



DWP Department for
Work and Pensions

A state pension for the 21st century:

A summary of responses to the public consultation

Presented to Parliament by the Secretary of State
for Work and Pensions by Command of Her Majesty
July 2011

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Foreword

The state pension should provide a basic level of income, a firm foundation for saving for retirement and should be sustainable for future generations. Our first priority was ensuring fair levels of support for current pensioners by restoring the earnings link to the basic State Pension. The introduction of the triple guarantee means that a person retiring in 2011/12 will receive on average over £10,000 more in basic State Pension during their retirement than they would have done before we made this change. As a result of this commitment, expenditure on the basic State Pension will increase by over £5bn by 2020, and £45bn more over the next 15 years, than it would have done under the old prices link. We have also made clear our commitment to retain free prescriptions and TV licences for the over 75's.

But we must look ahead and ensure that we deliver certainty for future pensioners. While life expectancy has improved, pension saving continues to decline. And frequent changes to the state pension system over the last few decades mean that many do not understand what they can expect from the state during retirement. We are introducing automatic enrolment into workplace pensions next year, and this will make it easier for people to take greater responsibility for saving. What we now need to do is assess whether the state pension provides the foundation that is needed to support people in taking on this greater personal responsibility.

The publication of the Green Paper 'A State Pension for the 21st Century' on 4 April this year saw the start of a twelve week consultation period in which we asked organisations and individuals to respond to our proposals for delivering a simpler and fairer state pension, and managing future changes to State Pension age. During the consultation period I met with a number of organisations to explore our proposals for reform, and hosted some lively roundtable discussions about our ideas. These meetings were extremely informative, demonstrating to me the range of opinion that exists on this subject as well as the enormous challenges that any reform of the state pension system presents.

This consultation elicited a good number of written responses – over 100 from organisations, and over 1,600 from individuals. 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. The responses we have received are a central addition to the debate, and I am extremely grateful to the many individuals and organisations who took the time to respond.



Steve Webb MP
Minister of State for Pensions

The consultation process

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The Department for Work and Pensions launched a twelve week public consultation on 4 April 2011 with the publication of 'A State Pension for the 21st Century'. The consultation closed on 24 June 2011.

In total we received over **1,600** responses from individuals and **102** responses from organisations.

A website was created with an electronic questionnaire to support people in responding. There was also a dedicated phone line for people who preferred to telephone with their responses. The majority of respondents commented by email and post.

During the twelve week consultation period the Minister for Pensions hosted four roundtable discussions on various aspects of the proposed reforms to bring together different groups of interested organisations. In addition, officials met with around 35 pension providers, employers, employer representatives, voluntary sector organisations and consumer groups.

Many of the organisations we met with have also responded in writing to the consultation.

We are grateful to all those who gave so generously of their time to discuss the issues and share ideas and suggestions.

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Below is a list of organisations and specialists who provided a written response to the consultation.

Access to Benefits (A2B)
Advice Northern Ireland
AEGON
Age Cymru *
Age Sector Platform (ASP)
Age UK *
Alliance Party of Northern Ireland
Anne McGuire MP
Aon Hewitt Limited
Arc Benefits Limited
Association of British Insurers (ABI) *
Association of Consulting Actuaries (ACA) *
Association of Pension Lawyers *
Association of Teachers and Lecturers (ATL)
Aviva
B&CE Benefit Schemes
British Australian Pensioners Association Inc. (BAPA)
BBC Pension Scheme
British Chamber of Commerce (BCC) *
British Telecom Pension Scheme *
Buck Consultants
Carers UK *
Confederation of British Industry (CBI) *
Centre for Retirement Reform
Citizens Advice *
Citizen's Income Trust
Civil Service Pensioners' Alliance
Consortium of British Pensioners
Convention of Scottish Local Authorities
Deloitte
Disability Action Northern Ireland
Engineering Employers Federation (EEF) *
Eversheds LLP
Employers in Voluntary Housing (EVH)
Federation of Small Businesses (FSB) *
Fidelity International
First Actuarial LLP
Friends Life
Future Years
Future North West
Glamorgan Blended Learning Ltd

Hackney Pensioners Convention
Hargreaves Lansdown
Heath Lambert
Independent Age
Institute of Directors *
Institute of Economic Affairs
Institute of Fiscal Studies (IFS) *
Institute of Gerontology
Institute of Public Policy Research (IPPR) *
Investment and Life Assurance Group
Investment Management Association (IMA) *
Jaguar Land Rover
Jardine Lloyd Thompson (JLT) *
Jeremy Lefroy MP
Law Society of Scotland
Legal & General *
Liverpool Friendly Society
Lothian Pension Fund
Madeline Moon MP on behalf of an individual
Mercer *
Money Advice Service *
National Association of Pension Funds (NAPF) *
National Assembly of Women
National Federation of Occupational Pensioners
National Union of Teachers
National Institute of Economic and Social Research (NIESR) *
Northern Ireland Public Service Alliance (NIPSA)
Northern Bank
Northern Ireland Assembly – Committee for Social Development
National Pensioners Convention (NPC) *
Office for National Statistics (ONS)
Plumbing Pensions
Pensions Management Institute (PMI) *
Pensions Policy Institute (PPI) *
Professor John Hills *
Professor Paul Spicker
Prospect Union
Prudential *
Public & Commercial Services Union (PCS)
Public Service Pensioners' Council
Railways Pension Trustee Company Limited
Rail, Maritime and Transport Workers Union (RMT)
Sackers

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Saga *
Scottish Life
Scottish Widows
Scottish Women's Convention
Social Security Advisory Committee
Standard Life
STC Pension Management Ltd
Taxpayers Alliance
Tax Incentivised Savings Association
Tesco *
The Actuarial Profession *
The Age and Employment Network
The Hundred Group
The Pensions Advisory Service (TPAS) *
The Society of Pension Consultants *
The Whitehouse Consultancy Ltd
Towers Watson *
Transport for London
Transport Salaried Staffs' Association
TUC *
Unite Union
Verulam Consultants
Which? *
Wragge & Co LLP

In addition, we received responses from over 1,600 members of the public.

* Organisations and specialists whom officials met with during the consultation period

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Executive Summary

2

The Government published a Green Paper 'A State Pension for the 21st Century' on 4 April 2011. The publication of the Green Paper launched a twelve week consultation which ended on 24 June 2011.

The Green Paper consulted on two broad options for reforming the state pension system for future pensioners and on how future changes to State Pension age should be managed, taking into account increases in life expectancy. It provided a high level outline of each option but did not include a detailed assessment of the possible impacts.

State Pension Reform

The two options set out in the Green Paper for reforming the state pension system were:

- **Option one – “faster flat rating”** – speeding up the move to a flat rate two-tier state pension. This option means the State Second Pension would become flat rate (that is, no longer earnings-related) by 2020 instead of the early 2030s. The basic State Pension would remain separate from the State Second Pension.
- **Option two – “the single tier pension”** – combining the basic State Pension and State Second Pension into one state pension.

State Pension Age

The Green Paper set out options for a more automatic mechanism for future changes to the State Pension age.

What organisations and individuals said

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.

Transition and communication under the single tier option

Many respondents commented that there would be a long and complex transition to a new system. This could potentially undermine the principles of simplicity and clarity.

Communication to individuals was seen as a major challenge here. The majority who raised the issue of transition noted its inevitable complexity and the challenge of how to communicate transition to employers, employees and members of the public.

Ending contracting out under the single tier option

We received responses from more than 50 employers and employer representative organisations on ending contracting out. Many commented that ending contracting out for Defined Benefit schemes (which would be a necessary feature of the single tier option) would have significant implications for employers, schemes and members, and would need to be very carefully managed. The majority of respondents did not see the challenges associated with the end of contracting out as insurmountable, or a reason not to pursue reform. There were relatively few comments on contracting out from individuals.

