

Women with less than £140 of State Pension

April 2011

Contents

Background 3

Methodology 3

Results 5

Background

The State Pension is a regular payment people can claim when they reach State Pension age. Most people build up some State Pension, but the amount they get varies. The amount of State Pension someone receives depends on how many qualifying years of National Insurance they have built up. Entitlement is built up either through paying National Insurance contributions or through National Insurance credits.

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 directly from the state is known as 'net Additional Pension'. On the other hand, where figures include the Additional Pension someone receives from the contracted out element through their private pension the whole amount is called 'Gross Additional Pension'.

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

The DWP's Pensim2 model is used to estimate the average amount of Gross State Pension for women currently in their late 40's through to State Pension Age with 30 qualifying years and less than £140 a week of Gross State Pension. Women with these characteristics were isolated within the model and a median taken of their estimated weekly Gross State Pension entitlement in 2010/11 earnings terms; the difference between the median value and £140 was calculated.

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

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

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.

As with all modelled results outcomes are sensitive to the assumptions made. Pensim2 is aligned to common modelling assumptions made across Government, for example, the OBR's economic assumptions on inflation and earnings growth and ONS projections on demography are used. These are updated as and when new assumptions become available. The model currently uses Budget 2010 economic assumptions and will be updated to the Budget 2011 assumptions shortly. 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.

A previous publication on Gross State Pension entitlement² showed that the median gross State Pension entitlement for women reaching State Pension age from 2010 was below £140 up to 2030.

Figure 1 in the National Statistics publication Population Trends³ shows that up to 80% of women born between 1950 and 1960, so reaching State Pension age between 2010 and 2026, have had at least one child by the age of 40.

The number of women reaching State Pension Age between 2011/12 and 2030/31 have been estimated using the latest 2008 based Population Projections⁴ adjusted to take account of State Pension equalisation and current plans for increasing the State Pension Age between 2016 and 2020⁵. These estimates show that around 5.4 million women will reach State Pension Age between 2011/12 and 2030/31, and around 4.5 million women will reach State Pension Age between 2016/17 and 2030/31.

Using the already published figures, we can say that around 50% of the women reaching State Pension age up to 2030 are estimated to be entitled to less than £140 gross State Pension. Therefore, we can estimate that around 2.3 million women reaching State Pension Age between 2016/17 and 2030/31 have less than £140 gross State Pension entitlement.

Using the Population Trends³ figures to assume that around 80% of women in these cohorts are likely to have had at least one child, we can also estimate that around 1.8 million women who have had at least one child and reach State Pension age between 2016/17 and 2030/31 have less than £140 gross State Pension entitlement.

² http://statistics.dwp.gov.uk/asd/asd1/adhoc_analysis/2011/gross_state_pension_entitlement.pdf

³ http://www.statistics.gov.uk/articles/population_trends/PT117PerpetualPostponersWomens.pdf

⁴ Female, Great Britain, projected populations at mid-years by age last birthday

⁵ <http://www.dwp.gov.uk/docs/pensions-bill-2011-ia-annexa.pdf>

Results

The analysis shows that on average the difference between £140 and the Gross State Pension entitlement of women with 30 qualifying years and less than £140 a week reaching State Pension age from 2011 is £15.

Table 1: Median Gross State Pension entitlement for women reaching State Pension age between 2011 and 2030 with at least 30 qualifying years and less than £140 of Gross State Pension entitlement, £ per week, 2010/11 earnings terms

Year reaching State Pension age	Mean Gross State Pension entitlement
2011/12	120
2012/13	125
2013/14	125
2014/15	125
2015/16	125
2016/17	125
2017/18	125
2018/19	130
2019/20	125
2020/21	130
2025/26	130
2030/31	130

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. 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 rather than identify changes between consecutive years.

Table 2: Number women estimated to reach State Pension Age between 2011/12 and 2030/31

Year reach SPA	Number reaching SPA
2011/12	169,000
2012/13	178,000
2013/14	165,000
2014/15	172,000
2015/16	165,000
2016/17	91,000
2017/18	87,000

Average State Pension of women with less than £140 of State Pension – April 2011

2018/19	79,000
2019/20	86,000
2020/21	333,000
2021/22	336,000
2022/23	348,000
2023/24	363,000
2024/25	369,000
2025/26	375,000
2026/27	392,000
2027/28	402,000
2028/29	414,000
2029/30	421,000
2030/31	429,000

Notes:

1. Rounded to the nearest 1000
2. Adjusted to account for SPA equalisation and the SPA changes proposed between 2016 and 2020

Helen Vincent (helen.vincent@dwp.gsi.gov.uk)
Department for Work and Pensions
1st April 2011