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The new State Pension – transitional issues

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Inside:

Contents

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Summary

The new State Pension (nSP) was introduced on 6 April 2016 for people reaching State Pension age from that date. People who had already reached State Pension age continue to be entitled to a State Pension under the old rules (*Pensions Act 2014,* s1).

The old State Pension had two tiers:

- the basic State Pension, which is paid at a flat-rate (£137.60 pw in 2021/22) for those with at least 30 'qualifying years' - of National Insurance (NI) contributions or credits); and
- the additional State Pension, which is partly earnings-related. It was provided through the State Earnings-Related Pension Scheme (SERPS) between 1978 and 2002 and, from 2002 through the State Second Pension (S2P). It was possible to contract-out of the it into an occupational or personal pension which met set requirements. An individual who was contracted-out paid a lower rate of NI in recognition of the fact that they were foregoing additional State Pension rights for that period.

The nSP is single tier. It is set just above the basic level of means-tested support - £179.60 pw in 2021/22.

People with no National Insurance (NI) record before 6 April 2018 will need 35 qualifying years to get the full amount of the NSP when they reach State Pension age. For people with an existing NI record before that date, transitional arrangements apply and their existing NI record to April 2016 is taken into account. In these cases, there is not usually a direct relationship between the number of NI contributions and the amount of State Pension they receive. (This is because the nSP incorporates the additional State Pension – which was earnings-related, built up over working life and from which you could contract-out). A check was made in April 2016 to ensure individuals would receive at least as much from the nSP as they would have done from the old system based on service to that date, provided they satisfied the minimum requirement for at least 10 qualifying years (PQ 170651, 5 September 2018).

The Government intended that individuals should qualify on the basis of their own contribution record, so the special rules allowing people to derive or inherit State Pension entitlement on the basis of the contribution record of a (former) spouse or civil partner ended, with some transitional protection.

Because the nSP is single-tier, there is no option to contract-out of it. This means that since 6 April 2016, employees who were previously contracted-out have paid the same rate of NI and build up State Pension rights on the same basis as other employees.

Information about the new State Pension is on Gov.UK and in DWP leaflet Your State Pension explained (April 2021). Detailed guidance is in chapter 74 of DWP's Decision Makers' Guide.

This note discusses transitional arrangements and impact. For more on the background to the new State Pension, see Library Briefing Paper CBP-6525, The new State Pension - background (August 2016).

1. Background

1.1 The old State Pension

The old UK state pension has two tiers.

The **first tier** is provided by the State and consists of the basic State Pension (bSP) which is a contributory, flat-rate benefit. People with a full record of National Insurance Contributions (NICs) qualify for the bSP when they reach State Pension age (SPA). The level of a full bSP is £137.60 in 2021/22. The number of qualifying years needed for a full basic State Pension was 30 for people reaching SPA on or after 6 April 2010.[1]

Pensioners with relatively low incomes may also qualify for means-tested support through the Pension Credit. This has two elements. The Guarantee Credit tops up weekly income to a "standard minimum guarantee" (£177.10 pw for a single person and £270.30 for a couple in 2021/22). Additional amounts are payable in respect of severe disability, certain caring responsibilities and housing costs. The qualifying age is linked to the SPA for women. The Savings Credit may provide an additional amount (up to £14.04 pw for a single person/£15.71 for a couple in 2021/22) for those aged 65 or over who have made some provision for their retirement.

The **second tier** is partly earnings-related. The first earnings-related pension provided by the state was the Graduated Retirement Benefit, which ran between 1961 and 1975. Since 1978, earnings-related provision has been through the additional State Pension i.e:

- The State Earnings Related Pension Scheme (SERPS) which operated between 1978 and 2002; and
- The State Second Pension (S2P) which replaced SERPS from April 2002.[2]

SERPS and S2P derive from contributions on earnings between lower and upper earnings limits. Entitlement can continue to build up throughout working life.[3] Under legislation already in place, the additional State Pension is becoming less earning-related and more flat-rate over time.[4]

From the time of its introduction in 1978 it was possible to "contract out" of the additional State Pension into a private pension scheme that met certain requirements. Where an individual was contracted-out into a salary-related scheme, they and their employer paid lower NICs, reduced by the amount of the "contracted-out rebate."[5]

The detailed rules changed over time, but the basic idea was that an individual could only be contracted-out if they were building up another

1 *Pensions Act 2007*, s1
2 Between 1961 and 1978, earnings related provision was provided through Graduated Retirement Benefit
3 For more detail, see HC Library Briefing Paper SN0255 State Second Pension
4 *Pensions Act 2007,* v sections 10-12
5 State Pension: deductions for contracting-out, CBP 2674, September 2019

pension that was at least as good as the S2P they would have received from the State. The idea is that some of their private employer pension would replace the S2P they would have built up if they were paying the full rate of National Insurance.[6]

When the individual who had been contracted-out reached SPA, a deduction was made from the addition State Pension they would have earned had they remained contracted-in. A DWP blog post from October 2015 explained how this worked:

> **If you never contracted out**
>
> […] the most straightforward would be if you have never contracted out. Then we can calculate your total State Pension by just adding up all the parts that you have built up in the old system.
>
> **Never contracted-out**
>
> State Pension = BSP **+** Grad **+** SERPS **+** S2P
>
> **If you were always contracted out**
>
> If you have always been contracted out of the State Pension since contracting-out first started in 1978, then you would not have built up any SERPS. You may have a little bit of S2P top-up (see blog 2 which explains this). So your State Pension could consist of:
>
> **So if you have always been contracted-out:**
>
> State Pension = BSP **+** Grad **+** S2P top up
>
> **If you have been contracted out only some of the years, but not all years**
>
> If you have been contracted out of some of the Additional State Pension in the past, but not in every year, then calculating your State Pension is more complicated. This blog helps explain how we take account of contracting out, when working out your National Insurance State Pension. Don't forget that you could only contract out of the Additional State Pension, and not the basic State Pension.[7]

The option to contract-out into a defined contribution scheme was removed from 6 April 2012 and from then until April 2016 it was only possible to contract-out into a defined benefit pension scheme.[8]

1.2 The new State Pension (nSP)

The nSP was introduced on 6 April 2016 for people reaching State Pension age (SPA) from that date. People who had already reached SPA age continue to be eligible for a State Pension under the old rules.[9]

Key features of the nSP are that:

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6 Pensions Latest – Understanding the State Pension part three: am I 'contracted out' and what does it mean

7 DWP Bog; Understanding the State Pension part one: how National Insurance builds up your state pension, October 2015

8 Gov.UK – additional State Pension/contracting out; A Defined Contribution (DC) scheme is one where benefits depend on factors such contributions, investment returns and annuity rates. A Defined Benefit (DB) scheme is one where benefits are linked to a formula based on salary and length of service.