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.

Means tested benefits

Only a minority of organisations responded directly to the question about how means tested benefits should support a new state pension system. Among those responding, there was broad acknowledgement that some form of safety net should remain in a reformed pension system.

The majority of respondents felt that the access to and role of ‘passported’ benefits such as Housing Benefit and Council Tax Benefit were not adequately addressed in the Green Paper and needed to be clarified further.

Future changes to State Pension age

The Green Paper asked for views on the nature of the more automatic mechanism which could be used to determine future changes to State Pension age, describing the role of a formula linked to life expectancy and a periodic review as possible elements in any approach. In general, there was a high level of support for a more automatic mechanism to manage future increases to State Pension age. The majority of respondents argued that incorporating some form of periodic review would be valuable because as part of the analysis of life expectancy data, it would allow for expert input on life expectancy trends and other factors such as healthy life expectancy and labour market conditions. A smaller number saw the value of a formula which would ensure a close link between life expectancy and State Pension age. Views about an adequate notice period for a change in State Pension age varied, with the majority of individuals and organisations saying 10 years notice was appropriate.

Current Pensioners

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.

Specifically, 1,000 of the 1,600 responses from individuals related to the issue of “frozen pensions” for UK pensioners living abroad, with individuals calling for their basic State Pensions to be updated in the same way as those of pensioners in the UK.

Analysis of impacts of proposals

Many organisations said that they could not fully support any option until they had seen detailed analysis of the impacts of the proposals; in particular more information on how this would affect individual future pensioners.

The Green Paper sought to consult on the broad principles of reform and provided a high level outline of each option but did not include a detailed assessment of the possible impacts.

If the Government decides to take further the proposals for state pension reform, the publication of a White Paper and full Impact Assessment would follow as part of the usual process.

Interested organisations and members of the public are invited to keep up to date with any developments at www.dwp.gov.uk/state-pension-21st-century.

Responses to the consultation questions

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Question 1: Would the current pension system, if left unchanged, meet the Government's principles for reform and provide an effective foundation for saving?

Background

The Government set out in the Green Paper its principles for reform of the state pension. These are:

- **personal responsibility** – enabling individuals to take responsibility for meeting their retirement aspirations in the context of increased longevity;
- **fairness** – ensuring an adequate level of support for the most vulnerable, ensuring everyone with a full contribution record should be entitled to a state pension above the standard level of means tested support, and ensuring all groups are treated fairly;
- **simplicity** – simplifying the state pension so that it is easier for people to plan and save for their retirement; and
- **affordability and sustainability** – given longer-term pressures on the public finances, any state pension reform must be affordable. Any options for reform must be cost neutral in each and every year to avoid placing an unsustainable burden on future taxpayers. Any proposals will be subject to confirmation, including on affordability, and will reflect the projections set out in the Office for Budget Responsibility's Fiscal Sustainability Report. In addition changes to State Pension age should ensure the system is sustainable for future generations.

With the introduction of automatic enrolment from next year, the Government was also interested in exploring to what extent respondents believed the current system encouraged saving in a private pension.

What organisations and individuals said

Around half of organisations who responded to the consultation addressed this question directly in their response, discussing features of the current system in relation to the principles for reform. Others set out their view of the current system's advantages and disadvantages without explicitly referring to the principles for reform.

Of those who addressed this question directly, most concluded that the current state pension system did not meet the four principles for reform set out above, particularly the principle of simplicity. Age UK, the NAPF, the Citizen's Income Trust, Saga, the Association of Independent Financial Advisers, the Pensions Advisory Service, ABI and the CBI were among those who said that the current system is too complicated with means-testing frequently cited as a cause of complexity.

ABI

The current state pension system, if left unchanged, does not meet the Government's principles for reform... Change is therefore needed.

NAPF

Reform of the state pension must result in a simpler, more generous system. The current system is too complex. People cannot predict what they will receive from the state, making their decision to save in private pensions more difficult. Reform of the state pension must ensure that people will know what to expect from the state pension system and give them certainty that it will "pay to save".

Saga

The present system does not encourage personal responsibility. For example, our state pension system is a major disincentive to pension saving – especially for lower income groups who are most likely to be at risk of ending up eligible for pension credit in retirement. If they do save in a pension scheme, they risk losing much or all of their pension if they claim pension credit.

Most who commented on the complexity of the current system felt that lack of simplicity in turn worked against the principle of personal responsibility. The Pensions Management Institute, the Money Advice Service, the Citizen's Income Trust, Prudential and the Association of Independent Financial Advisers all commented that the current system does not encourage personal responsibility, citing complexity linked with means-testing as the main reason.

Citizen's Income Trust

A substantially means-tested system doesn't encourage people to take responsibility for retirement income because it makes it difficult to predict the effect of savings on net income in retirement.

The Money Advice Service

[T]he state pension in its current form fails to meet the principles of personal responsibility and simplicity because it is complex and difficult to understand and to navigate... [F]or many people it does not pay to save under the current system...

A small number of organisations, including the Association of Teachers and Lecturers, felt that the current system meets the principle of personal responsibility as it rewards earnings-related contributions.

The TUC recognised the need for reform in current state pension provision but did not believe that the Green Paper went far enough in explaining the impacts on individuals of either option.

TUC

The TUC recognises the need for reform in the state pension provision to address the major shortcomings that are identified in the consultation document, including complexity, uncertainty and, in particular, a reliance on means-testing. However, the Government has not demonstrated in sufficient detail how far its proposals will relieve these issues. Nor does the consultation paper quantify sufficiently the impact its proposals will have on the retirement income of the individual winners and losers there will be under each of its options for reform.

The PCS union supported the aim of simplifying the current state pension system but were disappointed that the Government did not include in the options a ‘third option’ of retaining the status quo and proceeding with flat rating the State Second Pension by the mid 2030’s in line with the original timetable.

None of the organisations who responded thought the current system was a good foundation for saving and many including the NAPF, the Money Advice Service and Which? explicitly said that the current system was a poor foundation for saving.

Those who commented on the affordability and sustainability of the current system generally felt that it was affordable and sustainable in the long term, but that this would depend upon increases to State Pension age. A small number of organisations queried the meaning behind the principle of affordability, arguing that affordability had been assumed to mean the current level of spending.

Unite

What is affordable and sustainable is not defined by what is provided now, as the Green Paper suggests... The only one of the criteria that the current pension satisfies is that it is affordable and sustainable, but it is far from being the maximum that could be afforded and sustained.

Only a small number of organisations commented on whether the current state pension system met the principle of fairness. Saga, Age Sector Platform and Aviva commented that the current system is not fair in that it tends to penalise women and those with very low paid jobs (for example those with a series of part-time jobs paid below the National Insurance threshold.)

Those organisations who considered the principles generally felt that they were the right ones. Several organisations suggested additional principles. The EEF commented that there should be an additional principle of stability, calling for the Government to give reassurance that a reformed state pension system would not be changed again in the short to medium term.

Which? suggested an additional principle of value for money for the taxpayer in administering the state pension, and Age UK called for the reduction and abolition of poverty to be a stated aim of reform.

The small minority of individuals who referred to the current state pension system in their responses focused primarily on fairness: for example stating that the current level of the state pension did not provide an adequate income in retirement and was therefore unfair. This issue is discussed further in the section on current pensioners.

Member of the Public

As someone who has worked and paid in to the system for over 40 years I do not feel the state pension gives us a fair amount of money to retire on.

Summary

Of those respondents who chose to answer Question 1, the overwhelming theme in relation to the current system was that of complexity. Respondents did not feel the current system delivered against the principle of simplicity, and that this had an effect on the current system's ability to deliver against the objective of personal responsibility.

Question 2: To what extent would faster flat rating meet the principles for reform and improve savings incentives?

Background

The Green Paper asked respondents to consider the extent to which Option 1 (faster flat rating) would meet the principles for reform.

