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BRIEFING PAPER

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Pensions: early access

By Djuna Thurley

Contents:

1. Introduction
2. Early access to private pension savings
3. State Pension and other benefits

Contents

Summary		**3**
1.	**Introduction**	**5**
1.1	Employment rates	5
1.2	Retirement decisions	7
1.3	Access to pension savings	8
	Defined contribution	8
	Defined benefit	9
2.	**Early access to private pension savings**	**11**
2.1	Options from age 55	12
2.2	Calls for policy change	14
	Experience in Australia	14
3.	**State Pension and other benefits**	**16**
3.1	The State Pension	16
3.2	Pension Credit	19
3.3	Alternative approaches	20

Contributing authors: Brigid Francis-Devine and Andrew Powell (labour market statistics)

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Summary

Changes in employment rates and retirement plans

The COVID-19 pandemic has affected the unemployment and labour market inactivity rates of older workers:

- Office for National Statistics (ONS) figures show that unemployment among people aged 50+ increased from 274,000 in April-June 2020, to 412,000 in September-November. This was an increase of 50%, compared to 25% for all aged 16 and over.
- The number of people aged 55 and over, claiming unemployment benefits increased from 198,945 in March 2020, to 394,975 in December 2020. This was an increase of 99%, compared to an increase of 106% for all people aged 16 and over.
- In the quarter following the start of the pandemic (April to June 2020), almost 150,000 workers age 65+ left employment, with a big rise in inactivity. Since then, there has been an increase in employment for these older workers, although in the most recent quarter (September to November) there were still 72,000 fewer in employment than in January to March 2020.

Research suggests the COVID-19 outbreak has had an impact on retirement, leading some to bring forward their retirement plans and others to delay them (for example, to recover lost savings or support adult children or other family members financially). Research by the Institute for Fiscal Studies published in October 2020 on the coronavirus pandemic and older workers found that some five per cent expected to retire earlier than they had planned while eight per cent of older workers put back their retirement plans.

Research by the same authors found that the financial consequences of the coronavirus pandemic for older people (aged 52 and over) had led five per cent to draw on their pension savings. Other options chosen had been to reduce spending (one-third), reduce savings (20%), draw on savings (20%), borrow from a bank (three per cent) or borrow from family or friends (three per cent).

Defined contribution pension schemes

Individuals can usually start to draw an income from workplace or personal pension savings from age 55 (Gov.UK, Early retirement, your pension and benefits). An offer to help release cash before this age can be a warning sign of a scam. Following the introduction of the pension freedoms in April 2015, individuals with defined contribution (DC) pension savings aged 55 and over, now have flexible options for drawing on them, including taking an adjustable income or withdrawing cash in chunks. The implications of early access need careful consideration: including regarding tax, social security benefits and debts, ongoing pension contributions and future retirement income (see Pension Wise, Tax and getting advice, Low Income Tax Reform Group, Coronavirus: taking money from your pension).

HMRC figures for the last three months of 2020 show a six per cent year-on-year increase in the amount withdrawn from pensions flexibly (£2.4 bn, up from £2.2 bn in the same months in 2019) and in the number of individuals making those withdrawals (360,000, up from 327,000). The average amount withdrawn per individual was three per cent lower (£6,600, down from £6,800).

There have been calls to widen the circumstances in which people aged under 55 can access pension savings. The Government has said it does not intend to make this change

on grounds that tax relief is provided to encourage people to save for an income in retirement (PQ 40658 5 May 2020). In Australia, where the Government decided to allow temporary early access as part of its economic response to COVID-9, there have been concerns about the impact on future retirement incomes (Industry Super Australia, Super wipe-out, 2 July 2020; A quarter million NSW workers have wiped out their super savings, January 2021).

Defined benefit pension schemes

There is concern that redundancies may lead to an increase in transfers out of defined benefit (DB) pension schemes that may not be in individuals' best interests.

The Financial Conduct Authority (FCA) continues to believe that, "for the majority of people it is not in their interest to transfer out of a DB pension." Where an individual seeks advice to transfer it is important that advice given is suitable and appropriate for their needs and situation. In January 2021, it said there were "some signs of improvement in the DB transfer advice market" (FCA, January 2021). To put this in context, in June 2020, the FCA said that "the proportion of customers who have been advised to transfer out of their DB pension is unacceptably high" and that it was "still finding too many cases in which transfers were not in the customer's best interests" (FCA sets out next steps to improve the DB pension transfer market, June 2020).

On 28 October 2020, the Pensions Regulator, Money and Pensions Service and the FCA issued a joint statement on the Rolls Royce DB scheme, where there had been an increase in transfer requests following the announcement of redundancies at the company. The FCA issued a data request to financial advisers involved and said it would take action where it saw unsuitable advice or bad practice.

In November 2020, the FCA issued a wider data request to firms advising on DB transfers, covering the period of the COVID-19 outbreak, findings from which have not yet been announced (data published in January 2021 relates to the period October 2018 to March 2020). For more on the background, see Commons Library Briefing Papers, Pension transfer advice, CBP 8848 (June 2020); Pension freedoms: transfers from defined benefit schemes, CBP 8382 (May 2020).

State Pensions

In the UK, there have also been calls to allow certain groups early access to the State Pension. For example, Age UK called for early access to the State Pension for those within three years of their State Pension age (SPA) who are unlikely to be able to work again due to caring responsibilities, a disability, or long-term joblessness.

