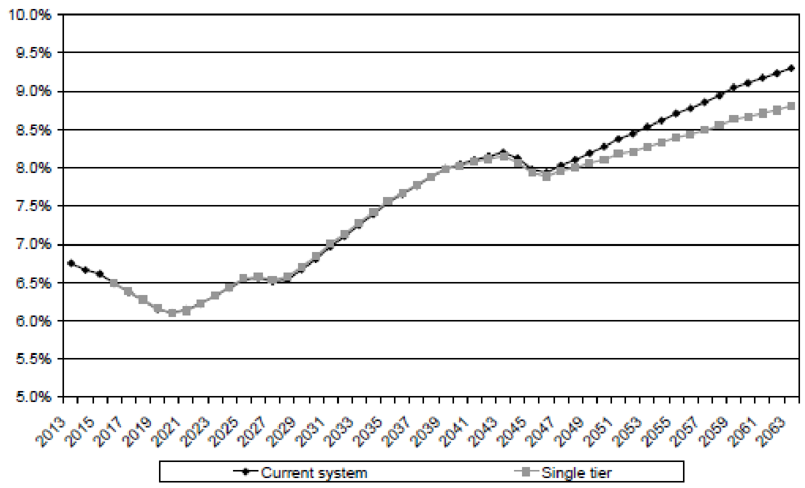
DWP's Impact Assessment shows that:

> Expenditure on pensioner benefits is projected to be broadly the same under the new system (within 1% of total expenditure, and within 0.1% of GDP) until the 2040s. Over the longer term expenditure growth is slower and by the early 2060s expenditure is projected to be lower by 0.5% of GDP compared to running the current system forward over the long term.[70]

The Impact Assessment for the Pensions Bill showed that the single-tier was expected to result in a reduction in the overall expenditure on pensioner benefits from the state in the longer term compared to the situation if the current system continued:[71]

> Figure 13 below shows projected expenditure on pensions and pensioner benefits under the current and reformed systems as a proportion of GDP. Projected expenditure is broadly the same as under the current system until the 2040s, after which the reformed system is projected to spend less. By the early 2060s projected growth in pensions spending is reduced by around 0.5% of GDP […]

Figure 13: Overall expenditure on pensions and pensioner benefits under current system and new system as a proportion of GDP



[69] DWP, A State Pension for the 21st century, Cm 8053, April 2011, Exec Summ, p8
[70] DWP, Updated impact of the single-tier pension reforms, July 2014
[71] DWP, Updated impact of the single-tier pension reforms, July 2014. The figures are different to those in the OBR's Fiscal Sustainability Report in that they do not include expenditure in Northern Ireland, do not include the effect of changes to the State Pension age resulting from the *Pensions Act 2014* review mechanism and has different assumptions on uprating of disability benefits and Winter Fuel Payments (p18).

In addition, the abolition of contracting-out (see section 6.8 below) would result in an increase in National Insurance (NI) revenue to the Exchequer:[72]

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

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

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

Source: DWP analysis

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

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

> These reforms will cost the Exchequer £1 billion a year by the end of the next Parliament. With the agreement of the Chancellor, these will be met in part by freezing the inheritance tax threshold at £325,000 for a further three years from 2015-16. **The Chancellor and the Chief Secretary have agreed that the remaining costs over the course of the next Parliament will be met from public and private sector employer national insurance contributions revenue associated with the end of contracting out as part of the introduction of the single-tier pension.**[73]

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

> 5.4 There may be a longer term impact related to higher employer NICs costs in the public sector. It is right that public sector employers are not able to make changes to public service pension schemes to offset this cost. However, we are concerned that increased National Insurance costs for employers will have a

[72] DWP, Single-tier impact assessment, October 2013

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

> detrimental impact on public services, and jobs and pay in the public sector. The government claims that that the reforms are fiscally neutral, but the exclusion of increased National Insurance revenue from this calculation means that STSP constitutes a significant saving to the Exchequer. We are concerned that, despite the government's explanation that the treatment of this revenue will be determined in the next parliament, a portion of it has already been allocated to fund changes to social care finance. The additional projected revenue should be available to fund the STSP and, in particular, to mitigate adverse consequences for public services.[74]

The Work and Pensions Committee asked the Government to publish an analysis of "the level at which the single-tier pension could be funded if the additional NI revenue was used for this purpose." However, the Government responded that "the additional NI revenue would not be recycled within the State Pension system, but will contribute to other reforms such as the cap on social care costs and the Employment Allowance, as announced in the Budget 2013."[75]

4.2 Pension incomes

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

> 87. The main reason that notional outcomes for women improve more quickly in the early years is that the single-tier valuation benefits lower paid and part time workers, who are predominantly women. In 2016, around 40% of women reaching State Pension age would get a notionally higher state pension as a result of the single-tier valuation, with around 1 in 6 men also benefiting from this element of the reform. This mechanism results in the gap between average pension outcomes for men and women closing more quickly for early cohorts.[76]

The Government expected the reforms to bring forward by a decade to the 2040s, the point at which state pension outcomes for women equalise with those for men:

> Around 650,000 women reaching State Pension age in the first ten years will receive an average of £8pw (in 2014/15 earnings terms) more due to the new State Pension valuation of their National Insurance record. [77]

The proportion of gainers and losers will change over time:

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

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

[76] DWP, Updated impact of the single-tier pension reforms, July 2014; DWP, Single-tier impact assessment, October 2013

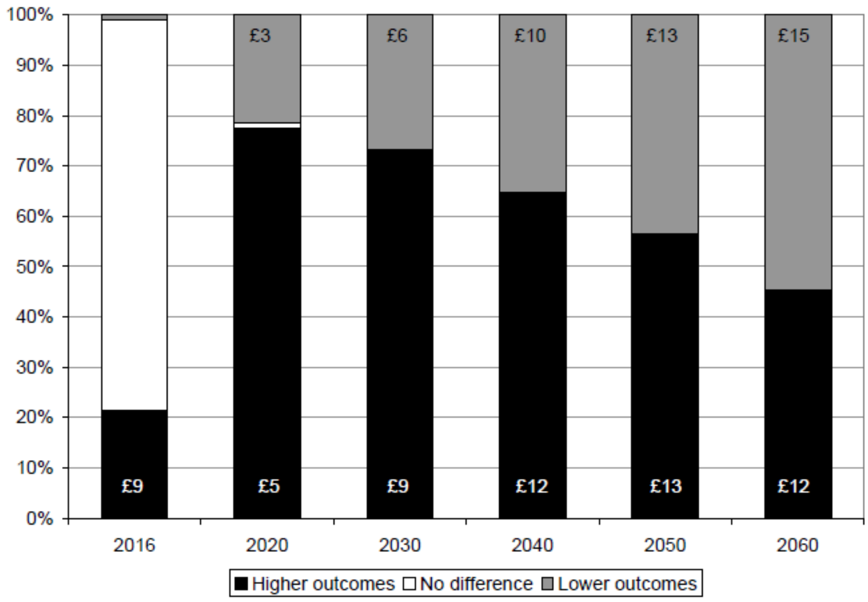
[77] Ibid para 88

In 2016 most people will receive the same amount of state pension as they would have done under the current system. Around 20% will have a higher outcome. By 2020 around 75% of people who reached state pension age under the new system will have a higher outcome. This proportion gradually diminishes over time, falling to around two thirds by 2040 and 55% by 2050.[78]

In more detail:

Figure 1 below shows that within a few years of implementation, single-tier pension reform leads to most new system pensioners having a higher State Pension than under the baseline of the current system. For each year the chart shows all living pensioners who have reached State Pension age since the implementation of the new State Pension.

Figure 1: Proportion of pensioners with changed notional State Pension outcomes under single-tier; median weekly amounts (2014/15 earnings terms)



In 2016, the first year of reform, most people receive the same level of State Pension income as they would have done had the current system continued. Around 20 per cent of people will have a better outcome as a result of the single-tier transition valuation. Small numbers of people may receive a lower outcome due to the removal of the ability to derive pension from their spouse's National Insurance record.

Even in 2050 over half will have an outcome that is higher than under the current system.[79]

DWP also looked at the impact on household incomes, taking account of means-tested benefit entitlement. It found that:

The majority of households in each cohort reaching State Pension age up to 2030 receive a higher total income over retirement under the new system. Initially the majority of households gain over retirement through the single-tier valuation and having the full value of the new State Pension uprated at least in line with

[78] DWP, Single-tier pension impact assessment, July 2014, p5
[79] DWP, Single-tier pension impact assessment, July 2014, p5-6

> earnings. For cohorts reaching State Pension age from the mid-2030s the proportion with a higher income over retirement falls below 50%. This is because if the current system was rolled forward they would have been able to become entitled to large amounts of State Second Pension which will not be available under the new system.
>
> On a cumulative basis, more than half of those reaching State Pension age before 2050 will have higher total retirement incomes under the new system.[80]

It also argues that reforms need to be looked at in the context of auto-enrolment, which is enabling people to save in a workplace pension.[81] In a scenario analysis of future pension income published in August 2014, DWP said it expected the nSP and auto-enrolment to make noticeable improvements to the pension adequacy of most of the current working age population.[82]

Comment

In its 2013 report on the draft legislation, the Work and Pensions Committee concluded that for most people, the overall impact of the reforms in the short-term, whether they gained or lost, was likely to be marginal:

> 55. The overall impact of the introduction of the Single-tier Pension is that a significant number of people will receive more State Pension, mostly in the short to medium term. We welcome this improvement in State Pension provision, particularly as some of the key gainers will be women, carers and other people with gaps in their working lives, who will benefit significantly. The main losers will be people who are not able to fulfil the minimum qualifying years requirement and "notional" losers who would have been able to accrue higher State Second Pension (S2P) in the current system.
>
> 56. However, for most people the overall impact, whether they gain or lose, is likely to be marginal. The reform could be seen as evolutionary and simply continuing at a faster rate the redistributive effects of the changes made with the introduction of S2P in 2002, which widened the coverage of the Additional State Pension and made it more flat-rate and less earnings-related. Moreover, while the STP may be higher than the Basic State Pension which some people would have received under the current system, the net amount some of them receive in weekly income from the State may be less, because of the loss of means-tested benefits.[83]

It summarised winners and losers from the reform as follows:

> *Winners*
>
> People who have already had significant periods of low earnings or employment gaps, particularly women and carers, who were not well covered by SERPS or S2P credits.