Under this option the current gradual withdrawal of the earnings-related element of State Second Pension would be accelerated so that by 2020 (rather than the 2030s) this pension would be valued at a flat rate of about £1.60 a week for each qualifying year.

What organisations and individuals said

Around two thirds of organisations responded directly to this question. Some commented that incremental change could improve the current system, particularly if more groups were covered by State Second Pension. The majority who answered this question felt that faster flat rating would not address the fundamental flaws of complexity and uncertainty.

Engineering Employers Federation

We are concerned that Option 1 would not deliver the desired policy outcomes and lead to yet another review in a few years' time. It would not make sufficient inroads into the overlapping problems of complexity, unfairness and means-testing.

The PPI estimated that the proposal would meet the principle of affordability and be broadly cost neutral but felt it would have little impact on reducing means testing in the current system.

Pensions Policy Institute

PPI estimates that faster flat-rating of S2P would lead to marginal reductions in future Government expenditure on state pensions and means-tested benefits, saving less than 0.1% of GDP, each year by 2055. Faster flat-rating is unlikely to have a significant effect on the levels of entitlement to Pension Credit and other means-tested benefits.

There were concerns that faster flat rating would do little to encourage private saving.

Age UK

...a move to faster flat rating would do little in the short term to make the system simpler. Without greater clarity around state provision there will still be no clear platform on which to build up private savings which will make it harder for people to plan for their retirement.

A few respondents pointed to what they described as a trade-off between building up the State Second Pension throughout a working life and the cap at 30 qualifying years under the single tier option. Age UK could see shortcomings in the State Second Pension in the time taken to fully deliver fairness in pension outcomes for the low paid and those with caring responsibilities. But they highlighted the value of allowing workers and carers to build a pension throughout their working lives. Citizens Advice made a similar point.

Citizens Advice

The advantage of this option is that it would continue to reward people for NIC records for the whole of their working life.

The Federation of Small Businesses (FSB) and the National Institute of Economic and Social Research (NIESR) favoured the faster flat rating option over the single tier option. The FSB's main concern was that bringing the self employed into a single tier state pension may lead to pressure to increase National Insurance for this group of workers. On the overall design of the contributory state pension NIESR commented on the advantages for governments of maintaining two tier pension arrangements as this gives them more policy levers in future.

Federation of Small Businesses

It is thus that the FSB favours Option One in its basic form, which essentially maintains the status quo for the self-employed and those who run a small business. It ensures that those who choose to be self-employed are recognised as such. In addition under this option company directors' earnings in terms of the state pension reflects their working longer.

National Institute of Economic and Social Research

...particularly in relation to differential benefits indexing and accrual rates – (this) gives the government a reasonable degree of flexibility to adapt to policy needs as they arise.

The CBI noted that under the faster flat rating option the National Insurance contracted out rebate would be retained although the amount of rebate would be reduced as the overall level of the State Second Pension reduced. The NAPF also made this point, quoting analysis by the PPI which estimates that the Government would increase revenue by around £3 billion (in 2011 earnings terms) from reducing the rebate¹. The TUC were concerned that a reduction in the National Insurance rebate paid to Defined Benefit schemes would hasten their decline.

The TUC, the Association of Teachers and Lecturers and the RMT were unconvinced of the case made for the faster flat rating option. They felt that the Green Paper failed to recognise that the original timetable for flat rating the State Second Pension was, in part, based on the proposition that comprehensive alternative private provision needed time to develop.

TUC

These arguments rest on the need to retain an earnings related element within the state pension, at least until auto-enrolment has had the opportunity to provide people who are not members of an occupational scheme with an adequate top-up to a flat-rate state pension.

The Unite union were in favour of maintaining the ability to build up an earnings-related element of the state pension.

¹ PPI – An assessment of the Government's options for state pension reform, p 4. June 2011.

Unite

Unite opposed the move to evolve S2P to a flat-rate pension, as we felt that the principle which underpinned SERPS of allowing those with no access to an employer DB pension to accrue a limited state earnings-related (DB) benefit should be maintained.

Few individuals responded to this question. One respondent felt that complexity would not be tackled under the faster flat rating option, and another commented on the trade-off of simplicity against the cap at thirty years.

Member of the Public

I feel that the flat rate would be easier for people to understand, but do feel aggrieved that I've been paying in funds in order to increase my pension, only to find that everyone will have the same one under the new proposals, and I needn't have bothered! It doesn't seem fair to me.

Member of the Public

Speeding up the flat rating changes would help, but it still leaves a complex system that is difficult to understand.

Summary

Most respondents contrasted the incremental changes associated with option 1 with the more radical approach taken in option 2. A key theme was that the faster flat rating option would not provide the simplification and associated clarity needed to make the state system more effective as a foundation for saving.

Some respondents commented on the trade-off between limiting accruals to 30 years' National Insurance contributions under the single tier option, and the ability to build up entitlement beyond 30 years under the State Second Pension. Others, notably the TUC and other trades unions felt that the Government had not made an effective case for change and that a full assessment could only be made once analysis of impacts on individuals had been published.

Both the FSB and NIESR concluded that on balance the state pension should retain a two tier structure.

Question 3: What further reforms might be required to the State Second Pension, such as crediting arrangements and uprating of pensions in payment, to better meet the Government's principles, recognising that there is a trade-off between coverage and the potential level of any combined, two-tier flat-rate pension?

Background

The Green Paper described possible further changes to the State Second Pension in addition to the faster flat rating measure covered in Question 2. The further changes proposed were:

- the greater alignment of coverage rules of the basic State Pension and State Second Pension by extending eligibility for State Second Pension to the unemployed and self employed.
- a possible alignment of the uprating of the basic State Pension with the State Second Pension. The State Second Pension in payment could be uprated by the triple guarantee rather than by CPI (but the amount of the State Second Pension that could be built up by individuals would be reduced to cover the additional costs of this uprating).

What organisations and individuals said

Around half of organisations who responded to the consultation expressed views on this question but of these only a small number made more than a passing reference

Saga and the NAPF both commented that the time for incremental change to the State Second Pension was over. They felt that making small changes to an already complex system would only serve to confuse people further.

NAPF

Changing crediting arrangements or up-rating rules around the State Second Pension will only add another layer to the constant tinkering already beleaguering the state pension system.

The Association of British Insurers commented that if crediting arrangements were changed the self-employed would need to be brought into the State Second Pension. Otherwise it could be perceived as unfair if those who were not working or not building up National Insurance contributions were building up State Second Pension benefits. They also thought that if the self-employed were to be brought into the State Second Pension, they would be required to pay higher National Insurance contributions.

The Taxpayers Alliance had reservations about adding to the existing crediting arrangements in the State Second Pension.

Taxpayers Alliance

There are legitimate arguments in favour of National Insurance Credits for the wrongly imprisoned, spouses accompanying members of HM forces on foreign assignments and those carrying out jury service. But it is not fair on ordinary taxpayers that the unemployed and those on approved training courses are awarded credits and gain the same entitlement as those who are working.

The Green Paper described how, by reducing the amount of State Second Pension paid at retirement, it might be possible to uprate it by the triple guarantee during retirement. A small number of organisations, including Age UK and Citizens Advice, commented that they would like to see this type of uprating.

Summary

In general, those organisations and individuals who expressed a view on this question did not feel that further changes to the State Second Pension would have any sufficient positive impact on simplifying the current arrangements.

Question 4: To what extent would a single-tier pension meet the Government's principles for reform and improve savings incentives?

Background

The Green Paper sought views on the extent to which the single tier option would meet the four principles for reform (personal responsibility, fairness, simplicity and affordability) and improve people's incentives for saving for their retirement.

What organisations and individuals said

The majority of organisations who responded to the consultation answered this question.

