



Impact of New State Pension (nSP) on an Individual's Pension Entitlement – First 15 Years of nSP

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Background

The Pensions Act 2014 legislated for reforms of the state pension system, introducing a new flat rate pension system (now referred to as 'new State Pension') for people reaching State Pension age (SPa) from April 2016 onwards.

Further details of these reforms are available at

<https://www.gov.uk/government/publications/the-nSP-pension-a-simple-foundation-for-saving--2>.

During the passage of the Bill, the Department published several iterations of the Impact Assessment for these reforms, the latest editions of which are available at the following links:

<https://www.gov.uk/government/publications/pensions-act-2014-impact-assessments-may-2014>

<https://www.gov.uk/government/publications/nSP-pension-updated-impact-analysis-july-2014>.

This document updates the analysis previously published in figure 1 of the July 2014 Impact Assessment (see link above), for the first 15 years of new State Pension (nSP). It also includes breakdowns in cohorts of 5 years from the introduction of nSP in 2016, up to and including 2030, together with:

- Breakdowns by gender;
- New analysis showing proportions of pensioners reaching SPa with changed notional State Pension outcomes under nSP (as opposed to as a proportion of all pensioners in specific years).

This updated analysis is consistent with the recently announced new State Pension start rate of £155.65 per week and the latest economic assumptions.

Breakdowns for individual years between 2016 and 2030 are presented in the Annex. Further analysis looking at longer-term impacts of new State Pension on an individual's pension entitlement will be published at a later date.

Methodology

Economic and demographic assumptions

Medium and long term economic and demographic assumptions are consistent with Autumn Statement 2015.

Pensim2-based impact analysis has mortality and longevity consistent with the latest ONS projections but does not account for migration, and does not include pensioners living overseas.

Policy assumptions

Policy assumptions are consistent with Autumn Statement 2015 over the medium term. Over the long term they are consistent with the latest Fiscal Sustainability Report.

The figures and charts presented are based on a nSP start rate of £155.65 in April 2016. All analysis presented is **GB based and from Pensim2**.

Summary of key results

Impact on individual State Pension outcomes: In the first 15 years of the new State Pension (nSP) system, around three-quarters of people who reach state pension age under the new system will have a notionally higher state pension than under the old system.

When compared to males, under the first 15 years of nSP, a greater proportion of women than men will have a notionally higher outcome under the new system – just over 75% of females, compared to just over 70% of males. In terms of median changes in weekly state pension outcomes under nSP, females will also fare better than males under the new system.

Because contributions under the current system will be recognised in the new State Pension system, subject to the minimum qualifying period, at the point of implementation nobody will have an amount that is lower than the pension they could have become entitled to based on their own pre-implementation contributions under the current system's rules.

This means that the impacts discussed in this document are notional.

Impact on individuals

Impact on individual State Pension outcomes

Figures 1a and 1b below show that within a few years of implementation, nSP reform leads to most new system female and male pensioners having a notionally higher State Pension than under the baseline of the current system. For each cohort, the charts present the information as a proportion of pensioners reaching SPa each year under nSP.

Outcomes for individuals under the current system would remain uncertain until the point they reach State Pension age (for example due to the impact of their unknown future earnings on their entitlement to additional State Pension – that is why we have to model these outcomes) and also as future changes to outcomes are assessed on the assumption that the pension system would otherwise have remained unchanged over the coming decades.

Figure 1c shows that the proportion of pensioners reaching SPa with notionally higher outcomes, begins to decline slightly up to 2030, with the decrease being more noticeable for males (figure 1b).

Figure 1a: Proportion of female pensioners reaching SPa with changed notional State Pension outcomes under nSP for the first year of entitlement only; median weekly amounts (2015/16 earnings terms) – First 15 years of nSP