9 *Pensions Act 2014*, s1

- It combines the two tiers of the existing system – the basic and additional State Pension;
- It is set above the level of the Pension Credit standard minimum guarantee (i.e. at £179.60 pw in 2021/22);[10]
- The statutory requirement is to uprate it at least in line with earnings (although the Government has committed itself to applying the 'triple lock' – the highest of earnings, prices and 2.5%);[11]
- For people with no NI record before April 2016, 35 'qualifying years' - of National Insurance (NI) contributions or credits - are needed for the full amount. Those with fewer than 35 qualifying years receive a pro-rata amount, subject to them having at least ten qualifying years;
- There are transitional arrangements to deal with pre-implementation records, such as people who by April 2016 had already built up more than the full amount of the nSP and previous periods of contracting-out;
- The expectation is that people qualify on the basis of their own NI record, so the right to derive or inherit an entitlement based on the contributions of a (former) spouse or civil partner ended, with some transitional protection;
- The option to contract out also ended (as there is no additional State Pension to contract-out of) and since April 2016, all employees have paid the same rate of NI and built up rights to the State Pension on the same basis;
- Other features of the old system that ended in April 2016 included Savings Credit and the 25 pence age addition for people aged 80 and over;
- Deferring a claim to the State Pension is still possible, although the reward for doing so is less generous than under the old system.

In the longer term, the intention is that the new system will be simpler, providing a clearer foundation for private saving. However, in the short-term it is complex because of the transitional arrangements needed to deal with NI records up to April 2016.

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10 *State Pension Regulations 2015 (SI 2015/173)*, Part 1A, as amended by SI 2016/267
11 *Pensions Act 2014*, s23 and Sch 12 (19); HL Deb 28 April 2016 c1235 [Baroness Altmann]; See State Pension triple lock, Commons Library Briefing Paper CBP 7812, Feb 2021

2. Impact

It is important to draw a distinction between the short and long-term effects of the reforms, which are different.[12]

2.1 Gainers and losers – short term

One of the requirements of the State Pension reforms was that it "must be cost neutral in each and every year to avoid placing an unsustainable burden on future taxpayers."[13] DWP's January 2013 Pensions White Paper explained this meant that they resulted in "some future pensioners receiving slightly more income in retirement than if the existing system continued and others receiving slightly less."[14]

The majority of people reaching State Pension age in 2016/17 reached the same level of State Pension income as they would have done under the old system. This was because a check was made at implementation and if an individual's valuation under the old system was higher than under the new system, then that higher amount was their starting rate for the nSP. [15]

Over the first 15 years of the scheme, around three-quarters of people have a notionally higher State Pension than under the current system:

> 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. This means that by 2030, over three million men, and over three million women will have benefitted from a notionally higher State Pension. This proportion then begins to gradually diminish over time, falling to around two-thirds by 2040 and just over half by 2050.
>
> 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.
>
> All impacts discussed in this document are notional – no current pensioner will experience a change in the amount of state pension they currently receive as a result of the reforms. [16]

The estimated proportion of women gaining was higher than men (75% compared to 70%):

> **Reduction of gender inequalities**: Around 650,000 women reaching State Pension age in the first ten years will receive an

[12] IFS press release, 'Women approaching retirement and the self-employed to gain from single-tier pension reforms, employees in their thirties to lose', 11 July 2013; Crawford R et al, A single-tier pension: what does it really mean? IFS Report R82, July 2013'

[13] DWP, A State Pension for the 21st century, Cm 8053, April 2011, Exec Summ, p8

[14] DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, p45

[15] DWP, Impact of New State Pension (nSP) on an Individual's Pension – Longer Term Effects of nSP, January 2016, p9

[16] DWP, Impact of New State Pension (nSP) on an Individual's Pension – Longer Term Effects of nSP, January 2016, p5

> average of £8pw (in 2015/16 earnings terms) more, due to the new State Pension valuation of their National Insurance record.
>
> Over 75% of females and 70% of males stand to notionally gain from the nSP over the first 15 years.[17]

2.2 Gainers and losers – longer term

By 2060, expenditure is expected to be lower as a proportion of GDP than if the current system continued:

> Expenditure on pensioner benefits is projected to be broadly the same under the new system (within 1% of total expenditure, and within 0.1% of GDP) until the 2040s. Over the longer term expenditure growth is slower and by the early 2060s expenditure is projected to be lower by 0.5% of GDP compared to running the current system forward over the long term.[18]

In 2013, the then Pensions Minister Steve Webb explained that a higher flat-rate pension was affordable because the amount of State Pension people could build up in future would be capped:

> The overall cost of the new system will be the same as that of the one it replaces. This is not a pensions giveaway for the next generation. A higher flat pension is affordable only because, in the long term, people will not become entitled to very large earnings-related pensions through the state system. In a world where everyone will be automatically enrolled into a workplace pension with a contribution from their employer, it no longer makes sense for the state to run its own separate earnings-related pension scheme. Higher earners are among those being automatically enrolled, with substantial employer contributions, so those who earn the most while they are working will continue to be the best off in retirement.[19]

The Government argues that the policy needs to be set in context, taking account of auto-enrolment. In January 2016, the then Pensions Minister Baroness Altmann said:

> While that new state pension is rolling out—it is important to set this in context—and boosting people in general to give them a higher state pension, we have also introduced the major reform of auto-enrolment, so people will be building up a private pension. The aim is that it will have this flat-rate amount eventually. That is a foundation that the state gives you. Currently you need to count that base as whatever the state gives you plus whatever you have in the contracted-out bit of your private pension scheme. But on top of that you will have a private pension. From 2030 onwards there are more people who might have got more if we had continued with the old system, but the old system was unsustainable.[20]

Figure 2 below shows that the proportion of pensioners reaching SPA each year who are notional gainers from the system (compared to the position if the current system continued) is higher than the proportion of notional losers until 2040:

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[17] Ibid
[18] DWP, Updated impact of the single-tier pension reforms, July 2014
[19] HC Deb, 14 January 2013, c607
[20] Work and Pensions Committee, Oral evidence, 18 January 2016 Q135; HL Deb 28 April 2016 c1235

Figure 2: Proportion of all pensioners reaching SPa each year, with changed notional lifetime in retirement State Pension outcomes under nSP; median weekly amounts averaged over lifetime in retirement (2015/16 earnings terms)