Simplicity and clarity

The majority felt that the single tier proposal met the Government's principles for reform. In particular because of the perceived simplicity and clarity.

The CBI, Institute of Directors, the NAPF, Saga and Aviva saw simplicity and clarity as being important in enabling individuals to understand what they would get from the state when they retire, and thereby to take greater personal responsibility for planning and saving for their retirement.

Dr. Ros Altmann

A single tier pension would definitely help personal responsibility for future retirees, because it would help people realise what the state will pay, so they can plan to provide more for themselves if they want it.

Legal and General

A single-tier pension would give people the confidence to build their retirement planning around a solid state pension, without the confusion of means testing and the fear that a small amount of private provision could reduce their entitlement to state benefits.

A number of organisations, including the EEF, Age UK, NIESR, TUC, Citizens Income Trust, Deloitte and Eversheds noted that the need for a period of transition from the current system would mean that it would take time for the simplicity and clarity of a single tier pension to come into effect. Age UK felt that the Government would need to provide clear communications to help build understanding and avoid confusion.

Age UK

Transition will take many years and the paper states that by 2050 around half of pensioners will still have a contracting-out offset applied. (That means that part of the £140 will be provided through someone's occupational or personal pension). There would need to be a major exercise in communication to ensure that people understand how the system works and are not disappointed if they do not receive £140 directly from the state.

Fairness

Less than half of organisations commented directly on the principle of fairness. The majority of those saw the single tier option as providing the basis for a fairer system in delivering improved outcomes for those who historically have lower state pension entitlement such as women, the low paid and the self employed. The single tier option was also seen as potentially helpful in tackling poor take up of Pension Credit through a reduction in reliance on means testing.

NAPF

The Single Tier option would improve outcomes for groups of people who have traditionally been disadvantaged by the current system, in particular women and carers. In addition, people who do not claim the means tested benefits to which they are entitled would automatically receive the Single Tier option.

A minority of respondents including the ABI, Scottish Widows and the Society of Pension Consultants questioned whether it was fair that under the single tier option people would not be able to build up entitlement beyond 30 years worth of National Insurance contributions, and the fact that a reform would result in gainers and losers. In particular, the proposal to introduce a 7 year qualifying rule was of particular concern to Carers UK.

Carers UK

Whilst it is likely that almost all carers will surpass this minimum level, through a combination of paid work and credits from carers and child benefits, we are concerned that specific groups may be at risk of falling below it.[For example] late migrants and individuals who have had little contact with the National Insurance system could be affected.

Affordability and sustainability

Few organisations commented directly on the affordability and sustainability of the single tier option. Those who did comment, such as the NAPF and the Taxpayers Alliance, thought that a single tier pension could contribute to securing sustainability and affordability of the system in the long term by supporting people to save for their retirement and improving savings incentives. The TUC said there was not enough information on the options in the consultation paper to say either way. The PPI stated that a single tier pension could be broadly cost neutral.

Pensions Policy Institute

PPI estimates suggest the single-tier state pension for future pensioners only as set out in the Green Paper would be broadly cost neutral in terms of future Government expenditure on state pensions and means-tested benefits, costing less than the current system by less than 0.1% of GDP between 2019 and around 2050, and costing more than the current system by 0.1% of GDP by 2055.

Saving incentives

The majority of organisations who responded saw the reduction in reliance on means testing under single tier as important to improving savings incentives and providing individuals with a solid foundation to save for retirement.

CBI

Moving to a single-tier state pension regime would simplify the system in the long term and provide certainty for individuals about how much pension they will be receiving. We believe that this simpler state pension combined with automatic enrolment would help raise awareness among individuals that it “pays to save”.

A few organisations questioned the evidence base for the assertion that a simpler state pension would increase saving. NIESR suggested that saving may decline as means-tested benefits play a smaller role in the delivery of the state pension and Which? called for more evidence.

Which?

With regard to means testing as a disincentive to save Which? is not convinced that this link exists.

The Committee for Social Development in the Northern Ireland Assembly raised concerns about the link the Government drew between the principle of personal responsibility and saving. They highlighted individuals on low incomes who might not be in a position to save as well as individuals with health problems whose working lives might be shortened as a result.

Northern Ireland Assembly – Committee for Social Development

...the Coalition Government’s proposals for future pension reform as set out in the Green Paper [are] predicated on the individual’s personal responsibility to save.

A small minority of individuals responded to this question with some commenting that a single tier pension would be simpler and help improve savings incentives.

Member of the Public

This represents a good reform of the system since it should make matters easier for those planning for old age. They will know exactly what they are likely to receive in retirement. It should streamline administration too and represent savings for government.

Of the individual responses received on this question, most discussed the principle of fairness of the single tier option including the cap at 30 qualifying years’ worth of contributions. A number of individuals also called for the Government to ensure that contributions to the current system were fully recognised under any reforms.

Summary

The large majority of organisations who responded addressed this question, though few referenced all of the principles for reform in their response. Most who responded were in favour of the single tier option in principle citing simplicity, clarity and reduced reliance on means testing as advantages. Many also added that they could not fully comment on this option without seeing detailed analysis on the impact of the proposals on future pensioners. Respondents also raised the issue of increased complexity during the transition period which would mean it would take time for the simplicity and clarity of a single tier pension to come into effect. The individuals who responded to this question mainly raised the issue of fairness between current and future pensioners.

Question 5: Which of these two options would act as the best complement for automatic enrolment?

Background

From 2012 employers will be required to automatically enrol all eligible employees into a workplace pension scheme and to contribute to that scheme. This requirement was introduced by the Pensions Act 2008, and aims to tackle the issue that many people are not saving enough for their retirement.

One of the key objectives of state pension reform set out in the Green Paper is to support people in saving for their retirement. The consultation paper asked for views on which option for state pension reform would act as the best complement for automatic enrolment.

What organisations and individuals said

The majority of organisations who responded to the consultation answered this question and felt that a single tier pension would be a better complement for automatic enrolment than a two tier pension.

ABI, Age UK, EEF, the NAPF, Saga, Aviva, the Centre for Retirement reform, Hargreaves Lansdown, Prudential, Legal & General, Standard Life and The Actuarial profession were among organisations who felt that the single tier option would better complement automatic enrolment. The key reason cited was that the greater simplicity and clarity of a single tier pension would mean people would know what they would get from the State and this would help people plan and save for retirement.

The Pensions Management Institute

Option 2 represents the better complement for auto-enrolment as members will more easily be able to identify their entitlement from the state and so have a clearer picture of their objectives from private saving.

The other reason cited by those in favour of the single tier option was a reduced reliance on means testing under a single tier pension which would mean clearer incentives to save for their retirement.

Prudential

The second option, a single tier pension, would best complement the introduction of automatic enrolment as a single tier pension with no additional complication and no means-testing element would show clearly that it pays to save and that any pension benefits accrued through auto-enrolment would increase income in retirement.

Among those individuals who responded to this question, support was much more evenly divided between the two options for state pension reform. Few individual respondents gave reasons for their views.

A small number said that neither option would be a better complement for automatic enrolment with some pointing out that the single tier option would have both winners and losers.

Member of the Public

I am not sure that either of them would work. It is not clear that even a flat rate system would benefit all pensioners. Some people would necessarily lose out under the new system, and some will pay higher National Insurance with the end of contracting out.

Summary

The large majority of organisations who responded addressed this question directly. Most felt the single tier option would be a better complement for automatic enrolment than the faster flat rating option. Key reasons included clarity over what people would receive from the state, supporting planning and saving for retirement, and ensuring people had clear incentives to save. Opinion was much more evenly divided between individuals though few gave reasons for their preferences for either option.

Question 6: Government would be interested in hearing views on other reform options that would meet the Government's principles for reform.

Background

The Government recognises that there may be other options for reform. The Green Paper asked respondents to submit other ideas for state pension reform that would meet the guiding principles (personal responsibility, fairness, simplicity, and affordability and sustainability), and support increased saving for the future.