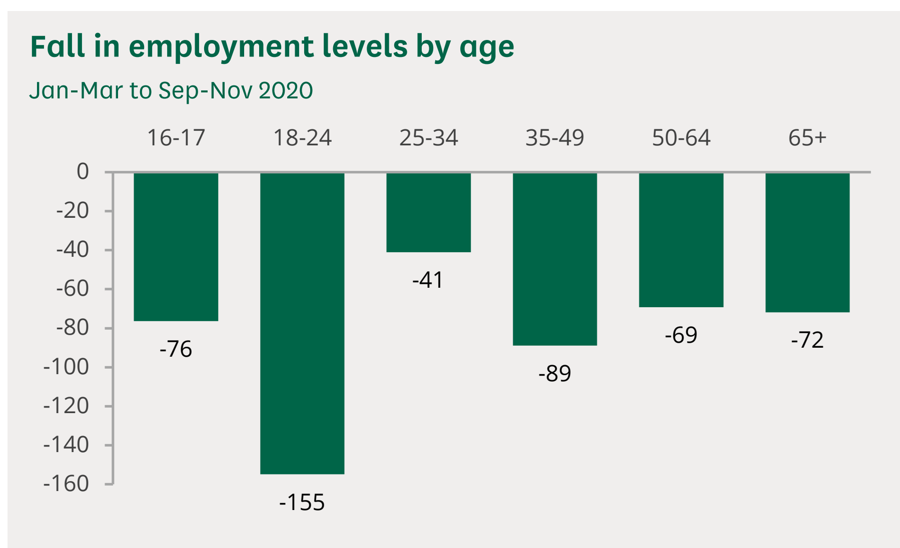
The arguments around early access were considered by John Cridland in his 2017 review of the State Pension age. He concluded that a universal State Pension has the merit of "simplicity and clarity, and provides an important trigger moment for planning purposes" and that "targeting help on the most disadvantaged, can be tackled with support in the benefit system." (Final Report, March 2017, section 4.1). This conclusion was endorsed by the Government, which emphasised the advantages of a universal State Pension age, in creating a "simple system around which people can plan." (DWP, State Pension age review, July 2017, chapter 3). The Government has continued to resist calls for early access to the State Pension (PQ 39620 4 May 2020).

1. Introduction

The COVID-19 pandemic has affected the employment rate of older workers. Being unexpectedly out of work can have negative short-term financial consequences that people might seek to solve by drawing on savings, including pension savings. This can then have negative implications for retirement resources. This has led to calls for policy changes, such as allowing earlier access to state pension benefits, or private pension savings.

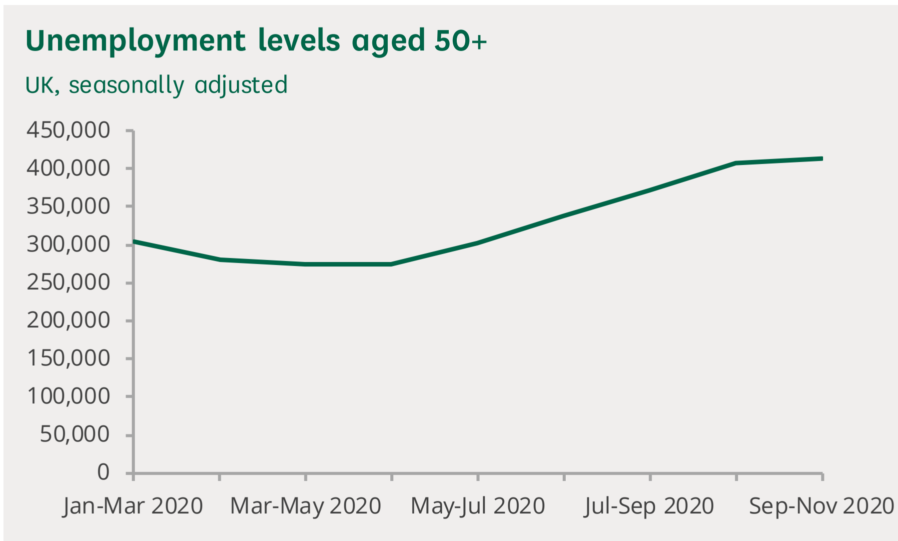
1.1 Employment rates

Office for National Statistics (ONS) figures show that in the quarter following the start of the pandemic (April to June 2020), almost 150,000 workers age 65+ left employment, with a big rise in inactivity (people not in work and not looking for work). Since then, there has been an increase in employment for these older workers, although in the most recent quarter (September to November) there were still 72,000 fewer in employment than in January to March 2020.



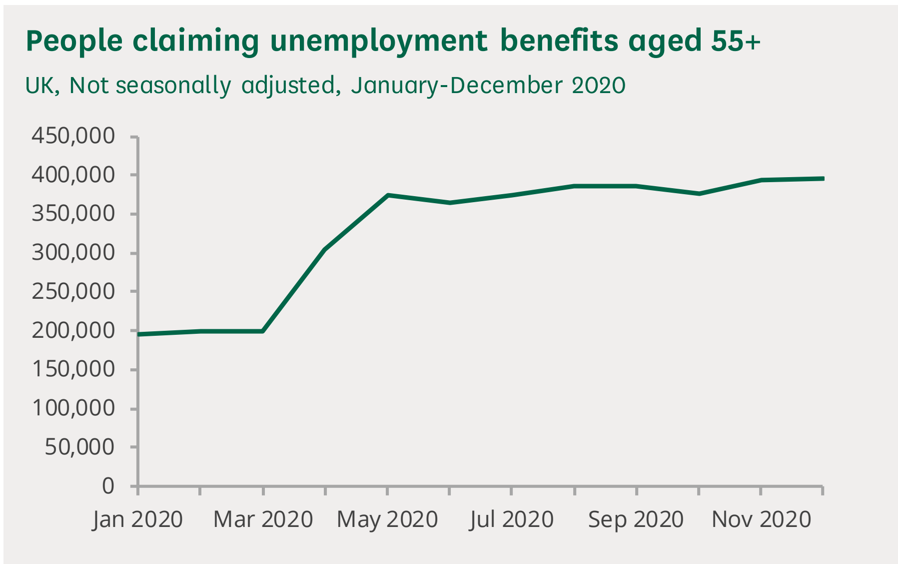
Source: Office for National Statistics, Table A05, Labour market by age group (seasonally adjusted)