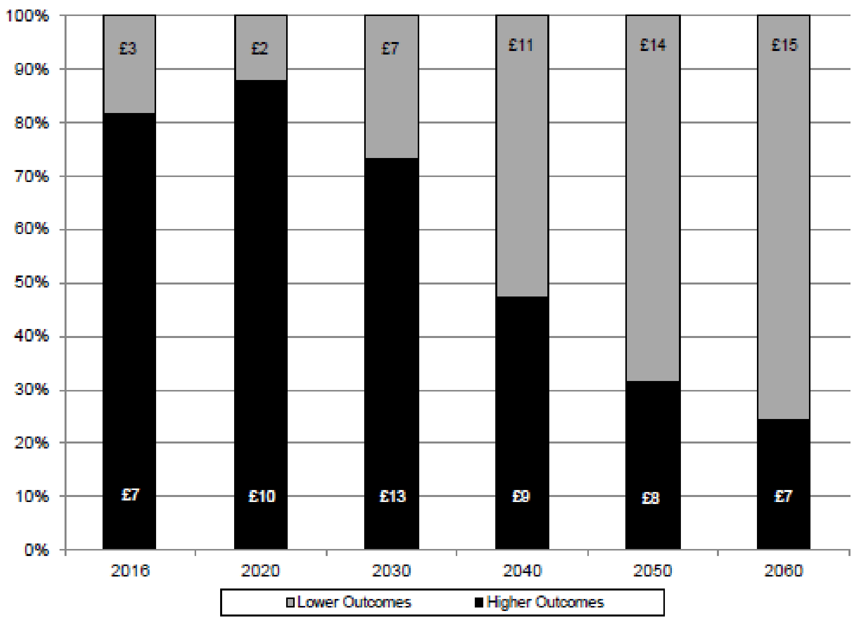
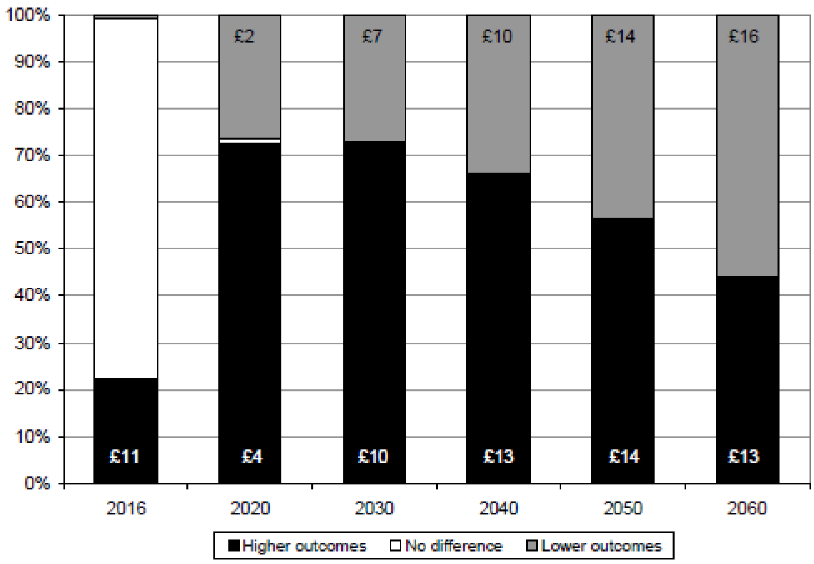


Figure 1 below shows the effect of this on the proportion of all future pensioners. Until 2060, most are notional gainers:

Figure 1: Proportion of all pensioners from 2016 at each time point with changed notional State Pension outcomes under nSP; median weekly amounts (2015/16 earnings terms)



2.3 Who are the gainers and losers?

In the early years, the nSP is expected to benefit people with low amounts of additional State Pension entitlement under the old system - including people who have taken time out of the labour market due to caring responsibilities before 2002 and the self-employed. As a result, around 650,000 women who reached SPA in the first ten years of implementation (i.e. between April 2016 and 2026) would receive an average of £8pw (in 2014/15 earnings terms) than they would have done under the current system.[21] Another group to gain in the early years are people who were contracted-out during working life and continue to build up State Pension rights after April 2016.[22] This was a result of the transitional arrangements – under which individuals have the chance to 'work off' deductions for contracting-out and thereby build up more State Pension than they would have had under the current system (see section 3.2 below).[23]

The losers included those who had already built up more than the full amount by April 2016 (many of whom will have been contracted-in) and higher earners with long service. This is because the new State Pension is flat-rate rather than earnings-related (see section 3.2 below).[24] DWP produced analysis setting out the losers and gainers from the nSP according to whether they were contracted-out or contracted-in.[25] Other possible reasons for loss include the ending of elements of the old system, including the right to derive a State Pension on the basis of a (former) spouse or civil partner's NI record and Savings Credit and the introduction of a minimum qualifying requirement (ten years) (see section 3 below).[26]

DWP explained that reasons why an individual might receive a notionally higher outcome under the nSP than if the old system had continued include:

> - **The nSP starting amount calculation in 2016**: everyone had their NI record as it stood in 2016 valued under the rules of the old and new State Pension as if they had been in force throughout. The higher of these two amounts was the starting rate for the new State Pension. People with low amounts of additional State Pension entitlement under the old system were likely to benefit from the nSP valuation. This group was 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 old system, the basic State Pension (£137.60 in 2021/22) is uprated by the triple lock (higher of 2.5% or growth in CPI or earnings) but the additional State Pension by the CPI, whereas the full amount of the new State Pension (£179.60 in 2021/22) is uprated by the triple lock.
>
> - **Building up nSP years**: working age people with a starting rate that was less than the full amount of the nSP in April 2016 could continue to build up additional qualifying years – at a rate of around £5.13pw new State Pension (2021/22 rates) for each additional qualifying year before State Pension age. Potential beneficiaries were people who have been contracted out under the current system or have built up low amounts of additional

21 DWP, Updated impact of the single-tier pension reforms, July 2014 para 87; DWP, Single-tier impact assessment, October 2013
22 Steve Webb's oral evidence to the Work and Pensions Select Committee, 25 November 2015, Q10; DWP written evidence (USP0143)
23 Oral evidence to Work and Pensions Select Committee, 1 December 2014, Q24
24 Ibid Q10 and Q13
25 Oral evidence to the Work and Pensions Select Committee, 25 November 2015, Q10 [Steve Webb];
26 Oral evidence to Work and Pensions Select Committee, 1 December 2014, Q12

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 pre-2016 system (mostly contracted-out or self-employed people) would build up more State Pension for each week of contributions, due to the fact that the rate of the nSP is higher than the BSP.[27]

Factors that could lead to a lower outcome include:

- **Minimum qualifying period:** under nSP, people with fewer than 10 qualifying years do not receive any state pension, whereas under the old system there was no minimum qualifying period.

- **End of ability to derive entitlement:** under the old State Pension system people with low numbers of qualifying years could derive entitlement to bSP. People could also inherit additional pension. Under nSP these provisions are more limited and transitional in nature.

- **Uprating and revaluation:** protected payments (paid where people have more than the full nSP based on the value of their NI record in April 2016) would be revalued between 2016 and SPa by growth in CPI. Under the old 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 cannot build up more nSP once they reach the full amount. Under the old system, people could build up additional pension every year until SPa. So in the long-term, the maximum amount of state pension that can be built up is lower.

- **The value of a nSP year:** under the old system people paying the full rate of National Insurance with fewer than 30 qualifying years built up a higher weekly rate of State Pension (BSP and additional State Pension) for each qualifying year than for each qualifying year under the nSP.[28]

The Institute for Fiscal Studies (IFS) noted that the only groups who would get a significantly higher state pension income in the long run were those who spend long periods in self-employment and those who would start to receive credits for the first time under Universal Credit. Apart from that:

> In the longer term, the new single-tier pension would be less generous than the current pension system for most people. People particularly worse off will be those who contribute to the system for longer, whether that contribution is through paid employment, caring responsibilities or receipt of disability-related benefits.[29]

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[27] DWP, Impact of New State Pension (nSP) on an Individual's Pension – Longer Term Effects of nSP, January 2016, p7

[28] Ibid, p8

[29] JRF, A single-tier pension: what does it mean for individuals? 2014

3. Issues in transition

3.1 Why future pensioners only?

See Single-tier State Pension: women born between April 1951 and 1953, Commons Library Briefing Paper CBP6620, March 2014.