What organisations and individuals said

Just under a third of organisations who responded to the consultation addressed the question of other possible options for reform. Some suggested possible amendments to the current system and/or further refinements and changes to the Government's two proposals, while others suggested radically new approaches.

The NAPF made ten specific recommendations, largely about managing the end of contracting out under the single tier option. NAPF also summarised their proposals published last year for a 'Foundation Pension'.² The 'Foundation Pension' would be a pension paid to existing and future pensioners at the rate of £8,000 a year. This would be funded by an increase in State Pension age of up to two years (increasing to 70 by 2046).

The Centre for Retirement Reform (CRR) suggested that the State Pension age should be increased to 75 and that the amount of state pension paid be linked to the average income of the individual in the five years leading up to 75 (subject to a cap). Individuals would be responsible for providing their own income from the time they stopped working until age 75 and could, for example, purchase an annuity from their occupational pension fund which would only need to run until age 75. From the age of 75 onwards, the state pension would then be paid at a much higher rate than is currently the case (although CRR did not say what that rate might be).

Hargreaves Lansdown suggested a way to mitigate the impact that increases to the State Pension age would have on groups with lower life expectancies. They proposed that when individuals reached State Pension age, they should have the choice to opt out of the state pension by taking a lump sum instead of their state pension and use that to purchase an annuity on the open market. Those with lower life expectancies could expect to receive higher annual incomes from annuities than those with higher life expectancies.

Legal & General considered there might be value in allowing individuals to draw down their state pension earlier than is currently the case. They suggested that just as some occupational pension schemes allow individuals to take a reduced pension before normal retirement age, so the state could allow individuals to do the same (within rules setting the limit to this early access). They believed this would allow greater flexibility in retirement planning.

² Fit for the future: NAPF's vision for pensions. 29 March 2010.

Legal and General

Saving for retirement is the ultimate long term savings plan. As people plan for retirement it is important that they have both a target for the income they would like to achieve in retirement and the age at which they would like to retire.

A number of respondents including the TUC, Unite and the RMT supported the continuation of an earnings-related element in the state pension as well as a higher rate of basic State Pension. They suggested that the cost of this could be offset to some extent by changes to pension tax relief for higher earners.

Jardine Lloyd Thompson also mentioned pension tax relief in their response but did not support higher rate tax relief being abolished. They felt that any changes to pension tax relief would have the effect of reducing support among employers from any workplace pension reforms.

The TUC and RMT, while supporting the introduction of automatic enrolment from 2012, were concerned that the minimum employer and employee contributions required by the National Employment Savings Trust (NEST) would not produce an adequate pension in retirement.

Professor Jay Ginn, of the Institute of Gerontology at Kings College London suggested an alternative to NEST which he referred to as the Voluntary Employee State Pension Addition (VESPA). VESPA would be a flexible pay-as-you-go pension with contributions by employer and/or employee paid into the National Insurance Fund at the same levels as the planned contributions to NEST and with the same tax relief; but with no charges and with some allowance for periods of caring. VESPA would allow employees to build a living wage replacement rate for themselves through a state Defined Benefit scheme.

Several respondents suggested ways to mitigate the potential loss of the contracted out rebate if the option for a single tier pension was pursued. The sections covering the responses to Questions 7 and 8 outline the responses on this point.

Rather than suggesting radically new options for reform Age UK and Saga, who favoured the single tier option, would like to see this made available to all pensioners, existing and future. Saga suggested that one way to finance this would be to maintain the current system for pensioners from an age higher than the current State Pension age (for example 72 or 75) and begin to pay all pensioners the single tier pension when they reached that higher age.

The NPC called for an increase in the basic State Pension for all existing pensioners to around £178 per week in 2011. The TUC and PCS were among others who felt that there should be a substantial increase in the basic State Pension.

National Pensioners Convention (NPC)

The basic State Pension provides the most obvious and effective method of tackling pensioner poverty, both now and in the future. It should be set above the officially recognised poverty level and paid universally to all pensioners, based on residency. This could be easily afforded by introducing a number of changes to the National Insurance, taxation and pension systems.

In addition the NPC supported retaining the State Second Pension and called for it to be uprated by the triple guarantee. They suggested that one way to finance this would be to abolish the Upper Earnings Limit (UEL) on National Insurance contributions so that those with higher earnings would pay more National Insurance than they do currently.

Citizens Advice suggested that any planned reforms should include provision for Pension Credit to be made available below the State Pension age for people who are unable to continue working because of poor health.

Very few individuals responded to this question and most did not suggest any specific new options for state pension reform. Some welcomed the principle of a higher flat rate pension that would lift people above the means-tested threshold.

Member of the Public

A consolidated basic State Pension is long overdue saving people from the degrading system of means testing and all the administrative work of applying it. Today many pensioners don't claim their entitlements because either they are not aware that they might be entitled or they have too much personal pride to go through the means testing.

One respondent suggested the introduction of a Government backed basic private pension scheme. This would be operated through the Post Office and enable individuals to make regular voluntary contributions which would offer a guaranteed return by investing in Government bonds.

Another respondent suggested that the Government should consider reducing pension payments for higher rate tax payers, possibly by automatically delaying the start of payments (but paying them more when they do start to receive payments) until such time as they stop paying higher rate tax.

They believe this would mean those in well-paid jobs who were able to carry on working longer would do so without drawing their pension while those who are unable to continue working would be able to retire at an earlier point.

Summary

Just under a third of organisations who responded to the consultation addressed the question of other possible options for state pension reform. Most of these focused on refining or changing the current or proposed future pension systems rather than suggesting radically new options for reform. The same was true for individuals many of whom did not object to the single tier pension proposal but felt it should apply to current pensioners.

Question 7: What would be the impact of ending contracting out, as implied by any single-tier model?

Background

Both of the options for reform set out in the Green Paper would have implications for the ability of Defined Benefit schemes currently to contract out of the State Second Pension. Under option 1 (faster flat-rating), contracting out would continue, although the value of the rebate would fall faster over time than under the current system. Under option 2 (single tier), contracting out for Defined Benefit schemes would end completely. The Government sought views and evidence on the impact of ending contracting out on employees, employers and schemes in the public and private sector.

The Green Paper made clear that if a decision was taken to close the State Second Pension to new accruals and end contracting out, sponsors and members of Defined Benefit schemes contracted out of the State Second Pension would face an increase in their National Insurance contributions. The Government recognised that, while sponsors of contracted-out schemes would lose the rebate, they could in theory adjust their Defined Benefit scheme to offset the higher National Insurance costs incurred.

What organisations and individuals said

More than 50 employers and employer-representative organisations answered this question. All of these organisations were of the view that ending contracting out for Defined Benefit schemes would have significant implications for employers, scheme sponsors and members, and would need to be carefully managed.

Tesco

The changes to the state pension scheme will have significant implications for contracted out schemes such as ours. If the changes to the state pension system are to be a success – the Government needs to work together with employers to ensure a successful and seamless transition.

A number of organisations thought that a decision to end the contracted-out rebate could lead to a further retreat from employer-led Defined Benefit private pension provision. A significant number estimated the costs that would arise for individuals and employers, and highlighted potential difficulties that employers would have in changing the benefit design of their scheme rules. A number of respondents highlighted the potential impact on public sector pensions.

Some organisations including the NAPF and the CBI noted the complexity of contracting out and felt that a decision to end contracting out would, if accompanied by other changes, simplify the pension landscape and make the state pension system more transparent.

Towers Watson Limited

Contracting out is administratively complicated and its abolition will be welcomed by many who will see it as a simplification. However, simplification benefits will be severely limited if the Government does not take steps to reduce the complexities associated with past contracted-out service, including in particular those related to GMPs.