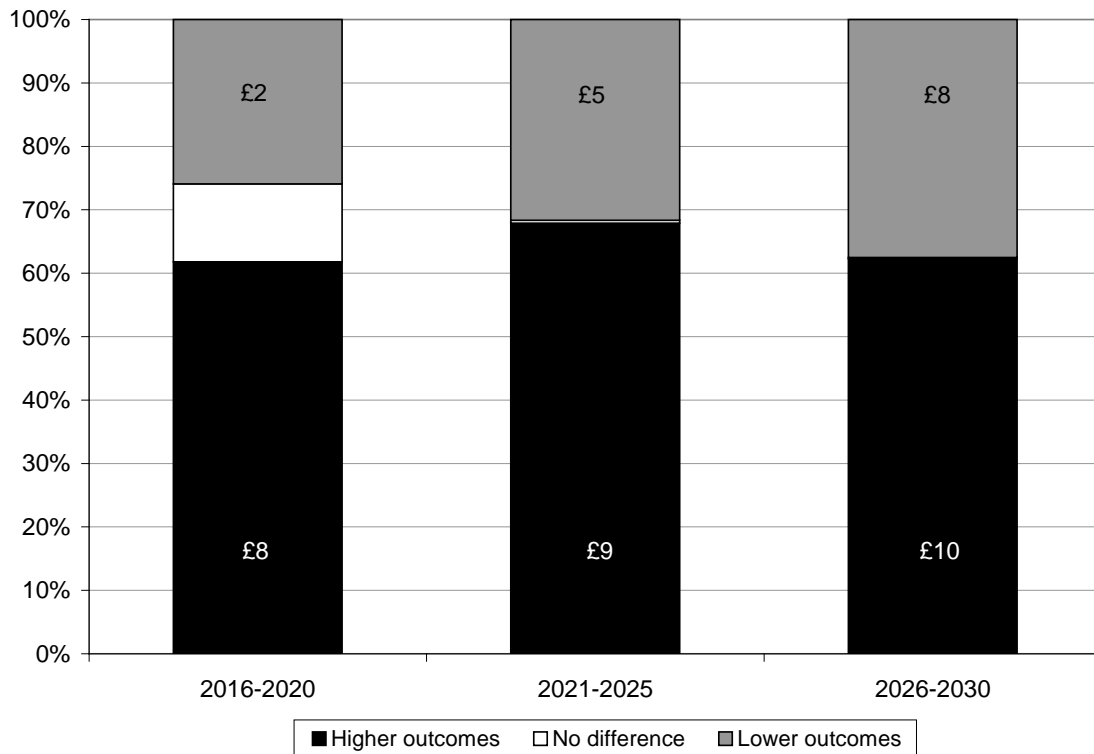


Figure 1b: As above, but for males

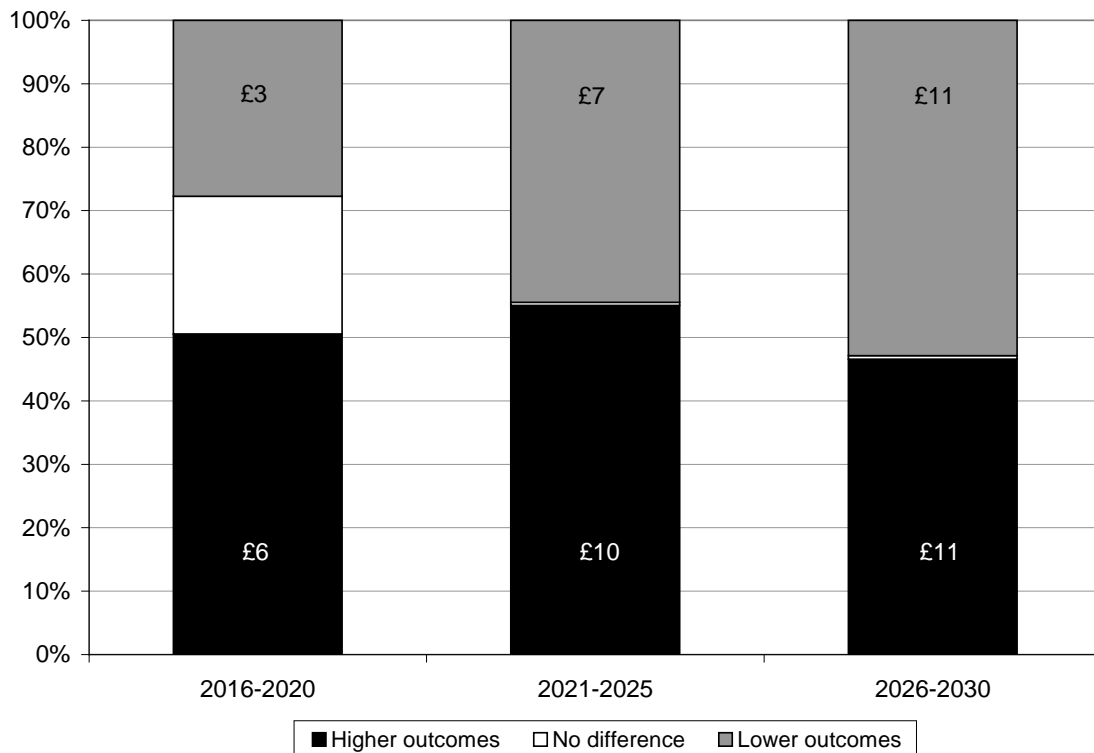
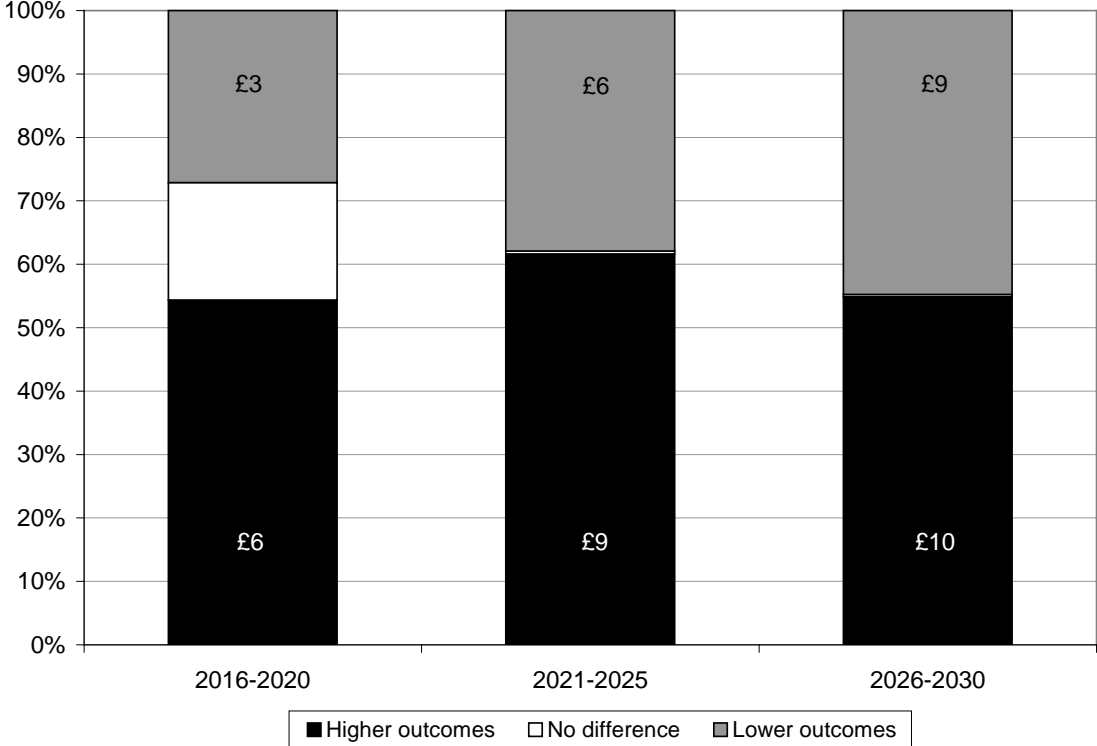