People reaching SPA from 6 April 2016 are eligible for the nSP. This means men born on or after 6 April 1951 and women born on or after 6 April 1953. People who had already reached SPA continued to receive their State Pension under the pre-existing rules. [30]

The rationale for applying the reforms to future pensioners only was that they were being asked to take greater personal responsibility to save for their retirement:

> Against a backdrop of increasing longevity, current generations of workers will have to take greater personal responsibility for saving to achieve the level of retirement income they are likely to expect. With the introduction of automatic enrolment, it is an appropriate time for Government to withdraw from the role of providing an earnings-related pension, and return to a single flat-rate state pension that keeps people out of poverty and provides a firm foundation for saving.[31]

However, in responses to the 2011 Green Paper, many existing pensioners expressed concern:

> 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.[32]

Around the time of implementation, many MPs were contacted by constituents expressing concern that the new State Pension was set at a higher level (£155.65 pw) than the old bSP (£119.30 pw in 2016/17). However, the nSP also incorporates the additional State Pension and, as Steve Webb explained in 2013, was designed to be cost-neutral:

> […] the reforms are designed to cost no more than the current system and are not about spending more money on future pensioners, but about spending money more effectively to better support saving for retirement. As a consequence some people will get more under the single-tier reforms than if the current system continued, and some less.[33]

A particular area of confusion related to having been contracted out. Under the old system, a person who had been contracted-out throughout working life was eligible for a bSP, possibly a small amount of State Second Pension and an occupational pension (which would have been part-funded by their National Insurance rebate). Sometimes people who have been contracted-out look at the full rate of the nSP (£179.60 pw in 2021/22) and think it unfairly high compared to their

[30] *Pensions Act 2014*, s1; See Library Briefing Paper SN06620 *Single-tier State Pension - women born between 1951 and 1953,* March 2014

[31] DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, p18

[32] DWP, A State Pension for the 21st century: A summary of responses to the public consultation, April 011

[33] HC Deb 29 January 2013 c783-4W

own State Pension entitlement. However, as discussed in section 3.2 below, under the new system an individual who has been contracted-out will have a deduction from their starting amount in April 2016 to reflect this.[34]

Nonetheless, it is the case that topping up the gross State Pension entitlement of existing pensioners to the full amount of the nSP would have been of benefit to some of them.[35] The Government estimated that topping up the gross State Pension entitlement of existing pensioners in April 2016 would cost around £10 billion a year in the early years (2010/11 cash terms).[36] This presumably reflects the fact that many older pensioners – particularly women – had low entitlements under the old system. The Pensions Policy Institute estimated that introducing a single-tier for all pensioners would have reduce pensioner poverty (to 7% of pensioners by 2025 rather than 11% under old system) but at a cost to the Exchequer.[37]

The Government rejected the idea of a taper for people reaching State Pension age close to implementation on the grounds of complexity. Furthermore, the reforms had been designed to be cost neutral.[38]

As regards those who were already pensioners, the Coalition Government pointed to other measures in place to support them – the triple lock for the bSP and protection for pensioner benefits such as the Winter Fuel Payment, free bus passes, free prescriptions, free eye tests and free TV licences.[39] In addition, it introduced a time-limited option of paying class 3A voluntary national insurance contributions for those wanting to increase their additional State Pension entitlement.[40]

For more detail, see DWP, State Pension top up booklet (April 2016) and State Pension top up calculator (archived Gov.UK website March 2015) For more on the background, see State Pension top up Commons Library Briefing Paper, CBP 7076, Jan 2015).

3.2 Transitional arrangements

The White Paper explained that transitional arrangements would apply for people with "pre-implementation National Insurance records."[41] In particular, they were needed to: protect the rights of those who at the point of implementation have accrued more than the nSP; for those who were contracted-out of the additional State Pension during working life; and for people who would have derived or inherited a state pension income based on the National Insurance record of a spouse or civil partner.

34 *Pensions Act 2014*, s5
35 Gross State Pension entitlement takes account of any contracted-out element of an individual's private pension
36 HC Deb, 14 February 2013, c775-6W; DWP, Cost of paying £140 a week State Pension to all pensioners retiring before 2016/17, April 2011; See also, PPI, The implications of Government policy for future levels of pensioner poverty, July 2011; Gross State Pension is the sum of an individual's own basic State Pension, derived rights to basic State Pension, gross Additional Pension inherited Additional Pension
37 PPI, *The implications of Government policy for future levels of pensioner poverty*, 11 July 2011
38 HC Deb 29 January 2013 c783-4W
39 DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, p21, para 5
40 *Pensions Act 2014*, s25 and Sch15
41 DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, p27

At the point of implementation in April 2016, a comparison was made of the entitlement an individual had built up under the old system, and what they would have built up had the new system been in place throughout. The 2013 White Paper explained that, as a result of this comparison, individuals would fall into four distinct groups:

> • Individuals with a foundation amount which is **equal to the full level of the single-tier** pension. These are likely to be people who have the necessary 35 qualifying years, little additional State Pension and have not been contracted out.
>
> • Individuals with a foundation amount which is **less than the full level of the single-tier pension**. These are likely to be younger people, with fewer qualifying years, or older people who have spent many years contracted out of the additional State Pension. These people will be able to increase their single-tier pension up to the full level, at the rate of 1/35th of the full rate (£4.11 to the nearest penny) for each additional qualifying year they gain before reaching their State Pension age.
>
> • Individuals with a foundation amount which is **more than the full level of the single-tier** pension. These are likely to be older people with many qualifying years, and who have not spent significant periods contracted out of the additional State Pension. These people will receive the difference between their foundation amount and the full single-tier amount as an extra payment on top of the full single-tier weekly amount.
>
> • Individuals with **no pre-implementation National Insurance record**. The simpler and easier to understand single-tier system will give them long term clarity of outcome. They will also be supported to save into a workplace pension scheme through automatic enrolment and the policy measures set out in the Government's 'Reinvigorating Workplace Pensions' document throughout all of their working lives.[42]

People who had built up more than the full amount of the nSP in April 2016

Presenting the legislation to Parliament, the then Pensions Minister Steve Webb said that where someone had already accrued more than the single-tier amount, this would be recognised:

> Of course, national insurance contributions paid and that would, under the current system, have led to entitlement to a second state pension will be recognised. For example, when we introduce single tier, someone who retires in 2018 who has £160 in the current system will still get a pension of £160.[43]

This was done by comparing the rights they had built up under the old system by April 2016 and the amount they would have built up under the nSP, had it been in place throughout. The higher of the two would be their starting amount for the nSP. Any amount in excess of the full amount of the nSP counts as a "protected payment."[44] Different

[42] DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528)

[43] HC Deb, 14 January 2013, c606

[44] DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, para 86 and Annex3, p12; *Pensions Act 2014*, s5 and Sch 1 and 2.

uprating arrangements would apply to the nSP (which is uprated by the triple lock) and the protected payment (in line with prices).[45]