Unemployment among people aged 50+ increased from 274,000 in April-June to 412,000 in September-November 2020, an increase of 50%. In comparison, unemployment levels for all aged 16+ increased by 25% in the same period.



Source: ONS, Labour market bulletin January 2021

The number of people aged 55+ claiming unemployment benefits increased from 198,945 in March 2020, to 394,975 in December 2020, an increase of 99%. In comparison, the claimant count for all aged 16+ increased by 106% in the same period. As seen on the chart below, the sharpest increase came between March and May, after which the level becomes relatively constant.



Source: Claimant count by sex and age, via Nomis

Figures on people claiming unemployment benefits by parliamentary constituency. are in Commons Library Briefing Paper, CBP 8748, December 2020

Responding to the new Labour Market Statistics published in January 2021, the International Longevity Centre commented that:

> Because of COVID-19, the long-term growth in employment of those aged over 50 stalled and is now reversing.[…] We know that age discrimination hits older people hard and that older workers who find themselves unemployed as a result of COVID-19 are likely to find it much more difficult than other ages to get themselves another job. Continuing high levels of redundancies announced in today's statistics are likely to be having a significant impact on older workers.[1]

[1] ILC-UK response to new Labour Market Statistics

1.2 Retirement decisions

A report published by the Institute for Fiscal Studies (IFS) in September 2020 found that older workers were one group at risk of suffering serious and persistent consequences from the economic turmoil arising from the coronavirus pandemic. Previous research had shown that unemployment shocks have persistent effects on the employment and incomes of older workers. In particular, older individuals who lost their jobs were less likely to secure re-employment, or to find a job on a similar wage to their previous earnings, than younger workers. Being unexpectedly out of work, or on lower wages, in the years leading up to retirement could have obvious negative implications for retirement resources. Individuals might not be able to save as they were intending and might even be forced to draw on their accumulated savings sooner than planned if they bring forward their retirement.[2]

Research suggests the COVID-19 outbreak has had an impact on retirement, leading some to bring forward their retirement plans and others to delay them (for example, to recover lost savings or support adult children or other family members financially).

Analysis by the Institute for Fiscal Studies (IFS) of data from the English Longitudinal Study of Ageing (ELSA) found that:

> One in eight (13%) of older workers [aged 50 or over] have changed their retirement plans as a result of the pandemic, with 8% planning to retire later and 5% planning to retire earlier.[3]

Research published in January 2021 by LV= also found a small increase in the proportion of people retiring earlier than planned and a slightly larger increase in those planning to retire later:

- Three per cent (154,000) of those aged 55-64 have taken early retirement due to COVID-19;
- Six per cent (313,000) of those aged 55-64 say they will retire later than planned to save more for retirement.[4]

[2] IFS, The coronavirus pandemic and older workers, September 2020

[3] Millions of workers' retirement plans paused due to the pandemic, Yourmoney.com, 18 January 2021

[4] COVID pandemic pushes more than 154,000 55 to 64 year-olds into early retirement, LV=, 21 January 2021

1.3 Access to pension savings

Research indicates an increase in the numbers of people aged 55 and over accessing pension savings due to the COVIS-19 pandemic.

Analysis of the English Longitudinal Study of Aging (ELSA) of the ways in which people aged 52 and over had responded to falls in income due to the pandemic found that five per cent had drawn on their pension savings. (In comparison, one-third had chosen to reduce spending, 20% to reduce their savings, 20% to draw on savings, three per cent to borrow from a bank and three per cent to borrow from family or friends).[5]

A survey published by LV= in January 2021, found that some four per cent (211,000) people aged 55 to 64 had accessed some of their pensions savings to supplement their income because they have been made redundant or their earnings were reduced.[6]

Defined contribution

As discussed in section 2.1 below, following the introduction of the pension freedoms in April 2015, people aged 55 and over are able to make flexible withdrawals from their defined contribution (DC) pension savings.[7] Options include taking an adjustable income or withdrawing cash in chunks.[8]

HMRC figures for the last three months of 2020 show a six per cent year-on-year increase in the amount withdrawn from pensions flexibly (£2.4 bn, up from £2.2 bn withdrawn in the same months in 2019) and in the number of individuals making those withdrawals (360,000, up from 327,000). The average amount withdrawn per individual was three per cent lower (£6,600, down from £6,800). This may be linked to the impact of the COVID-19 pandemic:

> Throughout October, November and December 2020, £2.4 billion was withdrawn from pensions flexibly. This represents a 6% increase year-on-year from £2.2 billion withdrawn throughout the same months in 2019. The total value of flexible withdrawals from pensions since flexibility changes in 2015 has exceeded £42 billion.
>
> 360,000 individuals withdrew from pensions throughout October, November and December 2020, a 10% increase from 327,000 during the same months of the previous year. There was a 4% increase in the number of individuals withdrawing compared to the previous three months
>
> The number of individuals making withdrawals typically drops in July, August and September after peaking in April, May and June. October, November and December typically see a slight drop in the numbers of individuals withdrawing. This change in behaviour may be attributable to the impact of the COVID-19 pandemic.