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[80] Ibid p7
[81] Written evidence to the Work and Pensions Committee, January 2016
[82] DWP, Scenario analysis of future pension incomes, August 2014; See also, Framework for the analysis of future pension incomes, September 2013
[83] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013

> Self-employed people, who will be brought fully into the State Pension under the new system and are therefore more likely to receive a higher amount.
>
> People who were previously contracted-out of the S2P (and SERPS), particularly those who have time to build-up more pension after the STP introduction date.
>
> *Losers*
>
> Individuals who may have been eligible for Savings Credit.
>
> Individuals with fewer than 7-10 qualifying years.
>
> Employees with significant periods contracted-in who will not be able to accrue any further Additional State Pension after 2017.
>
> Younger people who entered the labour market after 2002, who would have been able to build up high S2P entitlements under the existing system (because each year of accrual in the new system will be worth £4.11, compared with £5.05 for low earners and £5.81 for higher earners, under the present system).[84]

The IFS published a report in July 2013 looking at the short-run and long-run effects of the proposed reforms, which it said differed dramatically.[85] A study published by the Joseph Rowntree Foundation in March 2014 said those who gained in the short-term would include the self-employed and people undertaking activities that did not qualify for the additional State Pension before 2002. In the longer-term, the new single-tier would be less generous to most people:

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

[84] Ibid

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

> spend long periods in self-employment and those who will start to receive credits to the state pension for the first time under Universal Credit.[86]

The TUC said in August 2013 that many people currently building up rights to the State Second Pension (S2P) would get less when they retired as a result of its replacement with the single-tier State Pension. Although the Government expected that private pension saving would "plug the gap", its research had found that it would not be "until 2032 that private sector workers on median salaries get more from a combination of their private and state pension than they would have got under the current arrangements".[87] The TUC said it supported the single-tier pension in principle but believed the initial proposed rate was "far too low".[88]

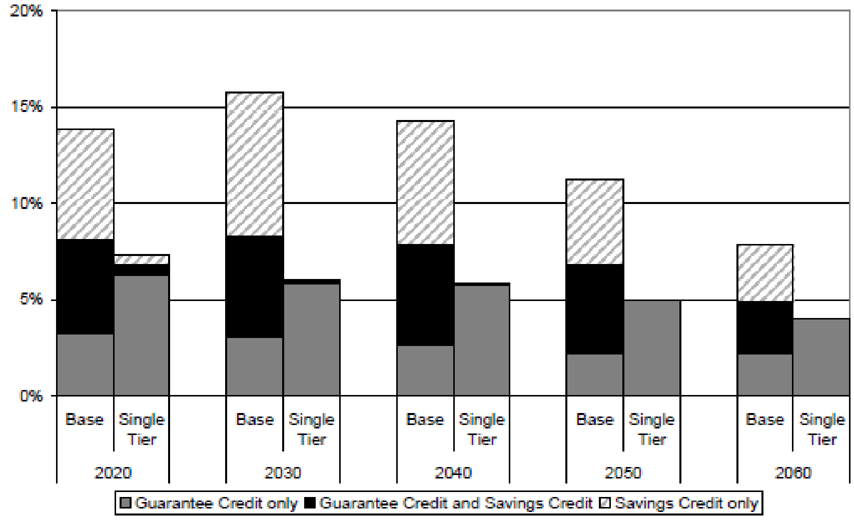
4.3 Entitlement to means-tested benefits

The 2013 Impact Assessment explained that the reforms would lead to a reduction in the proportion of people eligible for Pension Credit, with the main driver for this being the abolition of Savings Credit:[89]

> The introduction of the single-tier pension leads to a reduction in the scope of Pension Credit for two reasons: a higher basic pension means that fewer pensioners require Guarantee Credit to top up their income under the single-tier pension and Savings Credit is no longer required to ensure that people benefit from additional saving. The scale of the expected reduction in eligibility is shown below in Figure 7.
>
> Under the current system, eligibility for Pension Credit (or Universal Credit where only one member of a couple is above the qualifying age for Pension Credit) amongst the single-tier population is expected to peak at around 15 percent around 2030 and fall to below 10 per cent by 2060. Under the single-tier pension, eligibility for Pension Credit is halved compared to the current system in the first few years following implementation, and ultimately falls to around five per cent by 2060.
>
> Ending Savings Credit for single-tier pensioners is the main driver of the reduction in the number of people qualifying for Pension Credit, although there is also a reduction in the proportion of pensioners eligible for Guarantee Credit. The reduction in the numbers within scope of the Guarantee Credit is the result of most pensioners under the new system having a State Pension above the level of the Standard Minimum Guarantee.

86 JRF, A single-tier pension: what does it mean for individuals?, 2014
87 TUC press release, Many private sector workers will be worse off under state pension reforms, 19 August 2013; The TUC research was undertaken by Bryn Davies of Union Pension Services Ltd and is at www.tuc.org.uk/tucfiles/639/state pension reform full results.xls.
88 Ibid
89 DWP, Single-tier pension impact assessment, July 2014, p12

Figure 7: Eligibility for Pension Credit amongst the population reaching State Pension age after implementation of the new State Pension



The Government explained that:

> 106. By 2060 the most common reasons for entitlement to Pension Credit will be having less than 35 qualifying years or being entitled to an additional amount, for instance due to a disability. Entitlement to an additional amount becomes more important in explaining the continued scope of Pension Credit in later years. This change is partly due to the ageing of the single-tier population. As the single-tier population ages, there are greater numbers of older pensioners who are more likely to be entitled to the Severe Disability Additional Amount.[90]

The reforms were expected to have little effect on the overall numbers of people claiming Housing Benefit, although average awards will fall:

> Despite the average HB award falling, these changes have little effect on the overall number of people claiming HB. This is because it takes a lot of additional income to be taken out of HB entitlement altogether, and the Government is proposing to protect the outcomes of those who could otherwise lose some rent support among people reaching State Pension age in the first five years after implementation. Therefore even where people are no longer entitled to Pension Credit (whether through a higher pension income or removal of Savings Credit) some entitlement to housing or council tax support may remain.
>
> By 2040 the average weekly entitlement to support with Housing Benefit is notionally around £6 lower than in the current system, and notionally around £2 lower for council tax support. However, many recipients will have a higher pension under the system so may be better off overall.[91]

Eligibility for means-tested benefits overall was expected to fall over time:

> This reflects growth in pensioner incomes associated with the triple-lock, automatic enrolment, female labour market participation and previous pension reforms. It is also partly driven

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90 DWP, Single-tier Impact Assessment, October 2013
91 Ibid

> by the reduced scope of Savings Credit under current uprating policy and the introduction of Universal Credit.
>
> In the early years the impact of the reforms is small since changes only apply to new pensioners. In the long term the impact of the reforms is to reduce eligibility for means-tested support by three percentage points, or around 300,000 pensioner benefit units by the mid-2040s.[92]

Updated analysis published in January 2016 said that:

> Due to the structure of the new system, by 2020 eligibility for Pension Credit amongst those who have reached SPa since 2016 is reduced from 12% to 8%, with eligibility ultimately falling to around 3% under nSP by 2060.
>
> Over the longer term, the number of pensioner benefit units eligible for means-tested benefits is reduced by around 300,000 compared to the current system.[93]

Comment

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

> • The removal of the Pension Credit Savings Credit (PCSC) on its own will reduce the maximum income at which someone will be entitled to means-tested benefits, and so on its own should reduce means-testing.
>
> • In the short-term, retrospective crediting for the single tier pension should increase state pension entitlements for some and so also reduce dependence on means-tested benefits. However, the reduction in the long-run generosity of the state pension system will have the opposite effect.[94]

The PPI noted that:

> VIII. By setting the illustrative level of the proposed single-tier state pension above the level of the Guarantee Credit (GC) element of Pension Credit, and removing the Savings Credit element of the Pension Credit for individuals reaching SPA after the single-tier pension has been introduced, the proportion of people over SPA eligible for Pension Credit is likely to be significantly reduced.
>
> IX. However, even with the level of the proposed single-tier pension above the GC level, relatively high levels of means testing could remain in the future as a result of not all individuals qualifying for a full single-tier pension, some individuals having extra needs leading to higher Pension Credit entitlement, and continued eligibility to Housing Benefit and Council Tax Benefit.[95]

4.4 Incentives to save

One of the aims of the reforms is to simplify the state pension so that it is easier for people to plan and save for their retirement.[96] This is in the context of the workplace pension reforms, which started to be introduced from October 2012. Under these reforms, employers will be

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92 Ibid
93 DWP, Impact of New State Pension (nSP) on an Individual's Pension – Longer Term Effects of nSP, January 2016, p7
94 Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, Ev 65
95 Ibid Ev 77
96 DWP, A state pension for the 21st century, April 2011, Executive Summary, p8

required to automatically enrol employees into a qualifying workplace pension scheme and to make a minimum level of contributions to their employee's pension.[97] The Government intends to publish a combined assessment of both the effects of the single-tier state pension and auto-enrolment in Spring 2013.[98]

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

> The effect of the proposals on incentives to save are complex and vary across the population.
>
> On its own, the reduction in the long-run generosity of the state pension should increase incentives to save privately – although incentives would be reduced for those whose loss of income was sufficient that would expect to qualify for Housing Benefit and Council Tax Benefit.
>
> The abolition of PCSC [Pension Credit Savings Credit] means that some groups will expect to face a lower marginal effective tax rate on their private savings – as they will no longer qualify for PCSC – while some people will expect to face a higher marginal effective tax rate – as Pension Credit Guarantee Credit will be withdrawn at a rate of 100%.
>
> To the extent that the proposed policy would increase individuals' certainty about what pension they will get from the state, this will affect savings behaviour – although the direction of this effect is ambiguous.[99]