An individual with a starting rate higher than the full amount of the nSP in April 216 cannot build up more State Pension rights after April 2016. Presenting the proposals to Parliament in 2013, the then Pensions Minister, Steve Webb, explained that a higher flat-rate pension was affordable because the amount people could build up in future would be capped:

> The overall cost of the new system will be the same as that of the one it replaces. This is not a pensions giveaway for the next generation. A higher flat pension is affordable only because, in the long term, people will not become entitled to very large earnings-related pensions through the state system. In a world where everyone will be automatically enrolled into a workplace pension with a contribution from their employer, it no longer makes sense for the state to run its own separate earnings-related pension scheme. Higher earners are among those being automatically enrolled, with substantial employer contributions, so those who earn the most while they are working will continue to be the best off in retirement.[46]

People who were contracted-out

The old State Pension had two tiers – the bSP and the additional State Pension, from which it was possible to contract out. Where an individual was contracted-out, they and their employer paid a lower rate of NI in recognition of the fact that they were not building up rights to the additional State Pension.

With the introduction of the nSP in April 2016, there was no longer an additional State Pension and therefore the option to contract-out ended. However, transitional arrangements were needed to take account of previous periods of contracting-out. This was because, as Steve Webb explained, to do otherwise would be expensive and unfair to others:

> Millions of people, including all of us who have ever been in the Parliamentary Pension Scheme, have paid less NI than our neighbours. We have been contracted out. Our employer paid less; we paid less, and a deal was done that the scheme would replace part of the state benefit. That was the deal. The question is: we get to 2016 and there is no contracting out, there is just one pension, one bit of the system, so what do you do with the past contractors-out? There are two extremes. One is you forget contracting out ever happened, which would be beautiful, simple and clear; I would have loved it. But it would have cost billions because all of us would have suddenly got full State Pensions, not reduced ones, and it would have been grossly unfair on our next-door neighbours, who never contracted out, who paid more NI than we did and still got the same pension. So we could not afford to do it and it would not have been fair. [47]

45 *Pensions Act 2014*, s23 and Sch 12 (19); HL Deb 28 April 2016 c1235 [Baroness Altmann]
46 HC Deb, 14 January 2013, c607
47 Oral evidence to the Work and Pensions Select Committee, 25 November 2015, Q4

The mechanism for doing this, as explained in the January 2013 White Paper, was to apply a deduction to the nSP, with a check to ensure the individual did not receive less than under the old system:

> 84. For those who have been contracted out, a deduction – the 'rebate-derived amount' – will be applied to the single-tier valuation, as of the date of the implementation of single tier, to reflect the lower rate of National Insurance contributions paid when contracted out.
>
> 85. This calculation will be as follows:
>
> **Single-tier valuation for people who have contracted out**

Single-tier valuation for people who have contracted out:

$$\left(\frac{\text{Number of pre-implementation qualifying years}}{35} \times £144\right) - \text{'rebate derived amount'}$$

> 86. There will be cases where some people's National Insurance records, when valued under the rules of the current state pension system, would give them a higher valuation than the calculation set out above. Therefore, as a safeguard, after calculating an individual's single-tier valuation, a check will be performed to see if the current system rules would give them a higher valuation. Where this is the case these people will receive their higher valuation as their valuation as their foundation amount.

The Government argued that the deduction was intended to be:

> […] broadly equivalent in value to the workplace pension the rebate funded. This is consistent with the rules of the existing system.[48]

There is a detailed explanation in DWP guidance, Contracting out and why we may have included a Contracted Out Pension Equivalent (COPE) amount when you used the online service (6 April 2017).[49] The relevant legislation is *Pensions Act 2014* (s5 and Sch 1).[50]

As a result, people who had been contracted-out in working life had a 'starting amount' in April 2016 that was less than the full amount of nSP, even if they had 35 qualifying years or more. However, from April 2016, they started to be liable for the standard rate of NI and to build up State Pension rights on the same terms as other individuals. This enabled them to effectively 'work off' the deduction for contracting at the rate of 1/35th of the full nSP amount for each additional qualifying year accrued before SPA.[51] This group can therefore be among the gainers from the introduction of the nSP.[52] The Pensions Policy Institute

48 See also, a 2017 factsheet and DWP, Single-tier State Pension Factsheet, 2013 p9

49 DWP,-Single-tier transition and contracting out, 2013, paras 6-9

50 The amount of the deduction to reflect contracting out is in Sch 1, para 4 (5)

51 DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, p11, para 24

52 IFS, *A single-tier pension: what does it really mean?*, July 2013; see also Pensions Policy Institute, Single tier series paper 4: the impact of the abolition of contracting-out, 19 Feb 2014

noted that this was more likely to apply to younger workers who had many years to go to retirement.[53]

The Government estimated that of people paying more NI in the first 20 years of the nSP, around 90% would gain enough State Pension over and above what they would have got under the old system to offset the extra NI and any loss of GMP indexation.[54]

In 2015, Steve Webb explained that although people who had been contracted-out are often gainers from the reforms, they did not see it that way:

> They don't perceive it because they say, "He is getting a flat rate and I am not," but I am getting the lower rate plus my teacher's pension, and now I will get a better State Pension plus my teacher's pension.[55]

The Government estimated that from 2018, over 70 per cent of people who had been contracted-out would be notional gainers from the reforms.[56] An estimated 37% of people reaching SPA in 2016/17 would receive the full amount of the new State Pension "directly from the state." The proportion rose to 90% if the additional State Pension they would have built up had they not been contracted-out was included:

> 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 opted out of or were opted out of when contracted out of SERPS or State Second Pension (S2P) (additional pension).
>
> The percentage of pensioners reaching State Pension age in 2016/17 estimated to receive the full amount of the new State Pension directly from the state is around 37%. By 2020 this percentage will reach around 50% and by 2035 around 84%. Most people who contracted out of SERPS or S2P were required, as a condition of contracting out, to accrue an alternative private pension. This replaced the additional State Pension, which they were contracted-out of.[57]

GMP increases

Determining the impact of the reforms is particularly complex for people with Guaranteed Minimum Pension (GMP) entitlement. A GMP is a defined benefit that occupational pension schemes were required to provide as a condition of contracting-out of the additional State Pension between 1978 and 1997.[58]

Under the 'old system', responsibility for index-linking GMPs was divided. Occupational pension schemes had a statutory responsibility for

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53 PPI, Single-tier series paper 1: The impact of the Government's single-tier state pension reform, June 2013

54 Evidence to the Work and Pensions Committee, USP0143, January 2016; DWP, Single-tier impact assessment, October 2013 paragraph 88, para 135

55 Oral evidence to the Work and Pensions Committee 25 November 2015, Q24

56 DWP, Impact of the New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP, January 2016, p13-4; Table 4.a

57 PQ HL903 State Retirement Pensions 29 June 2015; DWP, Impact of the New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP, January 2016, figure 5

58 *Pension Schemes Act 1993*, s13-8

uprating GMP rights accrued between 1988 and 1997 subject to a 3% cap.[59] Increases over and above this (i.e; on rights accrued between 1978 and 1988 and in excess of 3% on rights accrued between 1988 and 1997) were effectively provided via the additional State Pension.[60]

The requirement on schemes to index-link GMPs accrued between 1988 and 1997, subject to a 3% cap did not change in April 2016.[61] However, the Government does not take account of inflation increases to GMP when uprating the nSP. The impact of this in individual cases can be offset by two factors - the more generous uprating arrangements (with the nSP uprated according to the triple lock) and the ability to build up more qualifying years from April 2016 for people who were contracted-out.[62]

In a March 2016 report, the National Audit Office found that the impact of the nSP on people with GMPs would vary widely depending on their circumstances.[63]

These arrangements and the particular position of members of public sector pension schemes are discussed in Guaranteed Minimum Pension (GMP) increases, Library Briefing Paper CBP 4956, Feb 2021.