Figure 1c: As above, but for all pensioners



Box 1: the complexity of the current pensions system

The current State Pension system can be hugely complex. This is primarily because, in addition to the basic State Pension (bSP), there have been a number of earnings related additional State Pension schemes. To add to this, there have also been numerous other pension components such as the ability to derive entitlement.

People who will only start to build a National Insurance record from 6 April onwards will receive the full new State Pension if they have a 35 year National Insurance record when they reach State Pension age, and are not affected by past complexities.

However, those who already have a National Insurance record in the current system and who reach State Pension age from 6 April 2016 will have their existing record to 2016 taken into account.

The complexity resulting from the impact of the earnings related additional State Pension schemes (State Second Pension, State Earnings Related Pension Scheme and Graduated Retirement Benefit) together with the effect of contracting-out from these schemes, means that people might receive a notionally higher or lower outcome from the new State Pension system compared to the current system for a number of sometimes complex reasons. In Box 2, we outline some of the impacts of the reforms on state pension outcomes.

Box 2: reasons why people might receive a notionally higher or lower outcome under the new State Pension than if the current pensions system had continued

Factors that could lead to higher outcomes:

- **The nSP starting amount calculation in 2016:** everyone will have their NI record as it stands in 2016 valued under the current pension system rules and the new State Pension system rules. They are given the higher of these two amounts to carry forward into the new, simpler system. People who have low amounts of additional pension on their NI record are likely to benefit from the nSP valuation. This group will be made up of low earners, people (usually women) who took time out of the labour market before 2002 to care for children and the self-employed.
- **Uprating:** under the current system basic State Pension is uprated by the triple lock (higher of 2.5% or growth in CPI or earnings) and additional pension is uprated by growth in CPI. So up to £119.30 of pension is uprated by the triple lock. nSP will be uprated by the triple lock, which means that the first £155.65, an extra £36.35 per week, will be uprated by the triple lock.
- **Building up nSP years:** anyone with less than the full nSP in 2016, and who is below State Pension age in 2017, can build up extra years before they reach State Pension age. So anyone with less than the full nSP but more than 30 years can build entitlement under nSP, at around £4.45 per week for each qualifying year, when they would not have accrued any bSP. This will benefit people who have been contracted out under the current system or have built up low amounts of additional pension in the past (the low earners, people who looked after children and self-employed).
- **The value of a nSP year:** people who would not have built up additional pension after 2016 under the current system (mostly contracted out or self-employed people) would build up £4.45 per week rather than less than £4 per week which is the value of a bSP year. Note that due to the current availability of S2P top-up, those who are contracted out with below median average earnings (i.e. below £27,000) may accrue more than the difference between a BSP and nSP year (i.e. more than 45p per week).

Factors that could lead to lower outcomes:

- **Minimum qualifying period:** under nSP, people with fewer than 10 qualifying years will not receive any state pension. Under the current system there is no minimum qualifying period.
- **End of ability to derive entitlement:** under the current state pension system people with low numbers of qualifying years can derive entitlement to bSP. People can also inherit additional pension. Under nSP these provisions will be more limited and transitional in nature.
- **Uprating and revaluation:** protected payments (paid where people have more than the full nSP based on the current value of their NI record) will be revalued between 2016 and SPa by growth in CPI. Under the current system this part of the pension would be revalued by earnings growth, which tends to be higher than growth in CPI. Some people with Guaranteed Minimum Pensions (GMPs) might also receive a notionally lower outcome due to the end of the complicated interactions between additional pension and contracting out uprating.
- **Building up nSP years:** people will not be able to build up more nSP once they reach the full amount. Under the current system, people can build up additional pension every year until SPa. So in the long-term the maximum amount of state pension that can be built up will be lower.
- **The value of a nSP year:** under the current system people paying the full rate of National Insurance with fewer than 30 qualifying years are building up bSP at just under £4 per week for each qualifying year and additional pension of at least £1.80 per week for each qualifying year. Under nSP the value of a nSP is £4.45 per week for each qualifying year.