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

> I think the real impact on levels of saving is not necessarily likely to come through the economic incentives within the system. How people can understand the system, how it can be explained to them and whether people can tell them, "Yes, you should be saving," goes back to what Baroness Hollis was saying, in that the certainty in the system may or may not make people think they ought to save or ought not to save, but at least it means people can talk to them about it, and so whether they will benefit or not should be clearer. Hopefully, that might have a positive impact.[100]

DWP expects the nSP, in combination with auto-enrolment, to make noticeable improvements to the pension adequacy of most of the current working age population.[101]

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[97] For more detail, see Library Standard Note SN 6417 Pensions: automatic enrolment - 2010 onwards

[98] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, Ev 65

[99] Ibid

[100] Ibid Q73

[101] DWP, Scenario analysis of future pension incomes, August 2014; See also, Framework for the analysis of future pension incomes, September 2013

5. Issues

5.1 Implementation date

In Budget 2012, the Government said it intended to introduce its single tier pension "early in the next Parliament."[102] However, the January 2013 White Paper said it intended to "implement the single tier pension in April 2017 at the earliest."[103] In deciding on this date, the Government had considered both operational deliverability and the implications for contracted-out occupational pension schemes.[104]

However, on 19 March 2013, the Government announced that implementation will be brought forward to April 2016, with the effect that around 400,000 more people would reach State Pension age under single tier, including every woman affected by the acceleration of the State Pension age equalisation process in the *Pensions Act 2011*.[105]

Age UK welcomed the bringing forward of the implementation date.[106] However, the National Association of Pension Funds (now the Pensions and Lifetime Savings Association) was concerned that it was a tight-timescale for pension funds.[107]

An implementation date of 6 April 2016 means that the single tier pension will apply to men born on or after 6 April 1951 and women born on or after 6 April 1953, so that a woman born between these dates would not be eligible for the single-tier, although a man born on the same day may be.[108] For more detail, see Library Note SN 6620 Single-tier State Pension - women born between 1951 and 1953 (March 2014).

The question of why the reform only applies to future pensioners is discussed in Library Briefing Paper CBP-07414 The new State Pension – transitional questions (August 2014).

5.2 Recognising past records

The White Paper explains that transitional arrangements will apply for people with "pre-implementation National Insurance records."[109] In particular, they are needed to: protect the rights of those who at the point of implementation have accrued more than the single-tier; for

102 HM Treasury, Budget 2012, March 2012 para 2.10
103 DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p8, para 12
104 Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013
105 HC Deb, 19 March 2013, c43-46 WS
106 'Osborne brings forward £144 flat rate pension to 2016 in victory for 80,000 women who suffered double-whammy', This is Money, 17 March 2013
107 Rachel Dalton, Budget 2013: Earlier state pension reform to accelerate DB decline, *Professional Pensions,* 18 March 2013
108 DWP, The single-tier pension: Note on the cohort of women born between 6 April 1951 and 5 April 1953, April 2013; Individuals can check their State Pension age on Gov.UK – State Pension calculator.
109 DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, p27

those who were contracted-out of the additional State Pension during working life; and for people who would have derived or inherited a state pension income based on the National Insurance record of a spouse or civil partner.

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

> • Individuals with a foundation amount which is **equal to the full level of the single-tier** pension. These are likely to be people who have the necessary 35 qualifying years, little additional State Pension and have not been contracted out.
>
> • Individuals with a foundation amount which is **less than the full level of the single-tier pension**. These are likely to be younger people, with fewer qualifying years, or older people who have spent many years contracted out of the additional State Pension. These people will be able to increase their single-tier pension up to the full level, at the rate of 1/35th of the full rate (£4.11 to the nearest penny) for each additional qualifying year they gain before reaching their State Pension age.
>
> • Individuals with a foundation amount which is **more than the full level of the single-tier** pension. These are likely to be older people with many qualifying years, and who have not spent significant periods contracted out of the additional State Pension. These people will receive the difference between their foundation amount and the full single-tier amount as an extra payment on top of the full single-tier weekly amount.
>
> • Individuals with **no pre-implementation National Insurance record**. The simpler and easier to understand single-tier system will give them long term clarity of outcome. They will also be supported to save into a workplace pension scheme through automatic enrolment and the policy measures set out in the Government's 'Reinvigorating Workplace Pensions' document throughout all of their working lives.[110]

Compared to the proposals set out in its Green Paper, the proposed approach would speed up the process of transition, "significantly increasing the number who will receive the full single-tier pension." The Government estimated that, by the mid-2030s, over 80 per cent of people reaching SPA will receive the full single-tier pension.[111]

People who have built up more than the single-tier

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

> The overall cost of the new system will be the same as that of the one it replaces. This is not a pensions giveaway for the next generation. A higher flat pension is affordable only because, in the long term, people will not become entitled to very large earnings-related pensions through the state system. In a world where everyone will be automatically enrolled into a workplace pension with a contribution from their employer, it no longer

110 DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528)
111 Ibid, Chapter 4, p44; DWP, Single-tier impact assessment, October 2013, para 14

> makes sense for the state to run its own separate earnings-related pension scheme. Higher earners are among those being automatically enrolled, with substantial employer contributions, so those who earn the most while they are working will continue to be the best off in retirement.[112]

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

> Of course, national insurance contributions paid and that would, under the current system, have led to entitlement to a second state pension will be recognised. For example, when we introduce single tier, someone who retires in 2018 who has £160 in the current system will still get a pension of £160.[113]

The White Paper explained that the intention was to ensure that "everyone's National Insurance record keeps its value at the point the single-tier pension was implemented."[114] To achieve this, a comparison would be made of an individual's rights under the single tier and under the current system. Where an individual has a "foundation amount" which higher than the full amount of the single tier pension, they would receive the additional as a "protected payment" when they reach State Pension age.[115]

Different uprating arrangements will apply to the single-tier (which will be uprated at least in line with earnings) and the protected payment (which will be uprated in line with prices).[116] This is one of the elements of the reform that helps to keep them cost-neutral.[117]

People who were contracted-out in working life

The current State Pension has two tiers – the basic State Pension (which is contributory but paid at a flat-rate for people with sufficient qualifying years) and the additional State Pension (which is partly earnings-related). Since 1978 it has been possible to "contract out" of the additional State Pension into an occupational or personal pension scheme that meets certain requirements. Where an individual is contracted-out, they and their employer pay a lower rate of National Insurance in recognition of the fact that they are foregoing additional State Pension rights for that period.

With the introduction of the single-tier State Pension in April 2015, there will no longer be an additional State Pension and the option to contract out will end. However, there are arrangements to deal with previous periods of contracting-out. In the April 2011 Green Paper, the Government explained that a 'contracting-out offset' would be applied:

> **The contracting-out offset**
>
> Under the current system, people who have spent periods in schemes contracted out of additional State Pension (State Second

112 HC Deb, 14 January 2013, c607
113 Ibid, c606
114 DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), para 86
115 DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528)
116 Ibid, Chapter 4; *Pensions Act 2014*, s5 and Sch 2
117 HL Deb 8 January 2014 c378GC

> Pension and its predecessor State Earnings-Related Pension Scheme (SERPS)) have an amount deducted from the state pension they receive when they retire. This reflects the fact that people in contracted-out schemes do not contribute to the additional State Pension and thus pay a lower rate of National Insurance (the National Insurance rebate). The rationale for the rebate is that people receive an amount of pension from their contracted-out scheme at least as good as the state pension given up. In Defined Benefit schemes, the scheme provides members with a minimum level of benefit and Defined Contribution schemes invest the rebate on members' behalf. The purpose of the contracting-out offset is to ensure that all provision funded by the taxpayer, including that funded by the National Insurance rebate, is taken into account when calculating people's entitlement to the state pension.
>
> As an example, consider someone who reaches State Pension age retiring with a state pension worth £177.60 a week. If this person was contracted out of SERPS between 1978 and 1997 and accrued a Guaranteed Minimum Pension of £40 a week – which their scheme will pay – they will receive £137.60 a week directly from their state pension.
>
> Under single-tier, contracting out would end with the closure of the State Second Pension. However, it could take a significant amount of time for members of contracted-out schemes to work through the system. This means that the need to apply an offset to take account of periods spent contracted out of the State Second Pension would continue under single tier. Many pensioners would receive their single-tier pension through a combination of their state pension and contracted-out pension scheme, as happens now. We estimate that around half of pensioners could have an offset applied to their single-tier pension by around 2050.[118]

The January 2013 pensions White Paper explained that for those who had been contracted-out, a deduction – a 'rebate derived amount' – would be applied to their single-tier valuation. However, a check would be made to ensure that people did not receive less than they would have done under the current system:

> 84. For those who have been contracted out, a deduction – the 'rebate-derived amount' – will be applied to the single-tier valuation, as of the date of the implementation of single tier, to reflect the lower rate of National Insurance contributions paid when contracted out.
>
> 85. This calculation will be as follows:

Single-tier valuation for people who have contracted out:

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

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

118 DWP, A state pension for the 21st century, Cm 8053, April 2011, chapter 2, p 32

> Where this is the case these people will receive their higher valuation as their valuation as their foundation amount.[119]

DWP's single-tier state pension factsheet explained that the deduction was intended to be consistent with the rules of the existing system:

> If you have previously been contracted out of the additional State Pension, a deduction will be applied when we calculate your foundation amount. This reflects the fact that, whilst you were contracted out, you paid lower National Insurance contributions and your employer received a National Insurance rebate to fund your workplace pension. Therefore, you could have 35 qualifying years and not receive £144 per week. The deduction is broadly equivalent in value to the workplace pension the rebate funded. This is consistent with the rules of the existing pension system.[120]

The relevant legislation is *Pensions Act 2014* (s5 and Sch 1).[121]