People who were contracted-out into personal pensions

Between 1988 and 2012, it was possible to contract-out into a defined contribution (DC) scheme – which could be a workplace DC scheme or a personal pension. DWP explains that the income such schemes provide at retirement depends on a range of factors:

> These types of scheme pay you according to the investment returns on the contributions you (and where appropriate your employer) have paid in.
>
> This means that the actual pension amount you get will depend on the performance of your investments (for example, where your pension pot is invested, the fees you are charged and how much these investments increase), and the choices you make when you decide how to take your fund.
>
> For instance, under the pension flexibility reform that was introduced in April 2015, you may take some or all of your pension pot as a cash payment. The amount you take will affect your private pension income amount – and if you decide to take all your pension pot as a cash payment, you may not get any private pension income.
>
> If you use your private pension investment to buy an annuity that provides a regular pension income, the type of annuity you buy will also determine your private pension income.[64]

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59 Ibid s15
60 HC Deb 6 January 2014 c51W
61 Commons Library Briefing Paper 4956 GMP increases Feb 2021
62 DWP, Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP, January 2016
63 NAO, The impact of the state pension reforms on people with GMPs, HC 907, 24 March 2016
64 DWP guidance, Contracting-out and why we may have included a COPE amount when you used the online service, April 2017

The end of contracting-out

With the introduction of the nSP, the additional State Pension closed and, by extension, the option to contract-out of it. For individuals, the loss of the 'contracted-out rebate' meant an increase in their rate of National Insurance contributions (equal to 1.4 per cent of their earnings between the LEL and the UAP), up to the standard rate for employees.[65] In return, they started to build up State Pension rights on the same basis as other employees. The Government estimated that:

> […] approximately 90% of people who start to pay higher National Insurance contributions (NICs) and reach State Pension age over the first two decades after implementation will receive enough extra State Pension over their retirement to offset the increase in NICs, and any potential adjustments to their occupational pension schemes.[66]

There were also implications for employers who sponsored contracted-out schemes, as the loss of the contracted-out rebate meant they needed to start paying the standard rate of NICs (an increase for each contracted-out employee of 3.4 per cent of relevant earnings).[67] For employers in the private sector, the Government legislated to allow employers a limited 'statutory override', to enable them to make changes to scheme rules without the consent of the trustees to adjust for the additional NI cost resulting from the loss of the rebate. It thought this was necessary to safeguard the ongoing viability of Defined Benefit pension schemes in the private sector.[68] After consultation, it decided to exclude from the operation of the override "protected persons" (i.e. employees with pension rights protected under arrangements put in place when some formerly nationalised industries were privatised).[69] In addition, public sector employers were not be able to pass on the increase in cost to their employees, reflecting commitments made on public service pension reform in 2011/12.[70]

Being a member of a private sector scheme that was contracted-out (and where the employer used the statutory override) made it less likely that the individual would recoup the full cost of additional contributions by working additional years.[71]

Special rules for marriage/civil partnerships, divorce and bereavement

Under the old rules, people with insufficient qualifying years in their own right, could qualify for a basic State Pension (bSP), or an increase in their bSP, based on the NI record of a (former) spouse or civil partner.

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65 DWP, *Single-tier Impact Assessment*, October 2013, section 5.2
66 DWP, Impact of New State Pension (nSP) on an individual's Pension Entitlement – Longer Term Effects of NSP, January 2016, p13
67 Ibid, para 140
68 *Pensions Act 2014*, s24 and Sch14; DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013
69 HL Deb 24 February 2014 c805; See also DEP 2014-0210; See HC Library Briefing Paper SN06725 *Pensions: possible statutory override for protected persons*, 8 April 2014
70 CM 8528; chapter 3, para 71; For more detail, see Library Briefing Paper CBP 5768 Public service pensions – the 2015 reforms (Aug 2020)
71 Ibid

This could provide a basic State Pension of up to £82.45 for a married person or civil partner and up to £137.60 for a widow, widower or surviving civil partner or a person who is divorced or whose civil partnership has been dissolved (2021/22 amounts).

Different rules applied depending on their marital status. For example:

- A person who is married or in a civil partnership could claim a lower-rate basic State Pension (Category B(L)), payable at around 60% of the contributor's basic State Pension entitlement provided both members of the couple had reached SPA. If the individual had built up State Pension entitlement in their own right, the combined amount could not exceed £82.45.[72]
- A widow(er) or surviving civil partner could be eligible for a Category B basic State Pension based on the contributor's record and to inherit additional State Pension (with the amount that can be inherited depending on when the contributor died and their date of birth);
- A person who is divorced or whose civil partnership has been annulled (and who has not remarried or entered a new civil partnership before SPA), may be able to substitute their former spouse or civil partner's NI record (in part or in its entirety) up to the point of divorce/annulment in order to qualify for the basic State Pension.[73]

Because the Government's intention was for people to qualify for the nSP on the basis of their own contributions, it said that there would "no rationale" for allowing people to "inherit or derive state pension income based on the National Insurance record of their spouse or civil partner." However, there would be "transitional protection to cover a variety of circumstances where the Government believed it was right to recognise contributions made prior to the implementation of the single tier pension."[74]

This means that, if you reach State Pension age from 6 April 2016 onwards, your State Pension is generally based on your own NI record. The exception is married women or widows who opted to pay reduced-rate National Insurance contributions (sometimes known as the 'married women's stamp'). DWP's Guide to the State Pension explains:

> A woman who made this choice may get a new State Pension based on different rules if these will give her more than the amount of new State Pension that she would otherwise get based on her own National Insurance record. Where these rules apply, she won't need 10 qualifying years of her own to get any State Pension.
>
> She'll get a State Pension that will be about the same as:

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72 *Social Security Contributions and Benefits Act 1992,* s48A

73 DWP, The single-tier State Pension, Cm 8528, January 2013, p93; DWP, State Pension entitlements derived from a current or former spouse's or civil partner's national insurance contributions, March 2013, Annex A

74 Ibid; DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, Annex 3.D

1. the lower rate basic State Pension of £80.45 a week (2020 to 2021 rate) (if married and her husband has reached State Pension age)
2. the rate of the basic State Pension of £134.25 a week (2020 to 2021 rate) (if widowed or divorced)
3. She'll also get any Additional State Pension that she built up before 6 April 2016 on top of this basic amount.