Individual people are likely to be affected by more than one of the factors above. For example, people with protected payments might have a notionally lower state pension because of how we revalue them after 2016, but will benefit from the triple lock applying to a higher amount of their pension.

In 2016, the first year of reform, most people receive the same level of State Pension income as they would have done had the current system continued. Just under 20% of males and just under 40% of females will have a notionally higher outcome as a result of the nSP transition valuation. Small numbers of people may receive a notionally lower outcome due to the removal of the ability to derive pension from their spouse's National Insurance record.

From 2017 onwards, outcomes also change because of the simpler way we will uprate the nSP compared to the way the current system elements are uprated. This leads to an increase in the number of people with higher and lower outcomes, but the average amounts of difference are much smaller.

Between 2017 and 2030 around three-quarters of individuals will have a notionally higher outcome.

When compared to males, under the first 15 years of nSP, females will have a greater proportion with a notionally higher outcome under the new system – just over 75% of females, compared to just over 70% of males. In terms of median changes in SP outcomes under nSP, females will also fair better than males under the new system.

Figures 2a, 2b and 2c present the same underlying information as in figures 1a, 1b and 1c, but present the information by showing proportions of total pensioners at each time point, with changed notional State Pension outcomes under nSP (as opposed to as a proportion of the number of pensioners reaching SPa each year, as presented previously in figures 1a, 1b and 1c).

Figure 2a: Proportion of all female pensioners from 2016 at each time point with changed notional State Pension outcomes under nSP; median weekly amounts (2015/16 earnings terms) – First 15 years of nSP

