

Gross State Pension entitlement

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Background

The State Pension is a regular payment people can claim when they get to State Pension age. Most people build up some State Pension, but the amount they get varies. The amount of State Pension you get depends on how many qualifying years of National Insurance you have built up. You can do this by paying National Insurance contributions, or you may get National Insurance credited to you by the government.

The State Pension is comprised of two main parts - basic State Pension and Additional Pension. Additional Pension includes entitlement built up under the State Earnings-Related Pension Scheme (SERPs) and the State Second Pension. Some people will not receive all of their State Pension directly from the state as they will have contracted out of Additional Pension. For people in contracted out employment Additional Pension received direct from the state is known as 'net Additional Pension'. This amount is arrived at by offsetting alternative Additional Pension rights accrued in private pension schemes during periods of contracting out. The combined figure is known as 'Gross Additional Pension',

Once you get your State Pension, it gives you a regular income for the rest of your life. From April the basic State Pension will be increased by the higher of growth in earnings, prices or 2.5% - also called the triple lock. Additional Pension is increased by inflation as measured by the Consumer Price Index (CPI).

Further information on the State Pension can be found at the following links:

<http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/index.htm>

<http://www.dwp.gov.uk/publications/specialist-guides/technical-guidance/>

Methodology

These estimates have been derived from DWP's Pensim2 model. Pensim2 is a dynamic microsimulation¹ model used to provide projections of pensioners' incomes to 2100. The model has been used widely to inform much of the department's work on pensions and was also used by the Pensions Commission. It is considered to be the world's leading model of long term UK pension simulation.

The model takes an input dataset created from a combination of different sources (no single source provides all the different information required) that provides detailed characteristics of individuals and benefit units. It then simulates the life course of these individuals, modelling events like education, partnership/marriage, mortality and participation in the labour market. It uses these to simulate a pension entitlement in retirement.

¹ Dynamic being changing characteristics over time and microsimulation being at the micro level, e.g. individual or benefit unit

As with all modelled results outcomes are sensitive to the assumptions made. Pensim2 is aligned to common modelling assumptions made across Government, for example, on inflation, earnings growth and demography. If any of these assumptions changed, results would be affected to a greater or lesser degree. Similarly the model and outputs are based on a sample of the population, giving uncertainty in the outcomes. In addition, the model is a 'closed system', so only includes estimates of the UK population.

To estimate the weekly difference between men and women, the Gross State Pension for those reaching State Pension age in each year was calculated, the median value for males and females was identified and deflated to 2010/11 earnings terms.

Results

The analysis shows that median Gross State Pension entitlement for women reaching State Pension age between 2010 and 2020 is an average of £40 a week lower than for men reaching State Pension age in the same years. Women's entitlement remains lower in the 2030s and 2040s.

Table 1: Median Gross State Pension entitlement of men and women reaching State Pension age from 2010 to 2050, £ per week, 2010/11 earnings terms

Year Reaching State Pension age	Men	Women
2010/11	165	115
2011/12	180	120
2012/13	170	125
2013/14	170	125
2014/15	170	125
2015/16	165	125
2016/17	165	130
2017/18	165	125
2018/19	165	130
2019/20	160	130
2020/21	160	135
2025/26	160	135
2030/31	155	140
2035/36	160	150
2040/41	160	150
2045/46	160	150
2050/51	160	155

Source: Pensim2 v11_01

Notes:

1. Amounts are rounded to the nearest £5.

2. The measure of Gross State Pension above takes account of the value of Additional Pension from the state foregone during periods of contracting out. It is for the individual's own entitlement only and excludes entitlement to Graduated Retirement Benefit.
3. The median value is used as the mean value can be skewed by a low proportion of high or low values.
4. Variation in outcome from year to year is partially explained by a low sample size and should not be taken as indicative of being lower or higher than the year before. These figures should be used to identify longer term trends and compare levels between groups in the same year.

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