> To qualify, her Reduced Rate Election must have been in force at the start of the 35-year period ending on 5 April before she reaches State Pension age.[75]

The Government explained why it was providing transitional protection for this group:

> 33. Fully removing the potential to derive basic State Pension from a spouse under the single-tier pension would disadvantage women who elected to pay reduced rate National Insurance contributions. They may have few or no qualifying years as a result of their election, which would leave them with potentially no state pension under single-tier rules despite a long history of paying National Insurance contributions and engaging with the system.
>
> 34. The Government therefore intends to make provision for married women and widows who paid these reduced rate contributions. Where a valid election existed at any point in the 35 years before State Pension age, they will be able to access a single-tier pension based on their own contributions to the point at which the single-tier pension is implemented. This will include an amount equivalent to the full rate of the 'married woman's' lower-rate basic pension or, if widowed or divorced, the full rate of the basic State Pension. If they would also qualify for a single-tier pension based just on their own contributions, they will receive the higher of the two.[76]

In its report on the draft legislation, the Work and Pensions Select Committee said the Government should consider finding a solution for women close to SPA and affected by this change in the rules:

> One option might be that women in this position who are within 15 years of State Pension Age should be able to retain this right. We recommend that the Government assesses and publishes the cost of providing this option for the relatively small number of women affected. We believe that, for those further from retirement, there is sufficient time for them to plan on the basis of the new rules.[77]

In response to Opposition calls for a review, the then Pensions Minister Steve Webb responded that:

> Of course, we could roll on every feature of the old system into the new system for another 15 years. At the same time as we are being asked to do that, we are also being asked to give clear communications. We are trying to bring about a reform that

75 DWP, State Pension – Your guide, April 2020, section 9a

76 DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013; *Pensions Act 2014* (s11-12)

77 Work and Pensions Committee, The Single-tier State Pension: Part 1 of the draft Pensions Bill, 5th Report of 2012-13, HC 1000, 4 April 2013; DWP, Government Response to the Fifth report of the House of Commons Work and Pensions Select Committee, Session 2012-13, into Part 1 of the draft Pensions Bill, CM 8620, May 2013

> enables people to plan for their retirement, to know where they stand, to know what they will get, and there is a trade-off here.[78]

The Government estimated that some 290,000 people would be affected at some point up to 2030 (some 4% of those reaching SPA up to that point) by the loss of derived entitlement to the BSP. In one year – 2020 – the figure would be 30,000.[79]

Inheriting additional State Pension rights

Under the old system, widow(ers) and surviving civil partners may inherit additional State Pension in certain circumstances (Annex 3, para 36-40 of the White Paper provides an overview).There was no change to the current rules on inheriting State Pension where both members of a couple reach, or would have reached, SPA before the single tier is implemented.[80] In other cases, the transitional arrangements would depend on when the survivor and deceased reach SPA.[81] For more detail, see Inheriting additional State Pension, Commons Library Briefing Paper CBP-07631, June 2016.

3.3 Communications

As the Work and Pensions Committee noted in its report on the draft legislation, there was evidence of confusion about what these reforms will mean for individuals:

> […] with some people believing that everyone will automatically be entitled to £144 a week [the proposed full amount in 2013/14], and others fearing that they will lose any higher State Pension entitlement they may have built up. Many people do not know whether they are or ever have been contracted-out so are unable to assess the implications for themselves of its abolition.[82]

The Committee stressed the importance of having an effective communications strategy in place.[83] DWP agreed and as part of this published a Single-tier State Pension factsheet, which included some "myth busting."[84]

In October 2014, the Government said it was launching a new service to provide people with personalised written estimates of "what they can expect to receive under the new system, based on their work history and National Insurance (NI) contributions to date".[85] This service was initially available 'on request' to people who reach State Pension age (SPA) in the first five years of the new scheme. From 7 February 2015,

78 PBC Deb 2 July 2013 c175-184; See also HL Deb 18 December 2013 cc333-50.
79 HL Deb 18 December 2013 c 341 [Lord Freud]; DWP, *Single-tier State Pension: summary of impacts*, October 2013
80 DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p96
81 Ibid, p97
82 Work and Pensions Committee, The single-tier State Pension: Part 1 of the draft Pensions Bill, Conclusions and Recommendations, para 14
83 Ibid
84 DWP, Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2013-13 into Part 1 of the draft Pensions Bill, Cm 8620, May 2013, p13
85 ''Your future, your pension': DWP in new drive to raise awareness of State Pension changes', DWP press release, 4 October 2014

this was extended to anyone age 55 and over.[86] On 7 September 2015, the Government relaunched its campaign:

> […] to ensure that the target group of people—those who are within 10 years of retirement from April 2016—take an active role in trying to find out how they will benefit under the new state pension.[87]

Post-implementation, DWP would provide an on-demand statement service which would be predominantly digital.[88] See, Check your State Pension forecast on Gov.UK.

In November 2015, the Committee asked Steve Webb – as the Minister behind the reforms - whether the policy had been "mis-sold." He did not think it had been mis-sold but did think that in an effort to get the message across, it may have been over-simplified:

> **Q19 Craig Williams:** Thanks for that question. That takes me on to my question quite neatly because your successor, Baroness Altmann, said recently that aspects of the reforms had been miscommunicated in the past, and agreed that the new State Pension has been mis-sold. Was the flat rate message oversimplified or was it overemphasised, especially given what we have been talking about—that the majority of people will not get that flat rate? Do you agree with your successor on that point?
>
> ***Steve Webb***: Oddly enough, no. […] The relevance of this is that Ros Altmann I think was asked, "Do you think the new State Pension has been mis-sold?" I don't think she woke up in the morning thinking, "I am going to announce to the world it has been mis-sold." I think the seed was sown, shall we say. I don't think it was mis-sold. I do think it is incredibly difficult to communicate any measure of detail beyond the headline. The basic thing is we are moving towards a flat rate pension, and we are, and anyone in their 20s, 30s and 40s is more likely to get the flat rate than not. As soon as you say to a journalist, "Oh, yes, contracting-out" you have lost them, and then you do not communicate anything at all, so it is always a balance. Of course there is a risk of oversimplifying. It may be I oversimplified, but if we had not simplified the message, we would not have got a message across at all and nobody would have known anything was coming. That was the challenge. As I have said, everybody is different. The system affects everybody differently. Perhaps we oversimplified but I don't think, in a dishonest way.[89]

He argued that the best approach was for people to apply for personalised statements:

> People are so diverse and have such different histories in the State Pension system that you cannot get a general message across. So my priority was personal statements […] My first priority was statements for people closest to pension age, first those within five years, then those within 10 years, and now anyone over 55 can get a personalised statement and that will help them to plan.[90]

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86 DWP, State Pension statement statistics – November 2015
87 HC Deb 7 September 2015, c10-1
88 HL Deb 16 December 2013 c226/7GC; The communications strategy was explained in more detail in Dep 2014-0266
89 Oral evidence to the Work and Pensions Select Committee, 25 November 2015, Q29
90 Oral evidence to the Work and Pensions Select Committee, 25 November 2015, Q3

