GOVERNMENT ACTUARY'S DEPARTMENT

Technical Bulletin

State Pension White Paper: The single-tier pension

17 January 2013

This Bulletin provides an overview of the main announcements in the Department for Work and Pensions' White Paper: The single-tier pension: a simple foundation for saving, published on 14 January 2013. This includes:

- fundamental reforms to state pension benefits; and
- the accompanying abolition of contracting-out.

The New State Pension Structure
The current two-tier system of a Basic State Pension (BSP) and an earnings-related additional state pension will be replaced with a single flat-rate state pension, referred to as the single-tier pension.

The full-rate single-tier pension will be payable to individuals, including the self-employed, who have at least 35 qualifying years of National Insurance contributions (NICs) or credits. Individuals with fewer qualifying years will receive a proportionately lower amount, subject to meeting a minimum qualifying period.

Those who have already reached State Pension age at the implementation date will continue to receive their state pensions under the existing system. Transitional arrangements will apply for those who have not reached State Pension age at the implementation date but who have pre-implementation National Insurance records (see below).

Whilst the basic structure has been determined, a number of matters will be decided closer to implementation, including:

- The exact implementation date, which will be April 2017 or later.
- The exact amount of the full single-tier pension, which will be above the level of the Pension Credit Standard Minimum Guarantee.
- The indexation method, which will be at least in line with average earnings growth.
- The length of the minimum qualifying period, which will be between seven and ten years.

The new system has been designed to cost no more overall than the existing system.

Transitional arrangements (for individuals under State Pension age)
At implementation, each individual's National Insurance record will be converted to a starting amount known as the "foundation amount". This will, broadly speaking, be the higher of:

- the amount the individual would have earned under the new system had it always been in force (less a deduction to allow for any period of contracted-out employment); and

- the amount that the individual would receive under the current system, based on NIC records to date.

Anyone with a foundation amount of at least the full rate of the new single-tier pension will not "accrue" any further state pension. Any excess of the foundation amount above the full rate of the single-tier pension (called the "protected payment") will be increased in line with prices (both prior to and after State Pension age) and paid in addition to the full rate single-tier pension.

People whose foundation amount is less than the full rate of the single-tier pension will "accrue" single-tier pension going forward at the rate of $1/35^{th}$ of the full rate per year, subject to building up a maximum of the full rate benefit.

Ending Contracting-out
Contracting-out will be abolished. Employees who are contracted-out before the change, and their employers will, as a result, pay higher National Insurance Contributions (NICs).

To safeguard the ongoing viability of Defined Benefit pension schemes, the Government believes it is necessary to give employers limited (and time-limited) powers to change scheme rules to offset the cost of the additional employer NICs payable, without the need for trustee consent. Accrued benefits will not be affected. This option will not be available to public service employers.

State Pension age reviews
A structured framework will be adopted within which to consider changes to State Pension age which will aim to maintain the proportion of adult life spent in receipt of the state pension. This will be achieved by carrying out a review every five years informed by two reports.

- In the first, the Government Actuary's Department will be asked to analyse whether or not individuals reaching their State Pension age in the future will spend a specified proportion of their adult life in receipt of state pension and report on what measures, if any, might be taken to achieve that proportion.

- The second will be produced by an independently-led review body, on wider factors including evidence of variations in life expectancy, trends in healthy life expectancy, alternative ways of measuring life expectancy, the impact on the labour market and the means by which the state pension costs of rising life expectancy can best be shared fairly among the generations.

The Secretary of State will then publish a report on the outcome of the review; the first of which will be published before 7 May 2017. Any decision to change State Pension age would continue to require primary legislation and therefore parliamentary approval.

If you would like to discuss any of these issues in more detail or have any other questions please get in touch with your usual GAD contact.