CBI

Abolition [of contracting out] represents a window of opportunity for Government to look at a wide array of complex and burdensome regulations.

A number of organisations such as the TUC and ABI were concerned that removing the ability to contract out of the State Second Pension, and the consequential loss of the contracting-out rebate, would undermine the sustainability of Defined Benefit schemes. Respondents noted that employers facing increased costs could increase employee contributions, reduce future benefits or close schemes to future accruals. The TUC commented that a large number of employers currently remain committed to retaining a Defined Benefit scheme for at least some of their employees. The EEF cautioned against an over-simplistic view of the pressures facing companies with Defined Benefit schemes, highlighting that most companies are currently reviewing or about to review how they will absorb the extra costs of automatic enrolment and now will have to add in the extra costs that losing the rebate will entail.

EEF

We would caution against a mindset that is evident amongst many commentators that DB schemes are in terminal decline, implying that the impact of abolishing contracting out for salary-related schemes might be short lived and therefore easements and mitigation would not be required.

The Association of Consulting Actuaries commented that where employers are reviewing their Defined Benefit pension provision they are also making arrangements for automatic enrolment and are much more likely to opt for a Defined Contribution arrangement for their employees.

Sackers

Employers are facing a number of challenges in relation to their pension schemes; not least the changes to the annual and lifetime allowances and the introduction of the auto-enrolment duty from 2012.

A key consequence of ending contracting out would be for scheme benefit design. The CBI, the NAPF and EEF indicated that if contracting out ended, employers should have the ability to redesign their scheme in order to maintain cost levels and funding assumptions. It was suggested that this could be achieved by a temporary 'statutory over-ride' that would allow schemes to make necessary adjustments without being constrained by scheme rules.

A number of organisations such as the EEF, the CBI and the NAPF and pension schemes such as the BBC and the Railways Pension Trustee Company Limited highlighted that some sponsors of contracted-out schemes have a limited range of options available to them for changing scheme rules. That might be as a result of in-built restrictions on amendment or, in many cases, the requirement to consult with members. Employers indicated that if they were unable to make amendments to scheme benefits to reflect the ending of contracting out, the net impact would be an overall increase in costs to reflect the increase in National Insurance contributions for no equivalent benefit.

The Government received only a small number of responses from individuals on this subject. Responses were varied: some individuals were supportive of moves to simplify the state pension system, whereas others were concerned about the financial impact on contracted-out employees and employers.

Member of the Public

The ending of contracting out would simplify matters, but must be phased out and should not be done retrospectively. It is unfair after introducing the scheme, to then confiscate some of the expected pension of people who didn't decide to contract out.

Member of the Public

The ending of the rebate would be a further disincentive for employers to offer Defined Benefit schemes.

Summary

Most respondents pointed out that ending contracting out for Defined Benefit schemes would have significant implications for employers, scheme sponsors and scheme members, and would need to be carefully managed. A significant impact of ending contracting out would be the cost to employers, in particular changing the design of their scheme rules. Respondents felt that these challenges were not insurmountable and could be overcome with careful planning.

Question 8: If the decision is taken to end contracting out, how could the process be best managed so as to minimise any adverse impacts on employers and individuals?

Background

The Green Paper made clear the Government's commitment to creating the right conditions for increased pension saving. The Government is keen to understand how, if a decision is taken to end contracting out, this could be done as smoothly as possible to reduce the impact on employers and individuals, and how the regulatory environment for sponsors of Defined Benefit schemes could be improved.

What organisations and individuals said

A significant number of organisations addressed this question. The NAPF, Mercer, EEF and the CBI amongst others provided very comprehensive responses highlighting the complexity of contracting out and the practical challenges not only of ending arrangements for contracting out, but also of communicating the consequences to individuals.

A number of organisations such as the EEF, the CBI and the NAPF identified ways in which the Government could help employers, employees and schemes to make the transition to a single tier pension. These focused on the timing of any changes, communication, legislative easements and overrides, and providing certainty around Guaranteed Minimum Pensions.

It was also suggested that there could be a phased approach to ending the National Insurance rebate to allow employers and employees a 'softer landing'.

Respondents suggested a number of changes to minimise any adverse impacts on employers and individuals:

Legislative easements

The EEF suggested the Government should establish a stakeholder group to explore possible easements and mitigation options in detail. A number of employers expressed disappointment at the Government's decision to move from using the Retail Price Index to using the Consumer Price Index for revaluing pensions. The EEF suggested that schemes and trustees may lose faith in the Government's commitment to reinvigorating private pensions if it does not support companies in introducing legislative solutions to enable contracting out to end smoothly.

Provide sufficient advance notice

Several organisations and employers indicated that given the technical complexity of contracting out, they would need a sufficient notice period to prepare for it to end. The EEF suggested that schemes would want to tie these changes into their triennial valuation cycle as an extra valuation out of cycle would incur additional costs. A number of organisations indicated that the process of ending contracting out and making changes

to scheme design would take at least five years from the date a decision on contracting out is made. This timeframe would allow schemes, sponsors and member representatives to agree an approach and prepare for the impact of the changes.

Government-led communication campaign

A number of organisations such as Tesco, EEF and the NAPF suggested that the Government should consider a comprehensive and wide-reaching communications campaign as well as ensuring businesses had access to good advice services. It was thought this would support the activities undertaken by scheme sponsors in dialogue with their individual scheme members. Many respondents highlighted that this would ensure that scheme members understood better the consequence of Government decisions and the context within which companies might be considering adjusting benefits.

CBI

Government must put communication at the heart of the reform to avoid damaging employee relations.

Jardine Lloyd Thompson

This affects all schemes whether in the public or private sector and consideration should therefore be given as to how employers could be supported in this regard.

NAPF

HMRC must be adequately equipped to deal with the administration of the ending of contracting out and must engage in an effective communications campaign aimed at employers and schemes.

Introduce a “statutory override” to allow benefit reductions

A number of organisations and employers including the EEF, the Association of Consulting Actuaries, the BBC pension scheme and the Railways Pension Trustee Company Limited highlighted the particular challenges in regulated sectors and suggested that a “statutory override” to allow employers to amend scheme rules to reduce accrual rates would be helpful. Respondents recognised that this could be controversial and might prove unpopular with scheme trustees and members. But they noted that without it, a significant number of employers would not be able to make the required changes to offset the cost of the loss of the National Insurance rebate. The CBI were clear that their support for the single tier was conditional on some sort of mechanism for employers to be able to offset the additional cost of losing the rebate.

CBI

Introducing a time-limited statutory override in primary legislation would require bold and decisive government action. If the necessary tools are not provided to employers, then the abolition of DB contracting out would lead to a two-tier system with broader economic implications by promoting an uneven playing field among firms.

Introduce an easement on the current consultation requirements

Several organisations, including the EEF and the NAPF, suggested that the Government should introduce a change to pension consultation legislation in respect of changes that are wholly or mainly triggered by reforms to the state pension. The NAPF indicated that employers should be permitted to amend their scheme rules to reflect the end of contracting out, with minimal consultation with scheme members where the amending rules would allow adjustments only for the loss of the National Insurance rebate.

Provide certainty around Guaranteed Minimum Pensions

The NAPF, Jardine Lloyd Thompson, Mercer and others commented that it would be necessary to streamline the administrative processes associated with the ending of contracting out to allow schemes to draw a line under contracted-out contributions and Guaranteed Minimum Pensions (GMPs). Some respondents thought it was essential that the reconciliation of GMPs with HMRC should be achieved as a one-off project lasting up to a maximum of five years.

A small number of individuals answered this question. Most sought to ensure that individuals were treated reasonably and fairly throughout the process.

Member of the Public

Have a cut off date and leave the existing people as they are.

Member of the Public

Ensure that no-one is discriminated against or receives less than others during the process. Proceed with caution and ensure complete fairness.