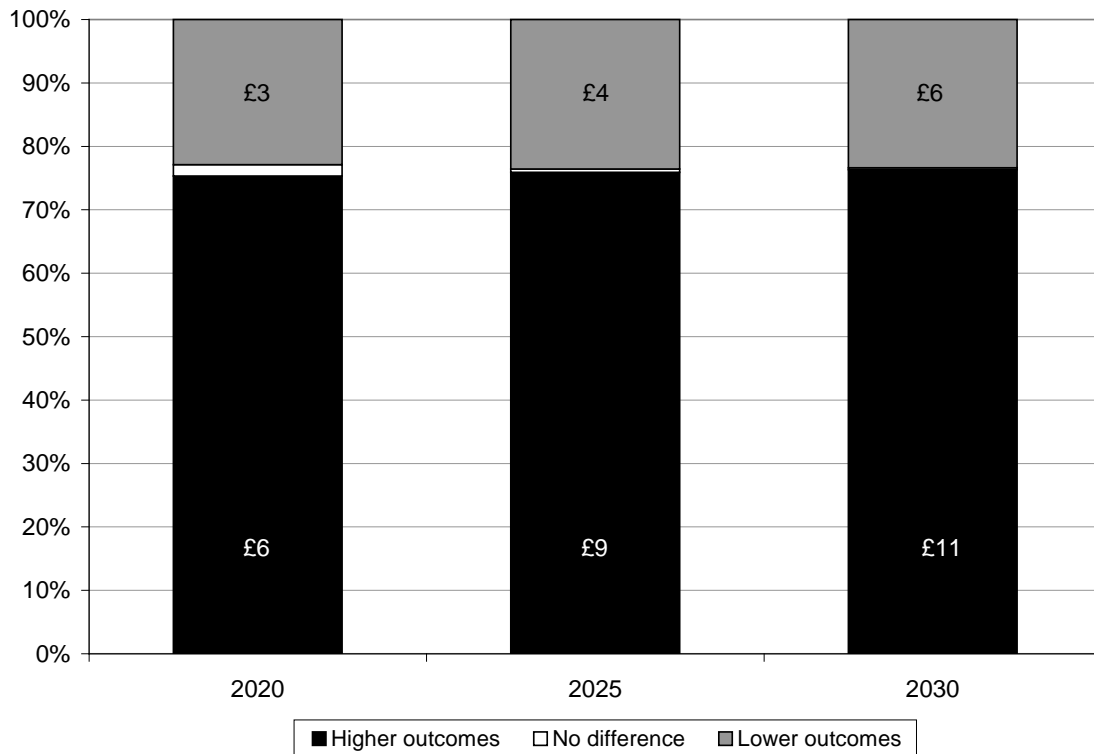


Figure 2b: As above, but for males

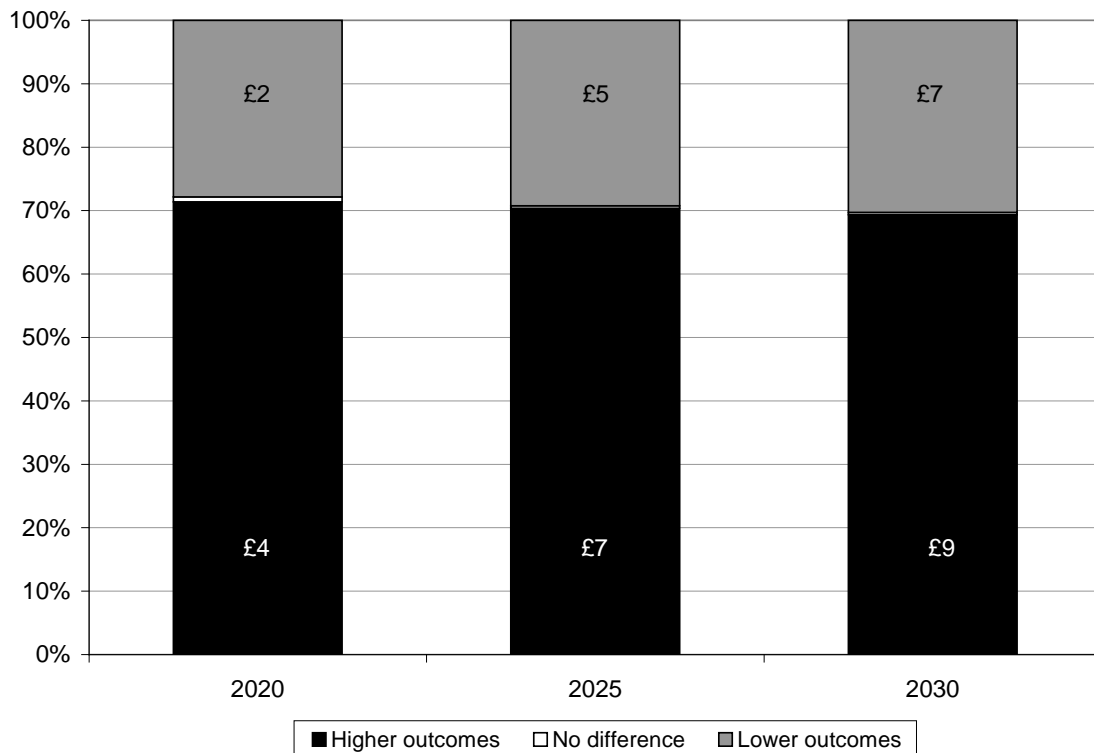
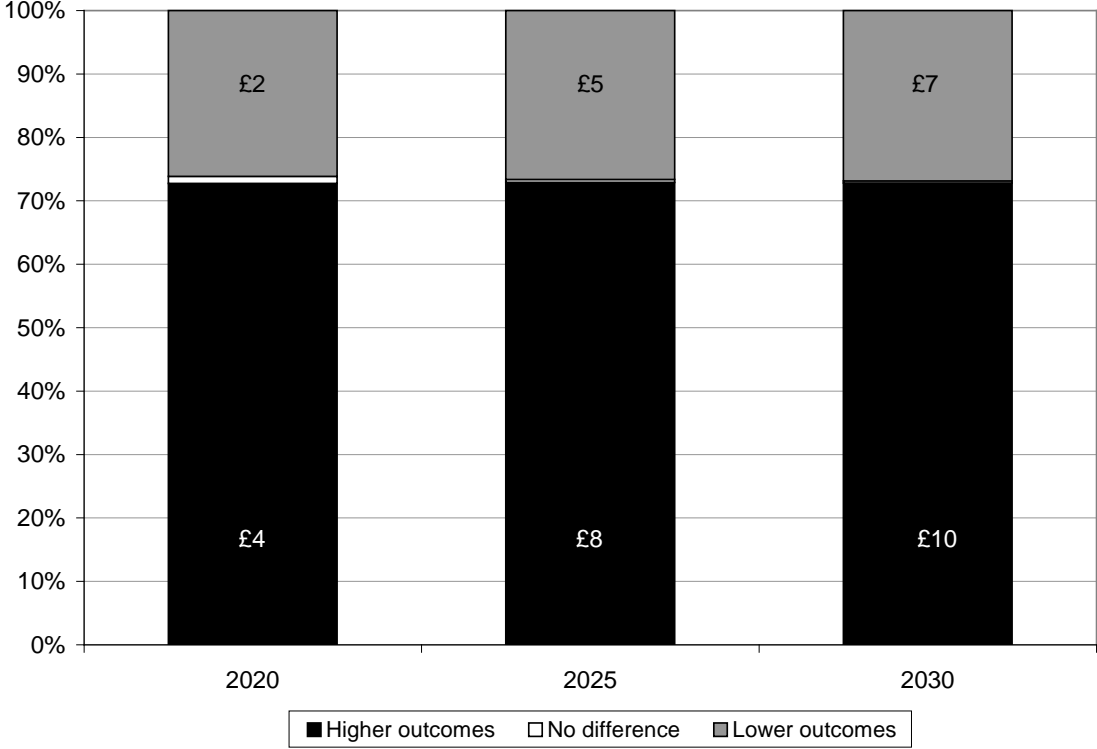


Figure 2c: As above, but for all pensioners



Annex

Figure 3a: Proportion of female pensioners reaching SPa each year with changed notional State Pension outcomes under nSP for the first year of entitlement only – First 15 years of nSP