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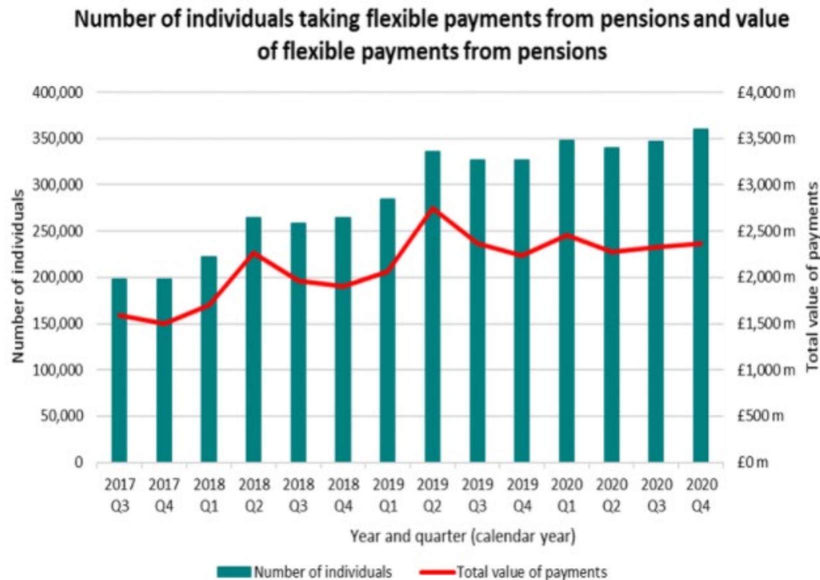
5 ELSA, Financial consequences of the coronavirus pandemic for older people, September 2020

6 COVID pandemic pushes more than 154,000 55 to 64 year-olds into early retirement, LV=, 21 January 2021

7 *Taxation of Pensions Act 2014*

8 Pension options – what can I do with my pot?, Pension Wise website

The average amount withdrawn per individual throughout October, November and December 2020 was £6,600, falling by 3% from £6,800 during the same months in 2019. Since reporting became mandatory in April 2016, average withdrawals have been falling steadily and consistently, with peaks in April, May and June of each year becoming a noticeable trend, however we did not see a peak in these months of 2020. This may also be linked to the impact of COVID-19.[9]



Source: HMRC Flexible payments from pensions 29 Jan 2021, figure 1

Defined benefit

Defined benefit (DB) schemes provide pension benefits based on salary and length of service. A pension from a DB scheme can usually be drawn from age 55, although if drawn early (other than on ill-health grounds) it will generally be actuarially reduced to reflect the fact that it will be in payment for longer.[10]

For more detail, see Commons Library Briefing Papers: Pension transfer advice (CBP 8848), June 2020; Pension freedoms: transfers from defined benefit schemes, CBP 8382, May 2020

Members of private sector DB schemes (or a funded public sector scheme) who are not already taking their pension may be able to transfer to a DC scheme.[11] The view of the regulators is that "transferring out of a DB pension scheme is unlikely to be in the best interests of most consumers."[12]

In October 2020, the Financial Conduct Authority, Pensions Regulator and Money and Pensions Service (MaPS) issued a statement in relation to significant numbers of requests from individuals seeking to transfer rights out of the Rolls Royce DB scheme, following the announcement of redundancies at the company. They had been engaging with the company and the scheme's Trustees "in order to be vigilant against the risks associated with increased transfer requests as a consequence of redundancies." They had asked for data from a number of advisers who

9 HMRC, Flexible payments from pensions, Updated 29 January 2021
10 See Money Advice Service/defined benefit schemes/when you can take your pension
11 See Money Advice Service/defined benefit schemes/transferring your defined benefit pension
12 FCA, TPR and MaPs joint statement on Rolls Royce defined benefit scheme, 28 October 2020

had advised on transfers from the scheme and would take action where they saw bad practice or unsuitable advice.[13]

In November 2020, the FCA issued a data request to firms advising on DB transfers covering the period of the COVID-19 outbreak, responses were requested by 11 December 2020.[14] This followed an earlier request in July 2020 covering the period October 2018 to March 2020, the results of which were published in January 2021.[15]

The FCA has repeatedly expressed concern about the suitability of advice on DB transfers. In June 2020, it said that while there had been an improvement, it remained concerned at the number of files which either appeared to be unsuitable or where there were information gaps. The number of firms where advice appeared unsuitable was 17% and this remained unacceptably high.[16] In January 2021, commenting on data from advisers relating to the period before the pandemic (October 2018 to March 2020), it said there had been some signs of improvement.[17]

For more on the background, see Pension transfer advice, Commons Library Briefing Paper, CBP 8848 (June 2020).