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

> Nearly 90% of people reaching State Pension age in 2016/17 would have the full rate of the new State Pension, or more, if we include the amount of additional State Pension they opted out of or were opted out of when contracted out of SERPS or State Second Pension (S2P) (additional pension).
>
> The percentage of pensioners reaching State Pension age in 2016/17 estimated to receive the full amount of the new State Pension directly from the state is around 37%. By 2020 this percentage will reach around 50% and by 2035 around 84%. Most people who contracted out of SERPS or S2P were required, as a condition of contracting out, to accrue an alternative private pension. This replaced the additional State Pension, which they were contracted-out of.
>
> This reflects the fact that when contracted out they have either paid National Insurance Contributions at a lower rate, or some of the National Insurance contributions they paid were used to contribute to a private pension instead of the additional State Pension. They paid lower National Insurance into the National Insurance system, which reflected the fact that they were contributing to a private pension instead.[122]

A person who has spent many years contracted-out may, therefore, find they have a foundation amount that is less than the full amount of the single-tier. However, as contracting out ends in April 2016, from that point, they will be able to increase their single-tier pension up to the full level, at the rate of 1/35th of the full rate for each additional qualifying year they gain before reaching State Pension age.[123] This has led some commentators to note that gainers from the introduction of the single-

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[119] DWP, The single-tier pension: a simple foundation for saving, January 2013, ch 4
[120] See also DWP, single-tier transition and contracting out, 2013
[121] The amount of the deduction to reflect contracting out is in para 4 (5) of Schedule 1.
[122] HL903 State Retirement Pensions 29 June 2015
[123] DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, p11, para 24

tier State Pension will include some people who have been contracted-out. The Institute for Fiscal Studies, said:

> Overall, 35% of men and 61% of women (43% of individuals) would see their pension income at SPA increased as a result of the proposed reform. Many of these individuals will be benefiting from the ability to 'work off' previous periods of contracting out.[124]

The Pensions Policy Institute noted that potential gainers included individuals who have been contracted-out of S2P and have time to build up more pension after the introduction of single-tier could also gain from the reforms.[125] The Government estimated that "around 15% of people retiring in the first twenty years of single tier do not get enough extra state pension to compensate for the extra NICs paid."[126]

In evidence to the Work and Pensions Committee, former Pensions Minister, Steve Webb explained the approach:

> We had a real dilemma. Millions of people, including all of us who have ever been in the Parliamentary Pension Scheme, have paid less NI than our neighbours. We have been contracted out. Our employer paid less; we paid less, and a deal was done that the scheme would replace part of the state benefit. That was the deal. The question is: we get to 2016 and there is no contracting out, there is just one pension, one bit of the system, so what do you do with the past contractors-out? There are two extremes. One is you forget contracting out ever happened, which would be beautiful, simple and clear; I would have loved it. But it would have cost billions because all of us would have suddenly got full State Pensions, not reduced ones, and it would have been grossly unfair on our next-door neighbours, who never contracted out, who paid more NI than we did and still got the same pension. So we could not afford to do it and it would not have been fair.
>
> The other extreme would have been to remember contracting out forever, to say, "Right, you spent one year, once, contracted out. We will remember that forever." So my daughter starts work and does a year contracted out before we abolish it. In 50 years' time she retires, goes on getting a pension, God willing, for another 20 or 30 years, and in 70 years' time we are still deducting for contracting out. That would have been ridiculous.
>
> What did we do? We did a compromise. We said, "In 2016, we will once adjust for past contracting out and make a one-off deduction. That is fair. But then, post 2016, we will allow you to burn off that deduction by subsequent work and contributions." That is why in 2016-17 not many people get the flat rate, because people have not had time to burn it off. But by the end of this Parliament, the majority of new pensioners get the flat rate. So within four or five years, we are already in a situation where the majority are getting the flat rate. I would love it to have been far, far quicker—that would have been great—but there was no money to spend.[127]

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

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

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

127 Oral evidence to the Work and Pensions Select Committee, Q4

He said DWP had a chart showing that people contracted-out were on average gainers:

> The reason they are gainers is: imagine you have been, say, a teacher all your life, contracted out forever. All you have is a basic pension of £115. In the new rules, post 2016, every year you work increases that £115 towards the flat rate. Without these reforms you could never have got a State Pension more than £115 because you were not in the second bit. Over time, people who were contracted out can burn off these deductions and build a bigger State Pension on top of their teacher's pension, which will not be reduced at all. So the contracted-out in general are gainers from these reforms. They don't perceive it because they say, "He is getting a flat rate and I am not," but I am getting the lower rate plus my teacher's pension, and now I will get a better State Pension plus my teacher's pension.[128]

GMP increases

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

> […] when the Government started the move to a single-tier state pension, no provision was made for making inflation-related payments to those reaching state pension age after April 2016. They are the likely losers, and they probably number in the millions. And how much will they lose? That will depend on the size of their contracted-out pension, the rate of inflation and how long they live. But with inflation factored in at 2pc-3pc, actuaries estimate the figure at up to £20,000 for men and slightly more for women, because they live longer.[129]

However, the position is more complex than this implies. The reforms include more generous uprating arrangements for the new State Pension (at least in line with earnings and possibly according to the triple lock) than is the case for GMPs and the additional State Pension (in line with prices).[130] Furthermore, as discussed above, people with years of working life ahead of them in April 2016 have the opportunity to "work off" their contracted-out deduction.

In more detail, a GMP is a defined benefit that occupational pension schemes were required to provide as a condition of contracting-out of the additional State Pension between 1978 and 1997. The intention was to ensure that individuals were not worse off than they would have been had they remained contracted-in.[131]

Under the current system, responsibility for index-linking GMPs is divided. Occupational pension schemes have a statutory responsibility for uprating GMP rights accrued between 1988 and 1997 subject to a 3% cap.[132] Increases over and above this (i.e.; increases on rights

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128 Oral evidence to Work and Pensions Select Committee, 1 December 2014, Q24
129 'Will you lose out under the new State Pension?' *The Telegraph,* 6 March 2015; See also, 'Revealed: Why millions WON'T get the £155 new state pension they're expecting', *This is Money,* 21 May 2014
130 *Pensions Act 2014*, Sch 12 (19)
131 *Pension Schemes Act 1993*, s13-8
132 Ibid s15

accrued between 1978 and 1988 and in excess of 3% on rights accrued between 1988 and 1997) are effectively provided via the additional State Pension. A PQ from January 2014 explained:

> Additional state pension and GMPs are linked in that when a person reaches pensionable age, the total amount of GMP is subtracted from the total amount of additional state pension built up between 1978 and 1997, and any net amount is paid. This subtraction of the total GMP amount is called a 'contracted-out deduction', and reflects that reduced national insurance was paid during the period of contracting out in return for meeting legislative requirements. This calculation is performed each year that the pension is payable.
>
> There is no statutory obligation on schemes to pay increases on GMPs accrued between 1978 and 1988. However, additional state pension built up during that period is subject to increases. When the contracted-out deduction is subtracted from the additional state pension, the remaining additional state pension includes an increase linked to prices. In this way, an amount broadly equivalent to the GMP, but which is in fact additional state pension, is subject to an increase. Schemes are under an obligation to pay increases on GMPs accrued between 1988 and 1997, subject to a cap of 3%.[133]

The requirement on schemes to index-link GMPs accrued between 1988 and 1997, subject to a 3% cap does not change in April 2016. However, the additional State Pension is being removed for future pensioners from that date, meaning that part of the current mechanism for index-linking GMP rights is no longer in place. However, this does not necessarily mean people with GMP rights will be disadvantaged. In answer to a PQ in January 2014, the then Pensions Minister Steve Webb explained:

> As set out in the White Paper, the design of the transition will benefit many people with a history of contracting out. In effect, these individuals may be able to offset their contracted-out deduction with further qualifying years until they reach the full amount of single tier. This means that many individuals who have previously been contracted-out may receive more state pension than they would have under the current system […] The impacts of the single tier reforms have been captured in the impact assessment for single tier, which is published online. We estimate that those who hold GMPs are no more likely to have a lower outcome as a result of the reforms overall than the rest of the population.[134]

In evidence to the Work and Pensions Select Committee on 1 December 2015, Steve Webb explained:

> Basically, there are a set of people with GMPs who gain—small GMPs because they will get triple lock on the next £40-odd—and people with huge GMPs will probably lose. It is horribly complicated, which is why we got rid of them.[135]

The NAO report includes a detailed explanation of how GMPs work under the old and new systems. The uprating arrangements under the

133 HC Deb 6 January 2014 c51W
134 HC Deb 6 January 2014 c51W
135 Oral evidence to the Work and Pensions Committee, 1 December 2015, Q24

old system are discussed in Library Briefing Paper SN 4956 GMP annual increases (June 2015).

