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Information request

The average deduction to the new state pension that will be applied to those people that have contracted out. Please send any averages / figures that DWP has got from its modelling of how the new state pension will be reduced for those that have contracted out, for 2016-17, and any future years.

DWP response

For people reaching State Pension age from 6 April 2016 we will calculate a starting amount based on their National Insurance record up to and including the 2015/16 tax year. We will calculate what someone would have been entitled to under the old scheme rules and the new scheme rules, the higher of these two amounts becomes the new State Pension starting amount.

If the old State Pension scheme valuation provides the higher amount then the adjustment made in respect of contracting out will cover any periods of contracting out between 1978 and 1997. If the new State Pension scheme valuation provides the higher amount the adjustment made in respect of contracting out will cover all periods of contracting out between 1978 and 2015/16. The difference between the old and new State Pension scheme adjustment is because of the way contracting out has been recorded on people's records. More information on these calculations can be found here <https://www.gov.uk/government/publications/new-state-pension-if-youve-been-contracted-out-of-additional-state-pension>

People who contracted out of the additional State Pension were required, as a condition of contracting out and paying a lower National Insurance into the National Insurance system, to accrue an alternative private pension. If we did not adjust the State Pension for periods when someone has been contracted out it would mean they would be paid twice for the same National Insurance.

As people who were contracted out were only opted out of the earnings related additional State Pension (SERPS or State Second Pension (S2P)), but not of the Basic State Pension any adjustment due to contracting out will not affect the Basic State Pension amount.

The forecasted mean average weekly adjustments, as described above, applied to a person's new State Pension starting amount for people reaching State Pension

age (SPa) in 2016/17 and subsequent years where they have previously been contracted out at any point, is set out in the table below. For people with a higher old State Pension scheme valuation, the average weekly adjustment will be the pre-1997 contracted-out adjustment. For people with a higher new State Pension scheme valuation, the average weekly adjustment will be the pre-1997 contracted-out adjustment plus the adjustment from contracting-out for accruals from 1997.

Year of SPa	Average pre-1997 contracted-out adjustment	Average adjustment from contracting-out for
2016	£35	£20
2020	£25	£15
2030	£5	£10
2040	£0	£5

Source: Pensim2 Notes:

1. Amounts are rounded to the nearest £5 and expressed in 2015 terms.
2. Contracted-out adjustments are expected to taper off to zero by 2040, due to the end of contracting-out from 2016 onwards.

To put this information in context nearly 90% of people reaching State Pension age in 2016/17 would have the full rate of the new State Pension, or more, if we include the amount of additional State Pension they were opted out of when contracted out of the additional State Pension.