13 Ibid
14 FCA writes to DB advisers with new data request, *FT adviser*, 18 November 2020
15 Defined benefit pensions transfer market, October 2018 to March 2020, FCA, 18 January 2021
16 FCA sets out new steps to improve DB pension transfer market, 5 June 2020
17 DB pension transfers market data, October 2018 to March 2020, FCA, 18 Jan 2021

2. Early access to private pension savings

For background, see Pension age: occupational and personal pensions, Commons Library Briefing Paper, CBP 5847

The earliest age an individual can draw their pension saving is generally 55. Payments made from a pension scheme or pot before that age are – with limited exceptions - "unauthorised payments" which attract significant additional tax charges.[18] The exceptions relate to ill-health or having a protected pension age. Gov.UK gives an overview:

> When you can take money from your pension pot will depend on your pension scheme's rules, but it's usually after you're 55.
>
> You may be able to take money out before this age if either:
>
> - you're retiring early because of ill health
> - you had the right under the scheme you joined before 6 April 2006 to take your pension before you're 55 – ask your pension provider if you're not sure
>
> **Some companies offer to help you get money out of your pension before you're 55. This could be an unauthorised payment. If it's unauthorised, you pay up to 55% tax on it.**
>
> The pension pot that you build up will probably be smaller if you retire early, because it's had less time to increase in value.
>
> **Taking your pension early because of ill health**
>
> You might be able to get higher payments if you need to take your pension early because of a health condition. Check with your provider.
>
> **If your life expectancy is less than a year**
>
> You may be able to take your whole pension pot as a tax-free lump sum if all of the following apply to you:
>
> - you're expected to live less than a year because of serious illness
> - you're under 75
> - you do not have more than the lifetime allowance of £1,073,100 in pension savings
>
> If you're over 75 you'll pay Income Tax on the lump sum.
>
> Check with your pension provider. Some pension funds will keep at least 50% of your pension pot for your spouse or civil partner.[19]

Information and guidance

Other sources of information and guidance are the Money Advice Service website and the Pensions Advisory Service – when can I take money from my pension

There is more detail in HMRC's Pension Tax Manual: Member benefits: pensions: Pension age and protected pension age; and Member benefits: lump sums: serious ill-health lump sum.

[18] Gov.UK, Tax when you get a pension: higher tax on unauthorised payments.
[19] Gov.UK, Early retirement – your pension and benefits

2.1 Options from age 55

For more information, see Pension scams Commons Library Briefing Paper, CBP 8643

Companies sometimes approach individuals offering to help them access their pension saving before age 55. This is likely to be a type of scam sometimes referred to as "pension liberation" or "pension unlocking." Guidance from the Financial Conduct Authority (FCA) explains that:

> Whilst not illegal, these firms take fees and you will have to pay a large amount in tax – in some cases like these people have been left with no savings for retirement.[20]

The options available from age 55 will depend on the type of scheme people have.

Defined benefit (DB) pension schemes (which provide pension benefits based on salary and length of service) generally have a 'normal pension age' (e.g. 60 or 65). A pension drawn before this age (other than on ill-health grounds), will generally be actuarially reduced to reflect the fact that it will be in payment for longer.

For people with defined contribution (DC) pension savings, the options include: using your pension pot to buy a guaranteed income for life (an annuity); using your pot to provide a flexible income (pension drawdown); and taking small cash lump sum(s).[21]

Pension Wise has been set up to provide free and impartial guidance to help people understand the options and the implications - for example, in terms of tax, social security benefits and debt.

Guidance from the Financial Conduct Authority and others during the COVID-19 outbreak, set out some of the things people should think about when deciding whether to start drawing their pension, including the tax implications and the potential for a lower retirement income in future:

> Depending on when you're planning to retire or withdraw money from your pension, you may have to consider taking a lower income than planned [...] You can normally take up to 25% of your pension pot tax free, but if you take more than 25% there will be tax implications you will need to consider.
>
> Taking money from your pension may limit how much you can pay into a pension in the future. Consider all your sources of income before making decisions about your pension pot. If you take money from your pension, this could have an impact on your eligibility to access income-related state benefits such as universal credit.[22]

As discussed below, it can also limit the amount that an individual can pay into their scheme in future. The FCA stressed the importance of getting independent guidance or advice, from a regulated financial

[20] COVID-19 and your pension – where to get help, May 2020, FCA and others; Early release pension scams, FCA, Updated August 2020
[21] *Taxation of Pensions Act 2014*
[22] FCA and others, COVID19 and your pension – where to get help, May 2020

adviser, the Pensions Advisory Service or, if you're aged 50 or older with DC pension savings, Pension Wise.[23]

DC schemes - restrictions on further contributions

For guidance on the Money Purchase Annual Allowance (MPAA), see the website of the Money Advice Service and HMRC's Pension Tax Manual – the Money Purchase Annual Allowance.

Pension income is taxable (except that you can usually take 25% of the amount built up in a pension as a tax-free lump sum).[24]

In addition, making 'flexible withdrawals' from DC pension savings can trigger the Money Purchase Annual Allowance (MPAA). This restricts to £4,000 the amount you can save in your pension pots in a tax year before you have to pay tax.

The MPAA was introduced to stop individuals taking advantage of the pension freedoms to avoiding tax and National Insurance contributions on their employment income by diverting it into their pension, taking it out immediately, and receiving 25% of it tax-free.[25]

The MPAA restricts the amount an individual can contribute to a DC pension once they have made 'flexible withdrawals' from it (for example, by starting to draw cash lump sums, or starting to make withdrawals from a 'flexi-access' drawdown account).[26]

Originally, the MPAA was set at £10,000.[27] It was reduced to £4,000 in April 2017.[28]

In October 2019, the Office of Tax Simplification said the reduction had increased concern that "those withdrawing small amounts, perhaps from a small pension savings scheme they have, can unwittingly and disproportionately limit their capacity to maintain their main pension saving through another scheme." It recommended that the Government look at whether the MPAA was meeting its policy objectives, was set at the right level and was sufficiently understood given the potential for disproportionate outcomes.[29]

In February 2020, the Association of British Insurers called for a review, arguing that it was having a negative impact and should be considered in greater detail.[30]

More recently, *Money Marketing* reported on industry calls to abolish or increase the MPAA in light of the COVID-19 outbreak. A pensions expert at Royal London wrote:

> Of course, many people are under financial strain during the current COVID-19 crisis and may be tempted to access funds from their pension plan either to ease their own financial situation or

[23] Ibid
[24] For an overview, see Gov.UK, tax when you get your pension; Pension Wise, What tax do you pay on your pension?
[25] HM Treasury, Freedom and choice in pensions: Government response to consultation, Cm 8901, July 2014, para 2.27
[26] HM Treasury, Reducing the money purchase annual allowance, 23 November 2016; *Taxation of Pensions Act 2014*, Schedule 1, Part 4
[27] HM Treasury, Reducing the money purchase annual allowance, 23 November 2016; *Taxation of Pensions Act 2014*, Schedule 1, Part 4
[28] *Finance (No. 2) Act 2017* ;HM Treasury, Reducing the money purchase annual allowance, 23 November 2016
[29] Office of Tax Simplification, Taxation and Life events, October 2019, p46-9
[30] Association of British Insurers, Five years on: Future proofing the freedoms, Feb 2020

> that of a relative. They may not understand the consequences of doing so. This could trigger the MPAA and reduce their ability to re-build their funds later.[31]

2.2 Calls for policy change

There have been calls for the Government to allow access before age 55 following the COVID19 outbreak. Research by Scottish Widows indicated demand for this from individuals whose household incomes were under pressure.[32]

In response to PQs, the Government has said it does not intend to change the rules:

> Kirsten Oswald: To ask the Chancellor of the Exchequer, what assessment he has made of the potential merits of allowing people aged under fifty-five whose income has been affected by the COVID-19 outbreak to access some of their pension funds.
>
> John Glen: The government wishes to encourage pension saving. This is why, for the majority of savers, pension contributions are tax-free. This makes pensions tax relief one of the most expensive reliefs in the personal tax system. In 2017/18 income tax and employer National Insurance Contributions relief cost £54 billion.
>
> The government therefore imposes a charge on early withdrawals, which can be from 40% to 55% depending on the circumstances, both to recoup its investment through tax relief and to provide individuals with a strong incentive to save through their pension for the long-term. There are no plans to change this aspect of tax policy.[33]

In September 2020, the Government confirmed its intention to increase the minimum pension age to 57 in 2028. This was to reflect trends in longevity and encourage individuals to remain in work, while also helping to ensure pension savings provide for later life.[34]

Experience in Australia

Australia's retirement income system has three components: a means-tested Age Pension funded through general taxation revenue; the superannuation guarantee, a compulsory employer contribution to private superannuation savings; and voluntary superannuation contributions and other private savings.[35]

The Australian Tax Office (ATO) explains that in general, there are very limited circumstances in which individuals can access their super early:

> You can withdraw your super:
>
> - when you turn 65 (even if you haven't retired)
> - when you reach preservation age and retire, or
> - under the transition to retirement rules, while continuing to work.

[31] COVID19 and the Money Purchase Annual Allowance, Money Marketing, 2020
[32] Almost 1 in 5 keen to withdraw from pension early amid COVID-19 financial strains, Pensions Age, 20 January 2021
[33] PQ 40658 5 May 2020
[34] HM Treasury, Freedom and Choice in Pensions, March 2014, Cm 8835, chapter 4; PQ 81494 28 August 2020
[35] OECD, Pensions at a Glance 2019, country profiles

> There are very limited circumstances where you can access your super early. These circumstances are mainly related to specific medical conditions, severe financial hardship, COVID-19 (novel coronavirus), or the First home super saver scheme.[36]

However, the Government decided to allow temporary early access as part of its economic response to COVID-9 on 22 March 2020.[37]

Eligible individuals affected by the financial impacts of the COVID-19 pandemic were able to access up to $10,000 of their superannuation in 2019-20 and a further $10,000 in 2020-21 to help support them during the COVID-19 pandemic."[38]

The number of people making withdrawals exceeded the Australian Government's initial estimate that 1.65 million would take out $27 billion from their Super.[39] By 20 December 2020, some $35.9 billion had been withdrawn: 3.4 million people made an initial application with an average withdrawal of $7,400; 1.4 million people made a repeat application, with an average withdrawal of $8.284.[40] An interim report on withdrawals to July 2020 found that most withdrawals were made by younger people on a low income.[41]

Comment

When the temporary release scheme was announced in March 2020, Industry Super Australia[42] reacted cautiously, saying it was "ready to work through the all-important detail that will enable people suffering hardship access to some of their super in an efficient way that doesn't undermine our national savings system."[43] In July, it said that "hundreds of thousands of young Australians have wiped out their retirement balances under the government's early release of super scheme", leading to fears of increasing numbers having to rely on the means-tested Age Pension in future.[44] In October it said it would not support a third round of early release due to its "poor targeting and huge long-term costs" for individuals and the taxpayer.[45]

The opposition Australian Labor Party has also expressed concern about the impact on the future retirement incomes of younger people.[46]

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36 ATO/individuals/super/withdrawing and using your super
37 Australian Taxation Office, Early release of Super – interim report
38 ATO, Fiscal outlook, July 2020, p54; BDO Australia, Government's economic response to COVID19 includes support for individuals, 27 March 2020; Australian Taxation Office, COVID19-early release of super (viewed, January 2021)
39 Industry Super Australia, Super wipe-out, 2 July 2020
40 COVID-19 early release scheme- issue 35, APRA, January 2021
41 Australian Taxation Office, COVID-19 early release of Super: interim report, October 2020
42 Industry Super Australia was set up in 2006 and manages collective programs on behalf of the 15 Industry SuperFunds, with the objective of maximising the savings of members
43 Statement from Industry Super Australia's CEO Bernie Dean on the Federal Government's stimulus package, March 2020
44 Super wipe out – almost 500,000 Australians have emptied their next eggs, Industry Super Australia, July 2020
45 Australians want the temporary release of Super to end, Industry Super Australia, 5 October 2020; A quarter million NSW workers have wiped out their super savings, Industry Super Australia, January 2021
46 Pension Schemes in the COVID crisis – impacts and policy considerations, IMF, July 2020