In March 2016, the Government announced that it would price protect the GMPs of public sector workers reaching State Pension age (SPA) between April 2016 and 6 December 2016 (when the SPA equalises):

> In response to the introduction of the new State Pension in April 2016, the government will continue to price protect the Guaranteed Minimum Pension of public sector workers.
>
> This means that those who reach State Pension Age on or after the 6th April 2016 and before the 6th December 2018 – when the State Pension Age equalises – will receive a fully indexed public service pension for their whole life.
>
> This will ensure public service pension payments to these individuals continue to be equal between men and women.[136]

Updated Treasury guidance was published in April 2016.[137]

Special rules for marriage/civil partnerships, divorce and bereavement

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

- A person who is married or in a civil partnership may be able to claim a lower-rate basic State Pension (Category B(L)), payable at around 60% of the contributor's basic State Pension entitlement (£69.50 pw in 2015/16, if the contributor has a full basic State Pension) provided both members of the couple have reached SPA.
- A widow(er) or surviving civil partner may be eligible for a Category B basic State Pension based on the contributor's record and to inherit additional State Pension (with the amount that can be inherited depending on when the contributor died and their date of birth);
- A person who is divorced or whose civil partnership has been annulled (and who has not remarried or entered a new civil partnership before SPA), may be able to substitute their former spouse or civil partner's NI record (in part or in its entirety) up to the point of divorce/annulment in order to qualify for the basic State Pension.[138]

The Government intended people to qualify for the single-tier on the basis of their own contributions and said there would be "no rationale" for allowing people to "inherit or derive state pension income based on the National Insurance record of their spouse or civil partner." However, there would be "transitional protection to cover a variety of circumstances where the Government believes it is right to recognise

[136] HM Treasury, Government one step closer to introducing new State Pension this year, 1 March 2016
[137] HM Treasury, Guidance on the operation of pensions increase legislation for public service pension schemes, April 2016
[138] See, DWP, State Pension entitlements derived from a current or former spouse's or civil partner's national insurance contributions, March 2013, Annex A

contributions made prior to the implementation of the single tier pension."[139]

There are specific transitional protection arrangements for married women who in the past elected to pay reduced rate NICs (which did not count towards State Pension entitlement). The option to make this election was withdrawn for new entrants from 1977, although those who had already made the election could continue to pay the reduced rate in certain circumstances.[140] The White Paper explained:

> 33. Fully removing the potential to derive basic State Pension from a spouse under the single-tier pension would disadvantage women who elected to pay reduced rate National Insurance contributions. They may have few or no qualifying years as a result of their election, which would leave them with potentially no state pension under single-tier rules despite a long history of paying National Insurance contributions and engaging with the system.
>
> 34. The Government therefore intends to make provision for married women and widows who paid these reduced rate contributions. Where a valid election existed at any point in the 35 years before State Pension age, they will be able to access a single-tier pension based on their own contributions to the point at which the single-tier pension is implemented. This will include an amount equivalent to the full rate of the 'married woman's' lower-rate basic pension or, if widowed or divorced, the full rate of the basic State Pension. If they would also qualify for a single-tier pension based just on their own contributions, they will receive the higher of the two.[141]

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

For those not covered by these arrangements, their entitlement will depend on when they and their later partner reach SPA. [142]

- Where both dependant (i.e. the person relying on using their spouse's or civil partner's record) and contributor (who will be their spouse or civil partner) reach State Pension age (SPA) before the implementation of the reforms, then the current rules continue to apply. In addition, there will be "transitional protection to cover a variety of circumstances where the Government believes it is right to recognise contributions made prior to the implementation of the single tier pension."[143]
- These transitional arrangements depend on when dependant and contributor reach SPA.[144] For example, where the dependant

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[139] Ibid; DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, Annex 3.D

[140] See Library Note SN 1910 Married women and state pensions (January 2014)

[141] Ibid

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

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

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

reaches SPA in the current system and contributor reaches SPA, or dies or divorces under SPA, in the single-tier, the dependant will continue to be able to derive an entitlement from the contributor's record, based on the contributions he or she made up to the introduction of the single-tier.

- Where the dependant reaches SPA in the single-tier and contributor reaches SPA or dies in the current system, the dependant will not be able to derive an entitlement to the basic State Pension (unless covered by the special transitional arrangements for women with an election to pay reduced-rate NICs). They may be able to inherit some additional State Pension.[145]
- Where the dependant reaches SPA in the single-tier and the contributor reaches SPA (or dies or divorces under SPA) in the single-tier, individuals will not be able to derive entitlement to the basic State Pension (unless covered by the special transitional arrangements for women with an election to pay reduced-rate NICs). If the contributor has a "protected payment" (see above), the dependant may be able to inherit 50% of it.[146]

The Government estimated that some 290,000 people would be affected up to 2030 (some 4% of those reaching SPA up to that point) by the loss of derived entitlement to the BSP. In one year – 2020 – the figure would be 30,000.[147]

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

> One option might be that women in this position who are within 15 years of State Pension Age should be able to retain this right. We recommend that the Government assesses and publishes the cost of providing this option for the relatively small number of women affected. We believe that, for those further from retirement, there is sufficient time for them to plan on the basis of the new rules.[148]

The Government responded that there was no longer a substantial need for the provisions:

> The provision for derived entitlement dates back to the 1940s when men and women stayed at home. This has not resembled the structure of our society and there is no longer a substantial need for these provisions: by 2020 fewer than 30,000 women in GB will receive a notionally lower State Pension outcome because of the removal of derived entitlement. The Pension Credit Guarantee Credit will remain in place as a safety net for those living in GB.
>
> Additionally, the derived entitlement arrangements have evolved over time so that they now result in outcomes not intended under

145 Ibid
146 DWP, State Pension entitlements derived from a current or former spouse's or civil partner's national insurance contributions, March 2013
147 HL Deb 18 December 2013 c 341 [Lord Freud]; DWP, *Single-tier State Pension: summary of impacts*, October 2013
148 Work and Pensions Committee, *The Single-tier State Pension: Part 1 of the draft Pensions Bill*, 5th Report of 2012-13, HC 1000, 4 April 2013; DWP, *Government Response to the Fifth report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill*, CM 8620, May 2013

> the original policy, as envisaged in the 1940s to support dependent souses. Provided a person in the UK has at least one qualifying year of UK NI contributions or credits, a State Pension (including any derived entitlement) is payable anywhere in the world, enabling dependants of UK contributors to benefit, even if they have never been to the UK […] [149]

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

> Of course, we could roll on every feature of the old system into the new system for another 15 years. At the same time as we are being asked to do that, we are also being asked to give clear communications. We are trying to bring about a reform that enables people to plan for their retirement, to know where they stand, to know what they will get, and there is a trade-off here.[150]

Inheriting additional State Pension rights

Under the current system, widow(ers) and surviving civil partners may inherit additional State Pension in certain circumstances (Annex 3, para 36-40 of the White Paper provides an overview).There is to be no change to the current rules on inheriting State Pension where both members of a couple reach, or would have reached, SPA before the single tier is implemented.[151] In other cases, the transitional arrangements will depend on when the survivor and deceased reach SPA.[152] For in more detail, see Library Briefing Paper CBP-07631 Inheriting additional State Pension (June 2016).

5.3 Building up entitlement

Requirement for 35 qualifying years

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

> 16. Qualifying years under the single-tier pension will be generated in the same way as qualifying years for the current basic State Pension. A qualifying year will be defined as a tax year during an individual's working life in which they paid, or were treated as having paid, National Insurance contributions or were credited with National Insurance contributions on earnings of 52 times the 'Lower Earnings Limit' (LEL).[…][153]

A qualifying year is one in which a person has paid, been treated as having paid or been credited with enough National Insurance contributions on their earnings for it to count as a qualifying year.[154]

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

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

[151] DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p96

[152] Ibid, p97

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

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

The Government initially proposed requiring 30 qualifying years for a full nSP.[155] However, by the time of the January 2013 White Paper, it had decided on 35.[156] The then Pensions Minister, Steve Webb, argued that this struck the right balance:

> We think that 35 years allows people to have about 15 non-qualifying years. Bear in mind, it is 35 years of contributions or credits. It is not just paid work; it is caring, being at home with young children and active job searching. It is a comprehensive definition of what a person has to do to get the qualifying year. We think that 35 out of about 50 is the right balance. Of course, there will be the odd year when the person does not qualify – there are a range of things that people can be doing- but it seems about right to be asking people to be doing something creditable or contributing for roughly two thirds of their adult life. When people do not have 35 years, the amount is reduced pro rata, as with the current system.[157]

The Government estimated that around 85% of people reaching SPA in 2020 would have at least 35 qualifying years.[158] The proportion reaching SPA with 30 qualifying years is around 90%.[159]

An Opposition amendment to require the Government to conduct a review to "determine the costs and benefits of phasing the transition to a 35-year full pension requirement via an interim requirement for 30 years" was defeated on division by eight votes to four.[160] The relevant provisions are in now sections 2 and 3 of the *Pensions Act 2014*.

Minimum qualifying period

People reaching SPA before 6 April 2010 had to satisfy two contribution conditions to get any basic state pension at all. They must actually have paid (as opposed to have been credited with) contributions for one qualifying year. Secondly they needed to have at least 25% of the number of qualifying years required for a full pension. The Labour Government removed these requirements for people reaching SPA on or after 6 April 2010.[161] The Pensions White Paper published in May 2006 explained the rationale for this as follows:

> 3.97 These rules mean that small numbers of people have no entitlement to basic State Pension despite having up to nine years of contributions or credits. The two conditions of entitlement are more likely to affect some ethnic minority women who may feel or face cultural barriers to participating in paid work. Those women in this position usually contribute to society in other ways, such as through childcare or care of severely disabled people.[162]

A requirement to have a minimum number of qualifying years will be re-introduced for the single-tier pension. The rationale is to target

[155] DWP, A State Pension for the 21st century, Cm 8503, April 2011, p30
[156] DWP, The single-tier pension: a simple foundation for saving, Cm 8525, January 2013, p91, para 14
[157] PBC Deb 2 July 2013 c141-2
[158] Cm8528, p91, para 14
[159] DWP, Gender Impact Assessment of Pension Reform, 5 December 2007, para 2.4
[160] PBC Deb, 11 July 2013 c425-6
[161] *Pensions Act 2007*, section 1
[162] DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006

expenditure on those who have made a "significant economic or social contribution to this country during their working lives":

> 23. People reaching State Pension age after the implementation of the single-tier pension will need to have a minimum number of qualifying years to become eligible for a pro rata amount of state pension. This will be set at between seven and ten years – the equivalent of around 15 - 20 per cent of normal working life. This ensures state pension expenditure is targeted at those who make a significant economic or social contribution to this country during their working lives. […][163]

On 3 December 2013, the Government announced that the minimum qualifying period would be set at ten years.[164] This is provided for in regulation 13 of the *State Pension Regulations 2015 (SI 2015/173).* It says that this will require contributions for no more than around a fifth of working life. It estimates that 2 to 3 per cent (9,000 to 12,000) of individuals in Great Britain would be affected by a 10 year minimum qualifying period, compared to 18 to 23 per cent (6,000 to 10,000 people) of the total number of individuals living overseas:

> Our estimate of the number of Great Britain and overseas residents affected by the MQP over the first three years of the single-tier pension is shown in Table 3.1 below.