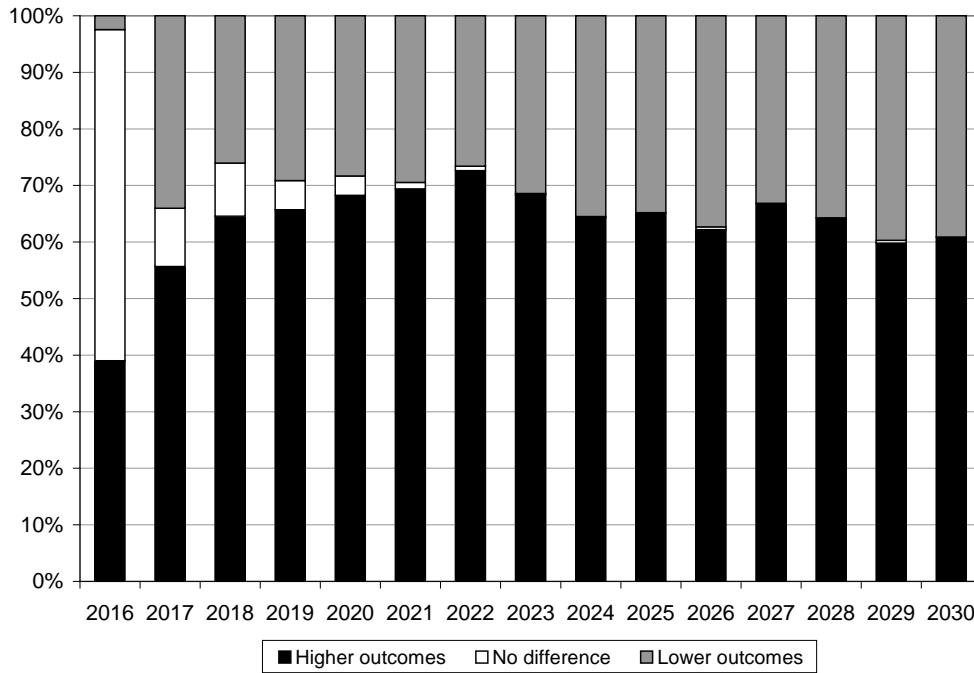


Figure 3b: As above, but for males

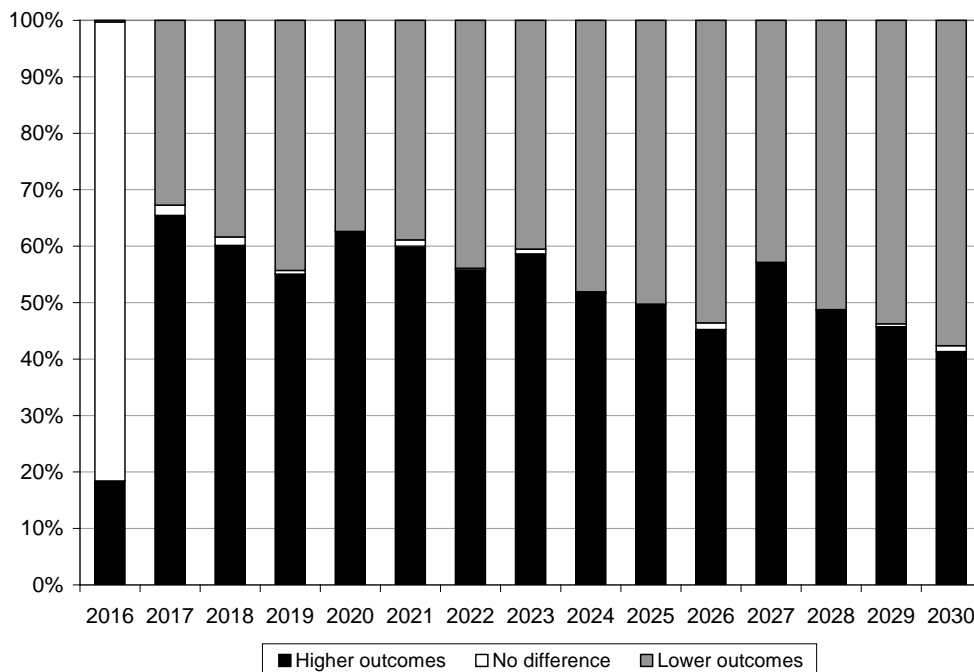


Figure 3c: As above, but for all pensioners

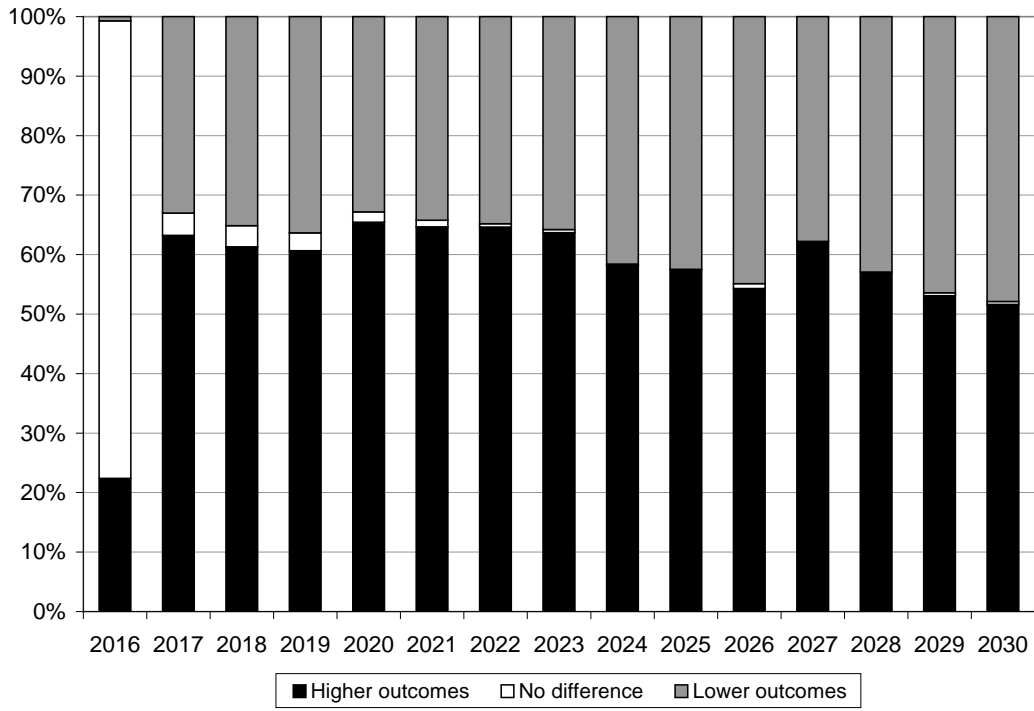


Figure 3d: Pensioners reaching SPa each year with changed notional State Pension outcomes under nSP; median weekly amounts (2015/16 earnings terms) – First 15 years of nSP

Year of SPa	All		Male		Female	
	Higher notional outcome	Lower notional outcome	Higher notional outcome	Lower notional outcome	Higher notional outcome	Lower notional outcome
2016	£11	-	£12	-	£9	-
2017	£4	-£2	£4	-£2	£7	-£1
2018	£6	-£3	£7	-£3	£6	-£2
2019	£8	-£4	£7	-£4	£9	-£3
2020	£8	-£4	£8	-£5	£9	-£3
2021	£8	-£5	£8	-£5	£8	-£3
2022	£9	-£5	£10	-£7	£8	-£4
2023	£10	-£6	£12	-£6	£8	-£5
2024	£10	-£7	£11	-£8	£10	-£6
2025	£10	-£7	£10	-£8	£10	-£5
2026	£12	-£9	£12	-£10	£12	-£8
2027	£10	-£9	£11	-£10	£9	-£7
2028	£9	-£9	£9	-£9	£9	-£7
2029	£11	-£10	£11	-£12	£10	-£7
2030	£11	-£10	£11	-£11	£11	-£9

“-“ indicates sample size too small to produce median amount

Figure 4a: Proportion of all female pensioners at each time point with changed notional State Pension outcomes under nSP – First 15 years of nSP