3. State Pension and other benefits

3.1 The State Pension

The UK State Pension cannot be claimed early. One of the conditions of entitlement is that the individual has reached State Pension age.[47] This is not the case in many other countries, who do allow early access in certain circumstances, often at a reduced rate.[48]

There have been calls for some groups affected by the COVID-19 outbreak to have early access to their State Pension.[49]

For example, in a report published on 9 December 2020, Age UK called for early access to the State Pension for those within three years of their State Pension age (SPA) who are unlikely to be able to work again due to caring responsibilities, a disability, or long-term joblessness. It argued that, in a context of rising longevity inequality, a single SPA could be "hugely problematic for those on the lowest incomes:"

> According to the report,[50] around 50 per cent of those reaching retirement are expected to live long enough to spend a third of their adult life in receipt of SPA. However, some segments of the population can expect significantly less of their adult life in receipt of the State Pension. Whilst those on lower incomes are invariably more reliant on the State Pension – currently half of pensioners derive nearly two-thirds (64 per cent) of their income from the state – a lower life expectancy means they receive it, on average, for much less time than their wealthier counterparts. In fact, men in the lowest ten per cent receive the State Pension for just over a quarter of their adult life (26 per cent), compared to those in the highest 10 per cent who receive it for a third of theirs (33 per cent) – a difference of six years.[51]

WASPI (Women Against State Pension Inequality) has been campaigning for 1950's-born women affected by increases in their State Pension age.[52] It has called for unemployed people aged 60 and over with poor job prospects to be allowed early access to an unreduced State Pension. It argues that they will otherwise have to claim Universal Credit, which is inappropriate as it was designed to get people back to work. Furthermore, it argued that encouraging early retirement would enable both jobs and DWP resources to focus on younger workers.[53]

Former Pensions Minister, Baroness Altmann, has called for early access to be an option, even if this is at a reduced rate:

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[47] *Social Security Contributions and Benefits Act 1992*, s44; *Pensions Act 2014*, s 1(2)

[48] Pension Schemes in the COVID crisis – impacts and policy considerations, IMF, July 2020

[49] PQ 29630, 4 May 2020; PQ 72775 21 July 2020; PQ114313, 19 November 2020

[50] Longevity inequality, Pensions Policy Institute, December 2020

[51] Number of older workers shoots up by a third as pandemic bites and uncertain financial future looms for the next generation of pensioners, Age UK, 9 December 2020

[52] See Increases in the State Pension age for women born in the 1950s, Commons Library Briefing Paper CCBP 7405, September 2020

[53] WASPI written evidence to the House of Lords Employment and COVID19 enquiry, September 2020

> Right now, many over-60s are losing their livelihoods and may be more vulnerable to COVID-19, or are feeling they must care for loved ones. Expecting these individuals to find new work, competing with so many others who are likely to be unemployed soon, seems unreasonable. This may be an opportunity to offer the chance of an earlier pension, even at a reduced rate (as private pensions would be when paid early). Nobody would be obliged to take it sooner, but if they wanted to, it could be adjusted actuarially to reflect early receipt. Rather than just one minimum age, which reflects only average life expectancy increases and does not account for those whose health and life expectancy are so much worse than average, the state pension could be paid within a band of ages starting around 63 perhaps for both men and women.[54]

The Government has resisted calls for people to be allowed to claim their State Pension early in response to the COVID-19 outbreak:

> Jim Shannon: To ask the Secretary of State for Work and Pensions, what discussions she has had with the Chancellor of the Exchequer on granting early access to the state pension for women reaching state pension age in 2020-21 in response to the COVID-19 outbreak.
>
> Guy Opperman: Unlike a personal or workplace pension, which is payable at the scheme's normal pension age and that can potentially be drawn earlier on grounds of ill health, it has always been the case that nobody can claim their State Pension before they reach their State Pension age. The welfare system continues to provide a safety-net for those experiencing hardship, including that caused by unemployment, disability, and coping with caring responsibilities, which affect those unable to work and therefore most in need in the run up to their State Pension age.[55]

Responding to questions about 1950s women affected by increases in their State Pension age, it said:

> Since 1995, successive Governments have taken the same approach to this issue. The reforms have focused on maintaining the right balance between the sustainability of the State Pension, fairness between generations and affordability for the taxpayer who funds on-going State Pension.
>
> The welfare system continues to provide a strong safety net for those who cannot work.[56]

The question of whether early access should be allowed in certain circumstances was considered as part of John Cridland's Review of the timetable for increasing the State Pension age from 67 to 68. The review received a number of proposals aimed to "smooth the path for older impacted groups who had permanently left the labour market or were struggling to make ends meet because of reduced earnings."[57] It considered different options for a more flexible State Pension age:

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[54] State Pension age: increase to 66 is a problem when COVID has blighted employment prospects, i-news, Baroness Ros Altmann, 7 October 2020

[55] PQ 39620 4 May 2020; PQ 72775 21 July 2020

[56] PQ130220, 11 January 2021

[57] State Pension age: independent review (last updated April 2017); State Pension age review, Commons Library Briefing Paper CBP 6546, Aug 2017