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

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

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

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

The net saving from the policy is estimated at £650 million in 2040 (at 2013/14 prices).[165]

It estimates that a "marginally higher proportion of women than men are affected" by the minimum qualifying period but that:

> […] women who qualify under the special rules for those who held a married woman's or widow's reduced-rate election […] are not subject to the MQP. It should also be noted that easements to the time limits for paying voluntary National Insurance contributions for tax years 2006/07 to 2015/16, which apply to

163 DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p92
164 HC Deb 3 December 2013 c17-18WS
165 DWP, Single-tier impact assessment, October 2013, section 3.4

> people reaching state pension age under the new state pension scheme, will enable some people to achieve the minimum requirement.[166]

Periods of insurance or residence in another EEA Member State can help satisfy the requirement:

> 7.23 As is currently the case for people who reached state pension age before 6 April 2010, years of insurance or residence in another Member State of the European Economic Area (EEA) or in certain countries with which the UK has a bilateral social security agreement (for example, the United States) will count towards the MQP. However, entitlement to new state pension will be based solely on UK contributions, on a pro-rata basis. For example, a person with only five years of UK National Insurance contributions who has a further 30 years of insurance in another EEA Member State would satisfy the MQP through the combination of their UK and foreign insurance and be entitled to 5/35ths of the full rate of the new state pension.[167]

NI Credits

As explained above, qualifying years can be built up through National Insurance (NI) contributions or credits. NI credits can be awarded to recognise a range of activities including caring or looking for work. They help people to maintain their NI record and so protect their state pension.[168] For example, carers' credits are awarded to a person who is:

- In receipt of Child Benefit for a child under 12 years; or an adult under State Pension age who cares for a family member under age 12, where the parent or main carer is in receipt of Child Benefit and already has a qualifying year of NICs; [169]
- An approved foster carer; or
- "Engaged in caring" – for at least 20 hours a week for someone for at least 20 hours, or for more than one person for a total of at least 20 hours, *and* the person you care for is in receipt of a qualifying benefit, *or* the decision maker considers that the level of care is appropriate. [170]

The introduction of Universal Credit is expected to extend NI credits to a further 0.8 million households, as all eligible claimants will be credited with Class 3 NI credits and in a joint claim both members of the couple will be awarded the credit.[171]

The Government confirmed that the current crediting arrangements would be "brought forward to the new system and that people will still be able to get credits to protect their single-tier pension position."[172] In

166 Explanatory Note to SI 2015/173
167 Ibid
168 For more detail, see HMRC website – National Insurance credits
169 For more details, see DWP, Specified Adult Childcare Credit Factsheet
170 *Pensions Act 2007,* Section 3; Social Security (Contributions Credits for Parents and Carers) Regulations 2010 (SI 2010/19)
171 DWP, National Insurance credits and the single-tier pension, 2013; DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, p16-17
172 HL Deb 18 December 2013 c353-4GC; See also DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528)

addition, when the legislation was before Parliament, it amended the Bill to increase entitlement to credits for Service personnel abroad. [173]

The position of people who with multiple jobs with earnings below the Lower Earnings Limit for NI and who are therefore not building up State Pension entitlement has been a recurrent issue. When the Bill to introduce the new State Pension was before Parliament, Labour Peer Baroness Hollis successfully amended it to allow regulations to be made providing for "circumstances in which a person may opt to have a year treated as a qualifying year if by aggregating income from two or more jobs, that person's earnings is equal to or greater than the earnings factor for that year." [174] The amendment was overturned when the legislation returned to the Commons. The then Pensions Minister Steve Webb announced steps to build a firmer evidence base regarding the link between multiple mini-jobs and not making the 35 years.[175] DWP published the results of this work in February 2015. It said:

> • Numbers in this group [individuals with earnings in two or more jobs below the LEL but whose combined earnings were above it and who would not otherwise be gaining a 'qualifying year'] are currently around 50,000 each year. This is slightly higher than in the previous decade when numbers were around 30,000-40,000.
>
> • However, the main reason for this is a policy change in 2010 to reduce the age of the child at which childcare credits could be claimed: from below 16 to below 12.
>
> • When controlling for this, the number of individuals who are in this group has remained fairly stable since 1996-97.
>
> • Childcare credits mean that, since 2010, approximately 30% of individuals in this group who have not gained a qualifying year through work have gained a qualifying year through credits.[176]

Take-up of NI credits

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

The Work and Pensions Committee was concerned that steps should be taken to improve take-up of NI credits, on the basis that "any system which relies on individuals being aware of this facility is likely to exclude many of the people it is intended to help." [177] In its response, the Government said it recognised that more needed to be done to communicate the availability of NI credits and increase take-up.[178]

In debate on the Bill in the House of Lords, Labour Peer Lord McKenzie called on the Government to report to Parliament on a strategy to

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173 HL Deb 24 February 2014 c772.
174 HL Deb 24 February 2014 c711 and c728-30; HC Deb 17 March 2014 c572
175 Ibid c565-6
176 DWP, State Pension coverage: lower earnings limit and multiple jobs – further analysis: UK 1996/97 to 2013/14, February 2015
177 Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, para 117
178 DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, p16-17

improve take-up of NI credits.[179] Lord Freud said that for the vast majority of people, take-up was not an issue:

> For these credits, which require an application, we want people to know what is available and to be getting all the credits they are entitled to in order to safeguard their future entitlement to the single-tier pension. Information is available in our departmental leaflets, and the gov.uk website clearly sets out the circumstances in which credits are available, as well as whether an application is required. But we are not complacent and we know that there are a number of different reasons why people do not take up credits. This is why we made it clear in the White Paper that the implementation of single tier provides us with an opportunity to simplify our recording and operating systems.
>
> With that in mind, we intend to review these systems to identify what efficiencies can be put in place to make the system of national insurance credits as simple as possible. We are also developing a comprehensive communications strategy for the new pension system and, as part of this, we are exploring with HMRC how we could seamlessly link information about state pension to information about national insurance through online services.[180]

Voluntary NICs

People with gaps in their NI record could already pay voluntary class 3 NICs to protect their entitlement to the basic State Pension.[181] The White Paper said the Government intended to retain this as an option but would keep the cost of those contributions under review.[182] In general, class 3 NICs have to be paid within six years of the end of the tax year for which the contributions are being paid. However, the time limits have been extended for those reaching State Pension age on or after 6 April 2016.[183] In debate in Parliament, Lord Freud explained:

> Given that we are in the process of reforming the state pension system, the Government have recently made changes to the arrangements for voluntary contributions to ensure that people can wait until they are able to request their foundation amount after implementation, before making decisions on buying additional years. We have adjusted the rules for people reaching state pension age under single tier to extend the time limits for paying voluntary contributions to 5 April 2023, for the tax years from 2006-07 to 2015-16. Usually, contributions are paid at a higher rate if more than two years have elapsed from the year in which they were due, but this rule will be suspended until 6 April 2019. This will mean that a person retiring after 2016 will have had a considerable amount of time, up to 17 years since the relevant gap occurred, in which to decide whether to pay voluntary contributions.
>
> So people will be able to buy after the state pension age point. They can buy back as many as they need, right down to 2006, so if someone reaches their state pension age in, for instance, 2018,

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179 HL Deb 18 December 2013 c353GC
180 Ibid c354
181 For more details, see HMRC website – Voluntary National Insurance contributions (the basics)
182 DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, p92, para 22
183 DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, p13

> they can buy 12 years. I hope that I have addressed the noble Baroness's points, and ask her to withdraw the amendment.[184]

The Work and Pensions Committee said individuals would need help to assess whether they should pay VNICs and recommended a publicity campaign to raise awareness.[185] The Government agreed this was important.[186]

Self-employed NICs

People who are self-employed currently accrue entitlement to the basic State Pension but not the additional State Pension. In its April 2011 Green Paper, the Government proposed that if it introduced a single-tier pension, this would be for "self-employed as well as employees (subject to National Insurance considerations)."[187] Self-employed people are liable for two types of national insurance contributions:

> **Class 2 flat rate contributions** which count towards entitlement to certain social security benefits such as the basic State Pension and Employment and Support Allowance.
>
> **Class 4 earnings-related contributions** which do not count towards any state benefits.[188]

Employees currently pay class 1 NICs at a rate of 12% on earnings between the primary threshold and the upper earnings limit (UEL). Earnings above the UEL are charged NICs at a rate of 2%.[189] It has been noted, as a feature of the NI system that the self-employed contribute less than employees, even given their lower entitlement to benefits.[190]

The White Paper says that all forms of NICs will be treated equally in the calculation of the single-tier pension.[191] In evidence to the Work and Pensions Select Committee, Pensions Minister, Steve Webb said there were no plans that he was aware of to change NI rates for the self-employed.[192] The Committee recommended that any change should be considered as part of "a wider review of how National Insurance could be simplified."[193] In its response, the Government said there were reasons for improving State Pension provision for the self-employed:

> Improving State Pension provision for those who have spent time self-employed is particularly important in light of emerging trends

184 HL Deb 16 December 2013 c244 GC; HMRC, When and how to top up your National Insurance contributions

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

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

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

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

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

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

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

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

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

> in private pension provision amongst this group: only 21 per cent of self-employed people are contributing to a private pension scheme, compared to 50 per cent of all employees. The self-employed are also out of scope for automatic enrolment into an occupational pension with a statutory employer contribution, although they can make voluntary contributions to the National Employment Savings Trust.[194]

A DWP paper explains the effects the single-tier pension may have on people who have spent time in self-employment.[195]

5.4 Level and uprating

The April 2011 Green Paper proposed a "weekly flat-rate payment current estimated at around £140 which would be above the Pension Credit standard minimum guarantee."[196]

The January 2013 White Paper explained that the nSP would be set above the level of the Pension Credit Standard Minimum Guarantee (SMG). For illustrative purposes, a starting level of £144 per week (in today's earnings terms) was assumed.[197] The precise level of the single-tier would be decided prior to implementation. [198]

Section 3 of the Act provides for the full rate of the nSP to be set in regulations:

> 47. The full rate of the new state pension which will be applicable for the first year will be set by regulations prior to the start date of the new state pension.[199]