Summary

Respondents identified a number of ways in which the Government could help employers, employees and schemes to make the transition to a single tier pension. These included providing long lead times, introducing legislative easements, statutory overrides and a Government backed communication campaign.

Question 9: In conjunction with the reforms outlined in Chapter 2 of the Green Paper, are there ways we can change the means-testing system for future pensioners to make it more simple, reduce disincentives and encourage personal responsibility while continuing to help pensioners avoid poverty?

Background

In the Green Paper we recognised that whatever the shape of any future reform of the state pension, there will always be a need for a means tested safety net to help protect the poorest pensioners. This role is currently being met through Pension Credit, which ensures that people have a guaranteed minimum weekly income (£132.60 for single people and £202.40 for couples in 2010/11), which is supplemented with help through Housing Benefit and Council Tax Benefit.

When looking at a future reformed state pension system, there is a question as to whether the current system of means tested support best meets the Government's principles for pension reform, including simplicity and personal responsibility.

The Green Paper sought views on whether there are ways we could change the current means testing system for future pensioners to make it simpler, encourage personal responsibility and reduce disincentives to save, while continuing to help pensioners avoid poverty.

What organisations and individuals said

Less than half the responses received from organisations included comments on this issue.

The majority of these organisations who directly referred to this question, supported the need to retain some form of safety net in a reformed state pension system.

Friends Life

It is clear that the state must always provide for those pensioners who through no fault of their own find themselves on very low incomes in retirement.

Several respondents including Citizens Advice, TUC and Age UK expressed the view that the current levels of means tested support should not be reduced as a result of pension reform.

The majority of respondents felt that the Green Paper did not adequately address the access to and role of 'passported' benefits such as Housing Benefit and Council Tax Benefit under a reformed means tested support system. ABI, Age UK, Citizens Advice, the NAPF, NPC, TUC and Which? were among the organisations who held this view.

ABI

It needs to be recognised that means-testing currently brings additional entitlements, including Housing Benefit and Council Tax Benefit, as well as increased weekly income. It is not clear what is proposed for these in future.

A number of organisations commented that this lack of clarity extended beyond Housing and Council Tax Benefits to other Pension Credit related passported benefits.

Independent Age

It is important to acknowledge the role Pension Credit has played in passporting those that have claimed it, onto other benefits. These range from Housing and Council Tax Benefit, to health benefits such as free travel to hospital and vouchers for glasses, to Cold Weather Payments. These ‘passported benefits’ will remain vital to older people, despite reform of the state pension. The government must therefore provide an alternative mechanism for finding those that are most in need, to ensure they receive the additional support available to them.

Several organisations, including the ABI, Citizens Advice, TUC and Age UK, questioned the rationale for removing the Savings Credit element of Pension Credit and either felt that more justification and analysis was needed before removing it, or that it should be retained.

Scottish Widows

While it is not without flaws, the current pension credit means that those who are entitled to means-tested benefits still have some incentive to save. Removing the savings credit element would be a significant step backwards and ... would mean that a significant number would be best advised to opt out of pension provision. Recognising that there is a cost implication, we would strongly recommend that the Government considers retaining the savings credit if the second option for state pension reform is chosen.

A number of organisations, including Age UK and the TUC, commented that a future means tested safety net benefit should continue to recognise the additional needs currently afforded through Pension Credit in respect of severe disability, caring and certain housing costs.

NIESR

Maintaining a robust welfare safety-net in relation to these population subgroups [disability, caring or to help with housing costs] would seem to be desirable, providing that such groups are properly identified.

Of those commenting on this particular issue of detail, some went further and suggested retaining the essential basic structure of Pension Credit.

TUC

The Pension Credit should ... continue in broadly its present form.

A small number of individuals commented and backed the fundamental principle of retaining a safety net, albeit to differing degrees of support.

Member of the Public

I welcome the fact that the Government sees the need for a continuing safety net for the poorest section of the community.

The most common theme drawing comment from individuals was about the current system acting as a deterrent to saving.

Member of the Public

Human nature will discourage people from saving if they know there is a safety net.

A small number of individuals went further and offered a possible solution to this issue.

Member of the Public

Give everyone the same pension and do not have any punishment for savings.

Summary

The majority of respondents to this question supported the Government's proposals to help address the means testing issue through increasing state pension levels – based on the single tier option. There was also broad acknowledgement that some form of safety net will need to remain.

A majority of respondents commented that there was a lack of clarity around how a future safety net benefit might accommodate the various benefits which customers are currently 'passport' onto by receiving Pension Credit. No respondents offered any detailed proposals for a new safety net benefit structure beyond retaining additional amounts in respect of severe disability, caring responsibilities and certain housing costs.

Question 10: What mechanism should be used to determine future increases in State Pension age?

Background

In the Green Paper, the Government proposed that any future state pension system should incorporate a more automatic mechanism. This would ensure that future increases in State Pension age were linked to increases in longevity in a timely and transparent way.

The Green Paper discussed possible forms that a more automatic mechanism could take including the role for a formula to take account of changes in life expectancy, and a review, possibly reporting against a principle such as the proportion of adult life spent in retirement.

The Green Paper also emphasised that any mechanism could incorporate both a principle and also some form of periodic assessment.

What organisations and individuals said

Around two thirds of the organisations who responded to the consultation answered this question directly. Some respondents expressed support for a pure formula-based approach, which they argued would ensure that State Pension age tracked ongoing rises in life expectancy.

The majority of respondents indicated that having some form of a review process would allow changes to State Pension age to be considered in the light of expert advice based upon the current data.

Legal and General

On balance we favour a periodic review approach. The Government of the day should commission expert advice and recommendations from those who best understand the latest trends in longevity. But the decision should remain with the Government, as it is only Government that can balance the wider social and economic implications of changing State Pension Age.

Respondents, including the NAPF, Age UK, the ABI, the Institute of Directors and the CBI, valued a review because it would allow a variety of factors to be taken into account when considering changes to State Pension age.

EEF

The question of what the State Pension age should be has many levels of complexity, raising questions about the way the labour market operates, justice between generations and between different socio-economic groups. We believe these complexities do not lend themselves to a formula-driven approach.

Respondents identified a range of factors that they felt a review should take into account when considering future changes to State Pension age. These included longevity; healthy life expectancy (an estimate of the number of years which are spent in good health over a lifespan); variations in life expectancy by location and socio-economic class; and wider economic factors such as the labour market (the rate of unemployment, the availability of work and older workers' ability to participate in the labour market).

Some respondents thought that any mechanism should incorporate both a formula and review.

Society of Pension Consultants

It is difficult to envisage how in practice a formula alone could be used to determine future increases in State pension age. Decisions on State Pension age are in reality likely to be a function of the state of the public finances and the shape of the workforce, as well as of life expectancy.

It is difficult in any case to envisage a formula which would be robust enough to deal with differing life expectancies within differing population groups. There would also be the question of whether a fall in life expectancy under a formula (for example caused by a combination of unhealthy nutrition and lack of exercise) would result in a reduction in State Pension age. A combination of the two approaches outlined in the consultation document would therefore appear to be advisable.

Organisations that supported a more automatic mechanism made specific suggestions about how it should operate, including the NAPF, the CBI, Age UK and the Actuarial profession.

One suggestion was for a standing commission to consider the range of evidence for future changes to State Pension age.

Citizens Advice

We consider that a standing commission on the State Pension age will be the best mechanism to obtain well informed and widely based advice to the Government on further raising of State Pension age.

Others suggested that an independent committee reviewing the evidence and making recommendations to Government would be appropriate.

Aviva

Aviva advocates the creation of a State Pension age “policy framework and committee” – similar to that governed by the Bank of England for the setting of interest rates.