In a report published in April 2016, the Work and Pensions Select Committee recommended that the Government should take steps to communicate more effectively with those affected:

> The Government should not rely on general awareness campaigns. We recommend the DWP directly contact those affected, and others with gaps in their contribution records, explaining their personal circumstances and offering a telephone hotline to discuss with an expert the most appropriate strategy for increasing state pension entitlement.
>
> The Department has rightly upped its efforts to explain the more complex elements of the reforms and made clear recent headway in establishing an online system for state pension statements. In order to best plan for retirement, however, individuals need to see a complete picture of their state, workplace and personal pensions in one place. We welcome the Government's commitment to the creation of a pensions dashboard by 2019, in line with our previous recommendation, and will follow progress with interest.
>
> We are concerned by the Government's reliance on individuals requesting a state pension statement or generating one on a website. This risks missing those who most need to plan financially for retirement. We recommend that people aged 50 or over, unless they opt out on the digital system, should be sent annual state pension statements.[91]

The Government said it would write to those at risk of having fewer than ten qualifying years at SPA. It estimated that there were over 100,000 people in this group. However, it would not write to those at risk of losing out because of the removal of derived rights:

> This is because it is not possible to identify who all the affected people may be. One of the key reasons for this is because someone may only be affected by the changes to derived State Pension if they are widowed at some time in the future – an event which can not be predicted.[92]

In general, its approach was to provide an on-demand service:

> 13. To support people to plan for the future, we recognise that we need to make personalised information available on what they can expect from their State Pension. Our approach is to ask people to find out from us what their State Pension situation is. As well as enabling us to provide wholly personalised information, this should prove both cost-effective and encourage people to engage with pensions.
>
> 14. We will continue with our current awareness campaign due to run until 2019. We are already directing people to the online Check your State Pension service which gives, amongst other things, the individual's forecast State Pension. Our approach is to provide a first class, on demand service, that people will find easy to use and understand. Our communications will encourage all people of working age to use it regularly.

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91 Work and Pensions Committee, Communication of the new State Pension, HC 926, 27 March 2016; See also Work and Pensions Committee, Understanding the new State Pension – interim report on pension statements, Sixth Report of 2015-16, January 2016

92 Communication of the new State Pension. Government response, HC229, June 2016, para 19 and 20

> 15. We acknowledge that we cannot rely solely on the general awareness campaign and that is why we are taking a cost-effective multi-channel but digital first approach, embedding 'Check your State Pension' throughout an individual's working life. We are working with employers who are enabling their employees to link directly to the Check your State Pension service. We will also improve the customer journey for pensions information by bringing information together on a specific area of GOV.UK dedicated to State Pensions information. This will link to information about private and workplace pensions.
>
> 16. We have considered the use of direct mail as a communications tool, but we have concerns around the effectiveness of such an approach. […][93]

In response to the recommendation that it should send annual statements to people aged 50 and over, it said this would be very expensive and there was a risk of statements being sent to the wrong recipient.[94]

The Government intends that the State Pension will be part of the original Pensions Dashboards, provided for under the *Pension Schemes Act 2021*. The aim of Pensions Dashboards is to enable people to see their lifetime pension savings and their State Pension entitlement in one place.[95]

For more information, see Pensions Dashboards, Commons Library Briefing Paper, CBP 8407, December 2020

3.4 Building up entitlement to the new State Pension

Requirement for 35 qualifying years

Qualifying years for the purpose of the nSP are built up in the same way as for the old basic State Pension.[96]

People with no National Insurance record before the introduction of the new State Pension on 6 April 2016 will need 35 qualifying years to get the full amount of new State Pension, when they reach State Pension age.[97] (As explained above, for people with an existing National Insurance record before this date, transitional arrangements apply).[98]

The Coalition Government initially proposed requiring 30 qualifying years for a full nSP.[99] However, by the time of the January 2013 White Paper, it had decided on 35.[100] The then Pensions Minister, Steve Webb, argued that this struck the right balance:

> We think that 35 years allows people to have about 15 non-qualifying years. Bear in mind, it is 35 years of contributions or credits. It is not just paid work; it is caring, being at home with young children and active job searching. It is a comprehensive

93 Ibid
94 Ibid, para 34-5
95 *Pension Schemes Act 2021*, s118; PBC Deb 3 November 2020 c39
96 DWP, The single-tier pension: a simple foundation for saving, Cm 8528, January 2013, Annex 3, para 16; *Pensions Act 2014*, s2 and 3
97 Pensions Act 2014, s2
98 Ibid, s4-15
99 DWP, A State Pension for the 21st century, Cm 8503, April 2011, p30
100 DWP, The single-tier pension: a simple foundation for saving, Cm 8525, January 2013, p91, para 14

> definition of what a person has to do to get the qualifying year. We think that 35 out of about 50 is the right balance. Of course, there will be the odd year when the person does not qualify – there are a range of things that people can be doing- but it seems about right to be asking people to be doing something creditable or contributing for roughly two thirds of their adult life. When people do not have 35 years, the amount is reduced pro rata, as with the current system.[101]

The Government estimated that around 85% of people reaching SPA in 2020 would have at least 35 qualifying years.[102] The proportion reaching SPA with 30 qualifying years is around 90%.[103]

There is information on building up entitlement to the nSP and what to do if an individual has gaps in their contribution record in DWP leaflet Your new State Pension explained (April 2021). See also check your State Pension on Gov.UK.

A 2013 Opposition amendment to require the Government to conduct a review to "determine the costs and benefits of phasing the transition to a 35-year full pension requirement via an interim requirement for 30 years" was defeated on division by eight votes to four.[104]

Minimum qualifying period

People reaching SPA before 6 April 2010 had to satisfy two contribution conditions to get any basic State Pension at all. They must actually have paid (as opposed to have been credited with) contributions for one qualifying year. Secondly they needed to have at least 25% of the number of qualifying years required for a full pension. The Labour Government removed these requirements for people reaching SPA on or after 6 April 2010.[105]

With the nSP, a minimum requirement was re-introduced.[106] The rationale was to target expenditure on those who had made a "significant economic or social contribution to this country during their working lives."[107] Periods of insurance or residence in another EEA Member State can help satisfy the requirement.[108]

The Government estimated that 2 to 3 per cent (9,000 to 12,000) of individuals in Great Britain would be affected by a 10 year minimum qualifying period, compared to 18 to 23 per cent (6,000 to 10,000 people) of the total number of individuals living overseas.[109]

101 PBC Deb 2 July 2013 c141-2
102 Cm8528, p91, para 14
103 DWP, Your new State Pension explained5 December 2007, para 2.4
104 PBC Deb, 11 July 2013 c425-6
105 *Pensions Act 2007*, section 1
106 *Pensions Act 2014*, s2
107 DWP, The single-tier pension: a simple foundation for saving, January 2013 (Cm 8528), p92; HC Deb 3 December 2013 c17-18WS; *State Pension Regulations 2015 (SI 2015/173)*, regulation 13
108 Explanatory Note to SI 2015/173, para 7.23
109 DWP, Single-tier impact assessment, October 2013, Table 3.1

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