These regulations would be subject to the affirmative procedure, which means that both Houses of Parliament must expressly approve them.[200]

Considering the draft legislation, the Work and Pensions Committee concluded that the requirement for the level of the single-tier pension to be higher than the SMG was a fundamental principle of the reform that should be set out on the face of the Bill.[201] The Government said it had clearly stated that the starting rate would be higher than the SMG and that Parliament would be able to debate this as the regulations would be subject to the affirmative resolution procedure.[202] The issue was debated further when the legislation was before Parliament.[203] The

[194] DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, p17
[195] DWP, The single-tier pension and people who have spent time in self-employment, May 2013
[196] DWP, A State Pension for the 21st century, Cm 8053, April 2011, p30
[197] DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p12, para 29
[198] Ibid, p90
[199] *Pensions Act 2014* – Explanatory Notes
[200] For more detail, see House of Commons background paper – statutory instruments (SN 6509)
[201] Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, Fifth Report of 2012-13, HC 1000, 4 April 2013, para 132-4
[202] DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013, 18
[203] For more detail, see SN 6846, section 2.1

Delegated Powers and Regulatory Reform Committee drew the attention to the fact that "for the first time, the rate of the state pension will be specified only in subordinate regulation."[204]

The Autumn Statement in 2015 confirmed that the Standard Minimum Guarantee for a single person in 2016/17 would be £155.60 pw. The starting rate for the new State Pension would be £155.60 pw.[205] This was provided for in the *State Pension (Amendment) Regulations 2016 (SI 2016/227).*

Schedule 12 (14) provides for the uprating arrangements for the single-tier pension to reflect those for the current basic State Pension (i.e. the Secretary of State must increase it by a percentage not less than the percentage annual increase in the general level of earnings).[206]

The January 2013 White Paper explained that the uprating policy would be decided shortly prior to implementation.[207] The Government has since confirmed that the nSP will be uprated by the triple lock. In April 2016, the then Pensions Minister, Baroness Altmann said:

> I can certainly reassure the House that there is an absolute commitment to protect pensioner benefits up to 2020, and the basic state pension and the full new state pension, through the triple lock.[208]

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

> Significant savings are likely to be made in the future as a result of switching from the current state pension system to the single tier pension. The triple lock is more expensive than earnings indexation, but it has a large impact on the level of the single-tier state pension that individuals will receive in the future, and makes it more likely that individuals will achieve an adequate retirement income.[209]

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

5.5 State Pension deferral

The option to put off claiming the State Pension and, in return, to receive a higher amount has been part of the system since 1948.[210] In a

[204] DPRRC, 13th Report 2013-14, HL Paper 83, paragraphs 1-3
[205] HM Treasury, Autumn Statement 2015, December 2015, para 1.134-5
[206] *Pensions Act 2014*, s23 and Sch 12 (19); Explanatory Notes, para 50
[207] DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p90
[208] HL Deb 28 April 2016 c1235
[209] PPI, Single-tier series Paper 3, The impact of a switch from the triple lock to uprating by earnings, October 2013
[210] *National Insurance Act 1946;* As reported in: Secretary of State for Social Services' Report under Section 6 of the *Social Security (Miscellaneous Provisions) Act 1977* on *The Earnings Rule for Retirement Pensioners and the Wives of Retirement and Invalidity Pensioners*, HC 697: 1977-78, p27

December 2002 Green Paper, the Labour Government proposed improving incentives to defer, in order to encourage flexible retirement. Under the *Pensions Act 1995,* the five-year limit on deferral was to be removed and the weekly rate of deferred retirement increments increased, with effect from April 2010. Green Paper proposed bringing this forward to 2006. In addition, it proposed that people should be offered the option of a lump sum instead of a higher pension. [211] These measures were legislated for in the *Pensions Act 2004* (s297). Under current rules, to get extra State Pension, an individual has to defer for at least five weeks. For each five weeks of deferral, their State Pension can be increased by one per cent (10.4 per cent a year). There is also the option of a lump sum where an individual has deferred for at least a year.[212]

The January 2013 White Paper explained that deferral would still be an option under the nSP. However, there would no longer be the option of a lump sum. Furthermore, the amount of extra pension an individual can build might reduce.[213] In October 2013, the Government said that the current arrangements were "actuarially generous" and it intended to change the deferral reward to "more closely reflect the value of the income foregone by the delay:

> **Individuals will still be able to defer claiming their state pension and receive a higher weekly state pension in return**
>
> The ability to defer claiming the state pension will be retained under single tier, but the deferral reward will change to more closely reflect the value of the income foregone by the delay in drawing a single-tier pension, and it will no longer be possible to receive a lump-sum payment. In the analysis we assume that state pension will increase by 1 per cent for every 10 weeks that it is deferred. The decision on the rate will be informed by the latest actuarial factors, such as life expectancy, considering advice from the Government Actuary's Department (GAD), and the fit with the Government's agenda for supporting people who wish to work longer. It will not be possible to inherit the increments built up from deferring a single-tier pension.[214]

Regarding the impact of this, it said:

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

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

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

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

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

> return for deferrals. We estimate this component to save around £200m in 2020, rising to £300m by 2030 (in 2013/14 prices).[215]

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

> The Government propose to abolish the choice of taking that saved-up pension as a lump sum; it will be available to people only as an addition to the state pension. They are removing the choice of a savings sum from future pensioners. Currently, of the 1.2 million who defer their pensions, 63,000 take the lump sum, which was, on average, just under £14,000. In future, that option will be scrapped. Why? The Minister for Pensions, Steve Webb, is absolutely clear that he is doing it to "simplify the system". It is not about costs at all, he says, just about simplicity. What is so difficult to understand about a lump sum of your two years or so deferred pension?[216]

Lord Freud responded that the removal of the lump sum option had played a "key role in flattening expenditure." The "early-year savings" that this delivered had been "ploughed back into the single-tier design." People would still have the option of delaying their claim for 12 months and receiving the arrears as a lump sum (although there would be no interest on the arrears).[217] Baroness Hollis hoped Ministers would ensure people were aware they could take their pension lump sum in arrears after 12 months. She was disappointed by the reply but withdrew the amendment.[218]

The deferral provisions for the single-tier are in sections 16 to 18 of the *Pensions Act 2014*. The details are provided for in the SI 2015/173. Regulation 10 provides for the rate of increment to be 1/9th of 1 per cent for each week of deferral. The Explanatory Notes say:

> 7.28 Following advice from the Government Actuary's Department (GAD) on an actuarially fair rate for deferral, the Government announced that it would be set at 1/9th of 1 per cent of the weekly pension for each week of deferral (regulation 10), equivalent to just under 5.8 per cent for a full year. Section 17 of the Act provides that (as now) any increase of less than 1 per cent is not payable, so a person must defer for at least 9 weeks to get an increase.

As now, there will be circumstances in which people cannot gain any benefit from deferral:

> Regulation 11 provides that, as under the old scheme rules, a person cannot gain any benefit from deferring their state pension while another benefit from public funds is being paid to them or to another person on their behalf. It also provides that, as now, a person cannot accrue a pension increase during any period their state pension would not have been payable to them, if they had

215 Ibid para 95
216 HL Deb 24 February 2014 c776
217 Ibid c778
218 Ibid c781

claimed it, because they are a prisoner (see regulations 2 and 3).[219]

As now, people will have a once-only option after State Pension age to stop drawing their state pension for a period to earn an increase.[220]

5.6 Pension Credit

In its April 2011 Green Paper, the Government said that Pension Credit would "continue to support today's pensioners who have insufficient resources for their basic needs in retirement."[221] In January 2013, the Pensions Minister said that he expected people who had reached SPA before implementation to be able to continue to claim Pension Credit under current rules:

> [...] I have every anticipation that those rights will be honoured for as long as people are in a position to draw them.[...] There will be knock on effects when the universal credit is introduced for people of working age, we will have to incorporate housing benefit for pensioners in the pension credit system. There will be knock-on changes, but we envisage, certainly for the foreseeable future, a continuing separate pension credit system.[222]

Savings Credit closed to people reaching State Pension age after the implementation of the single-tier pension, although other means-tested benefits remain.[223] The rationale was that:

> 40. The single-tier pension will be set at a rate that is above the basic level of means-tested support. As a result there will no longer be a need for a complex savings reward under single tier. Removing Savings Credit will simplify means-tested support and help to ensure Pension Credit is re-focused on providing a safety net targeted at the poorest and most vulnerable.
>
> 41. Other income-related benefits will remain, and support will be retained for a period of five years for those people who may have received more help with housing costs by virtue of the availability of the Savings Credit.[224]

At Third Reading in the Lords, Lord McKenzie table an amendment calling for a "a report to Parliament on alternative arrangements for accessing cold weather payments and the warm home discount currently available to recipients of Pension Credit."[225] Lord Freud said the Government was considering ways in which it might be possible to identify, for cold weather payment purposes, single-tier pensioners whose income will be above but close to the level of the standard minimum guarantee.[226] Regarding the warm homes discount scheme,

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[219] The (draft) State Pension Regulations 2015 – Explanatory Notes, para 7.31
[220] Ibid, para 7.32
[221] DWP, A state pension for the 21st century, Cm 8053, April 2011, para 104
[222] HC Deb, 14 January 2013, c613 and c620
[223] *Pensions Act 2014*, section 23 and Schedule 12 (part 3)
[224] DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), Chapter 2
[225] HL Deb 12 March 2014 c1763
[226] Ibid c1767

the Government had not yet made plans for 2016/17 and beyond.[227] Lord McKenzie withdrew his amendment.[228]

Opposition spokesperson Lord Browne asked about the impact on mixed-age couples, where one reaches State Pension age before 6 April 2016 and the other after.[229] Lord Freud responded that:

> A key principle of the reforms is to remove access to savings credit for single-tier households, which includes couples where one reaches state pension age before 6 April 2016. We need to balance the fairness between recipients and taxpayers in dealing with the conflict between the individual basis of the single-tier pension and the household basis of the savings credit. However, we will allow those mixed-age couples already in receipt of savings credit on 6 April to retain it, if they continue to meet the eligibility conditions.[230]

5.7 Prisoners

Section 113 of the Social Security Contributions and Benefits Act 1992 provides that except where regulations otherwise provide, a person shall be disqualified from receiving benefits under parts 2 to 5 of that Act (which includes the state pension) for any period during which they are "undergoing imprisonment or detention in legal custody." Regulations provide that prisoners on remand are only disqualified if they go on to receive a sentence of imprisonment or detention.[231] Section 19 of the Pensions Act 2014 provides for the policy to continue. The Explanatory Notes say:

> 97. For prisoners, regulations may provide that a person is not to be paid a state pension whilst they are imprisoned, detained in legal custody or unlawfully at large. This is the same as under the rules for the old retirement pension.[232]

The rationale for the policy is to:

> […] avoid making double provision out of public funds by meeting both the cost of the prisoner's maintenance while detained and paying benefit, in this case, a state pension.[233]

When the Bill was before Parliament, the then Shadow Pensions Minister, Gregg McClymont expressed support.[234]

This is provided for in *State Pension Regulations 2015 (SI 2015/173)* (regulation 2).