CBI

A review would only gain legitimacy if it is seen to be truly independent, analysing objective data and gathering evidence from all parties to make informed decisions. Lessons could be learnt from previous broadly successful experiences such as the Migration Advisory Committee – where independent labour market economists make recommendations to government on migration issues – the Pensions Commission, chaired by Lord Turner or the Public Sector Pensions Commission, chaired by Lord Hutton.

The majority of individuals who responded to this question supported a review for considering changes to State Pension age.

Member of the Public

The age should be determined via a review process, maybe undertaken every 10 years, but with those who may be affected kept fully informed of the process and also to ensure that people are given plenty of notice of the review and possible outcomes and then that the outcome be well publicised so people are aware and can make contingency plans.

Summary

The majority of individuals and organisations identified a range of factors that they felt any review should take into account when considering future changes to State Pension age. Respondents suggested that, alongside consideration of average life expectancy, changes to State Pension age should consider a range of other data including healthy life expectancy (an estimate of the number of years which are spent in good health over a lifespan), variations in life expectancy by location and socio-economic class and wider economic factors such as the labour market (the rate of unemployment, the availability of work and older workers' ability to participate in the labour market).

Around a third of organisations who favoured a review made a proposal for how it should operate. Organisations such as the NAPF, the CBI, Age UK and the Actuarial profession suggested a range of models.

Question 11: How should the Government respond to the frequent revisions in life expectancy projections while giving individuals sufficient time to prepare?

Background

The Green Paper asked how long we should give people to prepare for a change to State Pension age. There is a need to balance the amount of time that someone has to prepare for a change to their State Pension age against the length of any notice period.

A long notice period increases the risk that changes to State Pension age have become out of date by the time that they come into effect because of the increases in life expectancy that have taken place during the notice period.

What organisations and individuals said

Everyone who responded to this question, both organisations and individuals highlighted the need to give individuals sufficient notice of any change to their State Pension age. Respondents, including Legal and General, Saga and Prudential, highlighted the long term nature of preparing for retirement.

Prudential

As suggested by the question individuals need time to prepare for changes in State Pension Age. Retirement is not often something which people come upon suddenly, rather it is a part of long term planning. Therefore people may begin planning their retirement well in advance.

Over half of organisations who responded to this question suggested that there should be a minimum notice period for any change to State Pension age. Some organisations supported the Pensions Commission recommendation that individuals should be given 15 years notice of any change to State Pension age.

NUT

The NUT believes that there should be at least a 15-year notice period for any changes to the State Pension age.

Equally, a few organisations felt that a much shorter notice period would be suitable.

Taxpayers Alliance

The Government should use the latest reliable data available but only assess it at predetermined, predictable intervals and there should be also be a delay in implementation sufficient enough for individuals to adjust their plans to take account of the findings. The intervals should both be four years so that a 2012 assessment would be implemented in 2016 which would also be the year of the following assessment, the result of which would be implemented in 2020.

The majority of respondents, both individuals and organisations, including Age UK, the ABI, the NAPF and Saga, told us that they thought that a 10 year notice period would be appropriate for any future change to State Pension age.

Member of the Public

One of the most difficult challenges in preparing for retirement is financial planning and I propose that it is essential to incorporate a minimum of ten years notice of any change to the SPA when designing any review mechanism.

A number of reasons were cited to support a notice period of 10 years. The NAPF drew parallels with arrangements in private and occupational pensions.

NAPF

NAPF research shows that, generally, lifestyle funds tend to start adjusting investment strategies between 3 to 15 years before retirement. We therefore recommend that the notice period for changes in SPA be set to reflect this trend in private sector pensions and therefore recommend that the notice period be set around 10 years.

Other individuals and organisations responding to the question suggested that 10 years was sufficient to allow people to change their saving planning to take account of changes to State Pension age, though not all provided detailed evidence in support of their views.

ABI

Any changes resulting from the review need to ensure people are given time to plan and continue to provide people with a degree of certainty. We suggest 10 years as a minimum period for future reviews. For individuals to replace a year of state pension lost because of an age increase would cost around £50-£60 a month saved over a 10 year period.

Summary

There was a high level of support for a more automatic mechanism to consider changes to State Pension age in line with increases in life expectancy. Most respondents thought that a review would enable consideration of wider factors in any changes to State Pension age and many respondents highlighted a range of data that a review should consider. There was also strong agreement from nearly all respondents that it was important to give people sufficient time to prepare for any changes to State Pension age.

Current pensioners

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The Green Paper set out options for state pension reform which would apply only to future pensioners in the context of the introduction of automatic enrolment increasing longevity and the decrease in the number of employees who are members of Defined Benefit schemes. Whether or not the reforms should apply to current pensioners was not a question posed in the Green Paper; however the issue attracted significant comment.

A significant number of organisations and individuals strongly held the view that any proposal for reform of the state pension system should apply to current as well as future pensioners. Around a quarter of the organisations who responded to the consultation, as well as around 200 individuals who responded, made this point. Most of the individuals who called for any reform to apply to all pensioners were current pensioners themselves.

A number of organisations said that any proposal for reform that did not apply to current pensioners was fundamentally flawed. The organisations who made this point included the TUC, the National Assembly of Women, the National Pensioners Convention, Prospect, Unite, the Transport Salaried Staffs' Association and the RMT.

Public Services Pensioners Council

The PSPC believes that the critical weakness behind this Green Paper is that it excludes existing pensioners.

Age Sector Platform

Age Sector Platform (ASP) favours a single-tier approach but one that includes all pensioners, not just future pensioners... ASP believes that any change to the pension system needs to be a change for current pensioners as well as future pensioners. We disagree strongly with the proposal to introduce a system that favours one group of pensioners over another...

Other organisations added that applying reforms to future pensioners only would fail the principle of fairness set out in the Green Paper. The Future North West Regional Forum on Ageing, the Association of Teachers and Lecturers and the Railways Pension Trustee Company Ltd all made this point.

Future North West Regional Forum on Ageing

The Green Paper fails its own fairness test by ignoring the needs of current pensioners.

Other stakeholders including Age UK and Saga noted that applying reforms to future pensioners only would be perceived as unfair.

Age UK

Age UK has heard from many older people who feel that this is unfair and argue that any changes should apply to current as well as future pensioners.

Independent Age

It is disappointing that the reforms will not apply to today's pensioners. For these older people, the problems associated with the current system will remain. It is therefore vital that the government redoubles its efforts to ensure all of those who are entitled to pension credit are receiving it. One of the key aims of the reform is to ensure support for the most vulnerable, but unless this issue is tackled for both existing as well as future pensioners, it will be impossible to adequately meet this objective.

Dr. Ros Altmann suggested that an alternative option for reform would be to introduce the flat-rate state pension as currently proposed, but to apply it to all pensioners, both existing and future, from a higher age. Between State Pension age and this higher age, individuals would continue to receive the current state pension. A small number of the organisations who called for any reform to apply to current pensioners questioned the need for any reforms to be fiscally neutral.

TUC

While we share the Government's desire to lift pensioners clear of means-testing the requirement that this should be financed within current projections of state spending on pensions, excluding the costs of pensions tax relief, presents insurmountable difficulties for the proposed reforms.

Around 200 individuals thought the reforms should apply to all pensioners, not just future pensioners.

Member of the Public

How can it be fair if existing pensioners lose out on this new flat rate. Surely if the pension is to change it can only be fair if every existing pensioner benefits.

Member of the Public

A single tier pension would be an easily understood method of payment. Although the idea is sound, I have a problem with people like myself being left out of the system. Having paid 30 years of contributions, (ten of which I paid out of my own pocket as I was not working and did not claim any benefits) I feel that all pensioners should receive the same including the existing pensioners.

In addition, just over a thousand of the individuals who responded used the consultation not to comment on the specific proposals for reform, but to call for pensions paid to UK pensioners living overseas to be up-rated in the same way that UK residents are up-rated. These campaigns were co-ordinated by the International Consortium of British Pensioners with responses coming largely from South Africa and Canada.



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