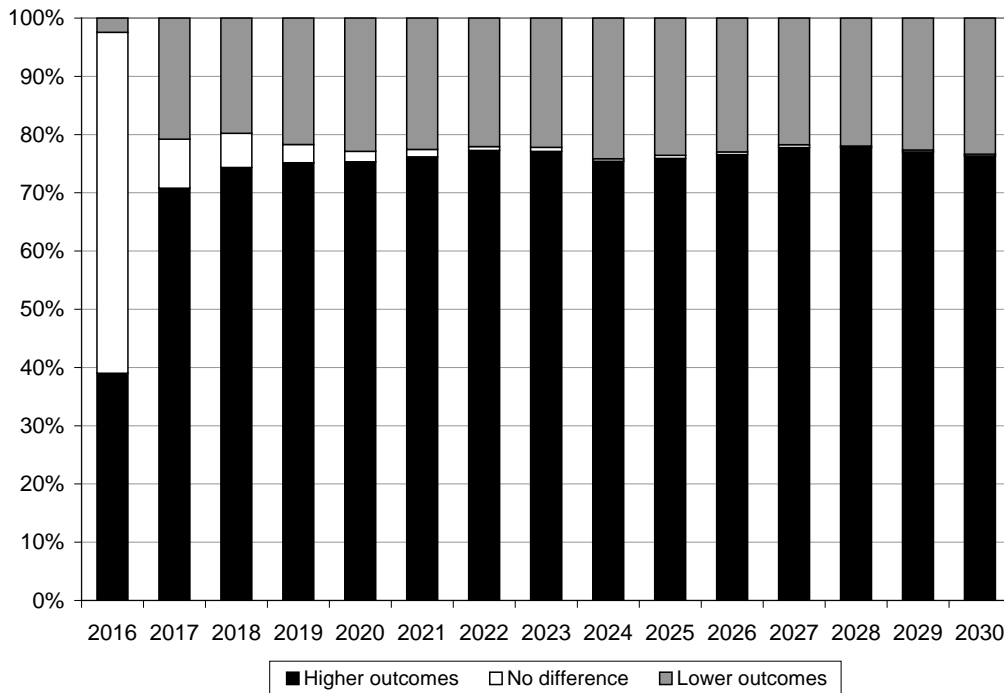


Figure 4b: As above, but for males

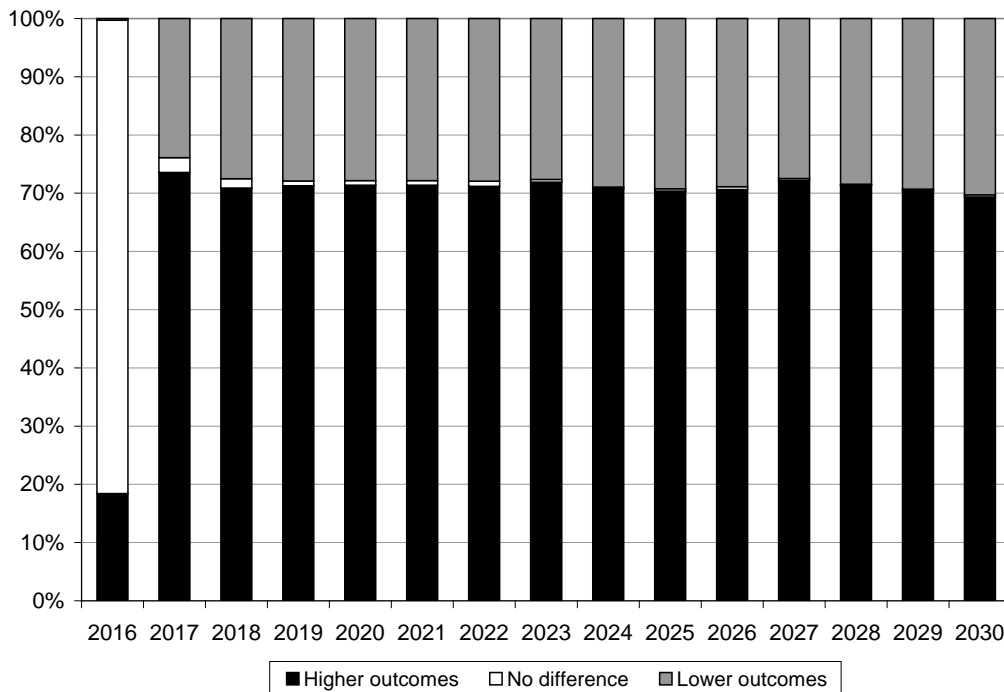


Figure 4c: As above, but for all pensioners

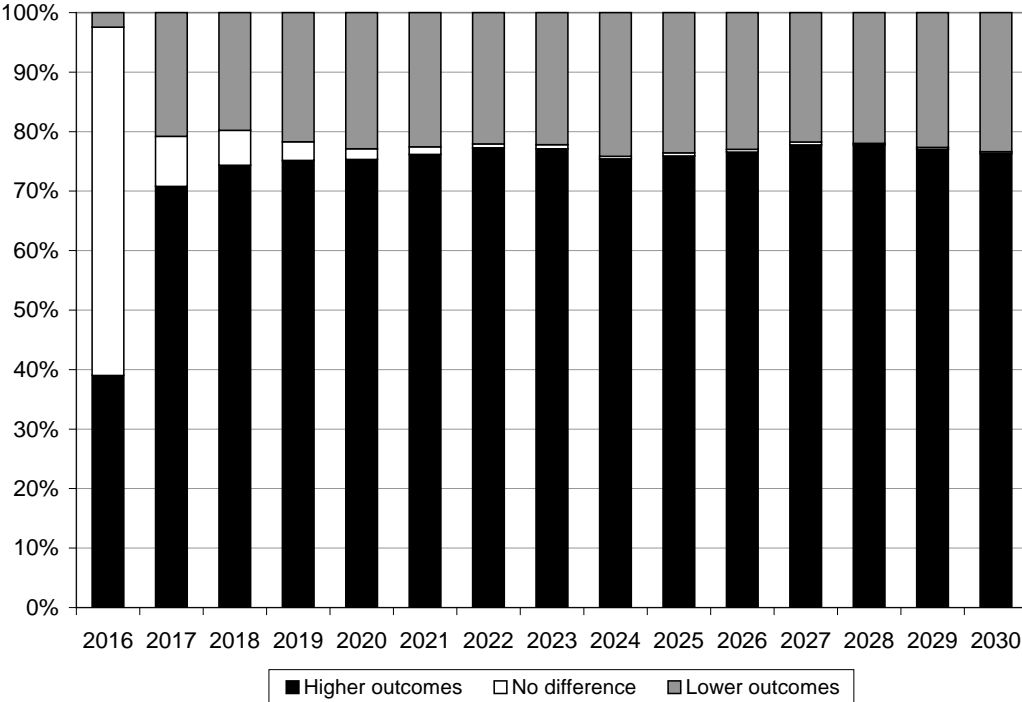


Figure 4d: All pensioners at each time point with changed notional State Pension outcomes under nSP; median weekly amounts (2015/16 earnings terms) – First 15 years of nSP

Year	All		Male		Female	
	Higher notional outcome	Lower notional outcome	Higher notional outcome	Lower notional outcome	Higher notional outcome	Lower notional outcome
2016	£11	-	£12	-	£9	-
2017	£2	-£1	£1	-£1	£3	-£1
2018	£3	-£1	£3	-£1	£5	-£1
2019	£3	-£2	£3	-£2	£5	-£2
2020	£4	-£2	£4	-£2	£6	-£3
2021	£5	-£3	£5	-£3	£7	-£3
2022	£6	-£3	£5	-£4	£8	-£3
2023	£7	-£4	£6	-£4	£8	-£3
2024	£7	-£4	£6	-£5	£9	-£4
2025	£8	-£5	£7	-£5	£9	-£4
2026	£8	-£5	£8	-£6	£9	-£4
2027	£8	-£6	£8	-£6	£10	-£5
2028	£9	-£6	£9	-£6	£10	-£5
2029	£10	-£6	£9	-£7	£10	-£6
2030	£10	-£7	£9	-£7	£11	-£6

“-“ indicates sample size too small to produce median amount

Contact details

Queries about the content of this document

Press enquiries should be directed to the Department for Work and Pensions press office: 0203 267 5144

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