5.8 The abolition of contracting out

The old State Pension had two tiers – the BSP and additional State Pension. Since its introduction, it was possible to contract-out of the additional State Pension into an occupational pension scheme that

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227 Ibid c1768
228 Ibid c1769
229 HL Deb 8 January 2014 c413 GC
230 Ibid c414GC
231 *Social Security (General Benefit) Regulations 1982*, SI 1982/1408, reg 2(2) and (2)(8)(c),
232 *Pensions Act 2014* – Explanatory Note
233 SI 2015/153 Explanatory Memorandum, para 7.34
234 PBC Deb 4 July 2013 c210

meets certain requirements. In return, the employee and their employer pay reduced National Insurance Contributions (NICs), through what is known as the "contracted-out rebate".

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

> 72 When the single-tier pension is introduced and contracting out ends, all employees who were members of a contracted-out scheme immediately before introduction will cease to receive the 'contracted-out rebate' and will start to pay full National Insurance contributions. This will mean an increase in the rate of contributions that they pay equivalent to 1.4 per cent of their earnings (between the LEL and the UAP), bringing them into line with the rate of National Insurance that is paid by other employees. In return, contracted-out employees' qualifying years after the implementation of the single-tier pension will count towards the single-tier pension in the same way as others.[235]

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

> 103. We accept that, on average, employees who were previously contracted-out will not lose out in the longer term from having to pay increased National Insurance and pension scheme contributions, because most will gain enough in increased State Pension to compensate for this. However, within this average, some individual employees could lose out and some may face difficulties in the shorter term, especially if current wage restraints continue. We recommend that the Government undertakes more analysis of which employees might fall into this category, so that Parliament can properly consider what measures, if any, might be put in place to limit losses.[236]

For individuals, the loss of the contracted-out rebate will mean an increase in the rate of NICs that they pay equivalent to the value of the rebate (calculated as 1.4 per cent of their earnings between the LEL and the UAP), bringing them into line with the rate of NI that is paid by other employees.[237] The Government estimated that loss of the rebate for contracted-out workers was £23 per month for an individual on approximately median earnings (2014/15 earnings terms).[238]

The Government estimates that of people paying more NI in the first 20 years 20 years of the nSP, around 90% will gain enough State Pension

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

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

[237] DWP, Single-tier Impact Assessment, October 2013, section 5.2

[238] DWP, Updated single-tier impact assessment, July 2014

over and above what they would have got under the old system to offset the extra NI and any loss of GMP indexation.[239]

Impact on employers

There are also implications for employers who sponsor contracted-out schemes, as the loss of the contracted-out rebate will mean they need to start paying the standard rate of NICs (an increase for each contracted-out employee of 3.4 per cent of relevant earnings).[240]

Private sector

The Government said in the White Paper that it believed it was necessary, to safeguard the ongoing viability of Defined Benefit pension schemes in the private sector, to give employers limited powers to change scheme rules without trustee consent (for example, by reducing future pension benefits or increasing employee contribution rates).[241]

Section 24 of the Act provides for the ending of the option for sponsoring employers of Defined Benefit (salary-related) pensions to contract their employees out of the additional State Pension. **Schedule 14** would provide employers with a limited 'statutory override' of scheme rules, to enable them to make changes to adjust for the additional NI cost. The power will be available for five years.[242]

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

> We have no clear indication from the Government about how they will value what it is that can be recouped. As I asked when speaking the other day, is it the net or the gross loss? Will it be crystallised in terms of the 2016 value of the rebate? These are quite significant issues. On one level, setting out some actuarial assumptions in the regulations may be a good thing, although we would perhaps want to see the actuarial assumptions first. But we have no way of seeing them and when we do, the regulation will be subject to the negative procedure.[243]

Lord Freud said the intention was that the current rebate rate of 3.4% will be used for these calculations".[244] Baroness Drake questioned the fairness of this:

> Employers will be allowed to recoup the value that is crystallised in 2016, but everyone knows that if there had not been changes the post-2016 value would have gone down. In addition, the employer's NI charges are an expenditure that can be taken into account and set against tax. If those two elements are not built in, is that not a little unfair in term of the rules for recoupment—a little imbalanced?[245]

[239] Evidence to the Work and Pensions Committee, USP0143, January 2016; DWP, *Single-tier impact assessment,* October 2013 paragraph 88, para 135
[240] Ibid Executive Summary, para 19
[241] DWP, The single-tier pension: a simple foundation for saving, CM 8528, January 2013
[242] *Pensions Act 2014,* section 24 (8)
[243] HL Deb 13 January 2014 c5-6GC
[244] For further detail, see DEP 2014-0032 and DEP 2014-0001
[245] HC Deb 13 January 2014, c10-11GC

Lord Freud said the Government was consulting stakeholders on regulations to implement the provisions. These would not be ready to present to Parliament until May or June. They would be subject to the negative parliamentary procedure.[246]

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

> The rights of trustees are protected and that their legal responsibilities are recognised; that the trustees will be involved in any alteration of the scheme; and that consultation will be conducted in accordance with the terms of the scheme.[247]

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

> For example, it does not mean that an employer can avoid notifying trustees or members of a change, or refuse to carry out a consultation, if scheme rules would require this. Indeed, existing legislation requires that members are consulted on any significant rule changes before they are made[…] that will remain the case.[248]

There were safeguards in the legislation:

> Schedule 14 provides important safeguards, such as limits on the use of the override to prevent an employer from making changes beyond those necessary to recoup their increase in national insurance contributions, the need for an actuary to certify the changes and protection for members' accrued rights. We will put further safeguards in regulations—for example, to ensure that the employer cannot create their own assumptions for the purposes of the calculation but must draw on existing assumptions used by the scheme.[249]

Lord Whitty remained concerned that the Government had effectively "overridden the governance structure of work-based occupational schemes by attacking the very fundamentals of trusteeship." He withdrew his amendment.[250]

DWP launched a consultation on draft regulations in May 2014. This provided an overview of how the provisions are intended to work. For example:

> 20. The provision of a statutory override will help employers to continue supporting their defined benefit pension schemes after the abolition of contracting-out. Employers using the override are limited to recouping their increase in NICs only.
>
> 21. In general the statutory override can be used to override any scheme rule or regulation that prevents an employer from making changes to their scheme.

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[246] Ibid, c3GC
[247] HL Deb 24 February 2014 c799
[248] Ibid c803
[249] Ibid c803; See also DEP 2014-0032
[250] Ibid c807

> 22. These regulations will require an actuary to estimate the value of the employer's additional NI costs and the value of the amendments proposed to recoup that cost. Before any amendments can be made they must be certified by the actuary as recouping no more than the increase in the employer's NICs.[251]

The Government's response to this consultation, when published, should be available on the Occupational pension schemes: abolition of defined benefit contracting out page on Gov.UK.

Protected persons

In January 2013, the Government launched a specific consultation on whether to allow a statutory override to private sector employers in formerly nationalised industries which include employees with "protected persons status."'[252] On 12 February 2014, the Government announced that it would honour the promises made at privatisation:

> We had to consider the best and fairest course of action in an area where the arguments are both finely balanced and highly polarised. The Government has decided that it should honour the promises that were made at the time of privatisation and which, in many cases, have been affirmed by Government Ministers subsequently. The Government thinks it is reasonable that issues arising from the end of contracting out for this small number of workers should be resolved through negotiation. Therefore the Government proposes that employers should not be allowed to use the statutory override to alter their pension schemes in relation to members with protected person status.[253]

The Government amended the Bill to this effect at Report Stage to exclude protected persons from the scope of the statutory override.[254] This is discussed in more detail in Library Note SN 6725 Pensions: possible statutory override for protected persons (8 April 2014).

Public sector

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

> 71. The Government has given a commitment to Parliament that the reforms to public service pensions should endure for 25 years, setting a high bar for future scheme changes in the Public Service Pensions Bill. Public service employers will therefore not be able to pass the cost of increased National Insurance contributions onto their employees by reducing the value of pension scheme benefits or by increasing employee contribution rates to their pension schemes.[255]

[251] DWP, Consultation - Occupational Pension Schemes – abolition of defined benefit contracting-out, May 2014

[252] DWP, Abolition of contracting out – consultation on a statutory override for Protected Persons Regulations, January 2013

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

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

[255] Ibid; See Library Note SN 5678 Public service pension reform – 2010 onwards

The Pensions Policy Institute has noted that sponsors of public service pension schemes would face higher NICs but that the overall impact on the budgets of public service scheme sponsors would "depend on whether HMT increases sponsors budgets by the amount of the higher NICs or not."[256]

The Government has said this is an issue for the next Parliament:

> The Government have not set a fixed spending envelope, nor individual departmental budgets, beyond 2015-16. As contracting out will be abolished in 2016-17, the impact falls outside of the current settlements. Any spending review in the next Parliament will, of course, consider the impact of increased national insurance contributions in the round.[257]

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

[257] HC Deb 13 January 2014 c451W

BRIEFING PAPER

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