- **Early access to the new State Pension after a long working life -** This would allow people with a high number of National Insurance qualifying years to claim their full new State Pension prior to State Pension age. For instance, with 50 qualifying years as a benchmark, a person who started work at 16 could become entitled to state pension at 66 rather than at State Pension age. A variant of this would be to condition early access to accommodate regional variations in Life Expectancy or to recognise certain occupations where people have a greater risk of a lower Life Expectancy.
- **Early access to a reduced pension -** This would allow people to claim a reduced State Pension early. Apart from the normal annual uprating this amount would not be increased again. There were various options on how the income-related benefits could be shaped around this policy.[58]

However, it did not recommend either approach, on the basis that:

- There was "no effective mechanism that has been tested that would be able to target those with lower life expectancy, and in such a way that people could be given fair warning of their State Pension outcomes."
- Allowing earlier access to those with a longer working record would involve extra cost and seemed not to be targeted on the most disadvantaged groups.
- Allowing certain groups to access the State Pension early on a reduced basis, risked leaving those individuals with an inadequate pension. By definition, they were likely to be those with lower savings and not well positioned to cope with receiving a lower pension. As a result, they might then need further support from the benefit system.[59]

It concluded that "the principle of having a State Pension age that is the same for everybody, has a fundamental place in the UK's model of social insurance" and that targeting help on the most disadvantaged, could be tackled with support of the working age benefit system.[60] This conclusion was endorsed by the Government, which emphasised the advantages of a universal State Pension age, in creating a "simple system around which people can plan."[61]

Regarding WASPI's argument that encouraging early retirement would enable jobs and DWP resources to be focused on younger people, it may be of interest to note that a Job Release Scheme in the 1970s and 1980s was set up with broadly these aims. The Institute for Fiscal Studies, which conducted an evaluation, was not able to identify that the scheme had a positive impact on youth employment. It also found overall that there was "no evidence of long-term crowding-out of

[58] Independent Review of the State Pension age. Smoothing the Transition. Final Report, March 2017, Section 4.1.1
[59] Ibid, p74
[60] Ibid p75
[61] DWP, State Pension age review, July 2017, p26; For more detail, see Commons Library Briefing Paper 6546 State Pension age review, 2017, p35-8

younger individuals from the labour market by older workers." In fact, the evidence pointed to absence of such a relationship.[62]

3.2 Pension Credit

The Cridland review acknowledged that changes to State Pension age, are likely to have a disproportionate impact on certain groups: carers, people with disabilities, the self-employed, ethnic minorities and women. A common factor was difficulty building up an enough private pension income to provide an adequate income in retirement.[63]

As a mitigation, it recommended allowing access to "a means-tested pension benefit" at 67, when the State Pension age rises to 68, with access conditional on an inability to work for reasons such as long-term caring and ill-health:

> This benefit should be lower than the State Pension amount, by a margin, and it should last only 1 year until the recipient can claim their full entitlement of the State Pension at the State Pension age. The amount should resemble the Pension Credit as it is currently, although we appreciate that in 20 years' time the welfare system may have evolved differently to its current state.
>
> We expect that the eligible recipients of this benefit will have significant barriers to any level of employment because of ill health and/or caring responsibilities for a long period of time before reaching the State Pension age. They will also have insufficient household wealth to support themselves while waiting. We also expect that these groups of people are more likely to have a lower life expectancy than average and therefore would expect to receive the State Pension for a shorter period than average.
>
> This benefit should continue to precede State Pension age by one year from then on. Access to this benefit should be conditional on an inability to work for reasons such as long-term caring and ill health.
>
> A reasonable assessment of eligibility would include either:
>
> 1. **Long-term out-of-work full time carers:** the criteria can be long-term receipt of Universal Credit on an out of work basis where a carers element (or Carers Allowance) is also payable; or
> 2. **Long-term out of work people with ill health**: long-term receipt of Universal Credit on an out of work basis with a Limited Capability for Work-Related Activity element.[64]

It noted that there was precedent for this: until recently, the system of means-tested benefits had recognised that people aged 60 and over had particular challenges:

> It should be noted that means-tested benefits have, until only recently, recognised that people aged 60 and over, but below State Pension age, have particular challenges. Apart from the last

[62] IIFS Working Paper, Releasing jobs for the young? Early retirement and youth unemployment in the United Kingdom, July 2008, p24
[63] Independent review of the State Pension age: interim report, October 2016, page10
[64] Independent Review of State Pension age. Smoothing the Transition. Final Report, March 2017, section 5.5.2

> seven years, during which the entry point to the pensioner means-test is set to equal State Pension age, there had been special regard in the Welfare State to people just below State Pension age. From 1988 in Income Support until 2010 in Pension Credit, access to the pensioner means-test was linked to age 60 and was not conditional on incapacity, caring responsibilities or job-search.[65]

Allowing Pension Credit to be claimed before State Pension age has been proposed as a way of mitigating the impact of State Pension age increases. For example, in its Second Report in 2005, the Pensions Commission said that once the State Pension age equalised, there was a good case "for thereafter keeping the earliest age of Guarantee Credit eligibility, say, two years below the SPA."[66] The Labour Government said it would consider this when it reviewed the SPA in future.[67]

In September 2016, the Pensions Policy Institute said freezing the Pension Credit age at 65 to mitigate the impact of SPA rises, possibly subject to certain conditions, such as being a carer, unable to work due to ill health, or actively seeking work. An alternative would be to introduce a higher rate of Universal Credit.[68]

3.3 Alternative approaches

Work conditionality requirements

The Cridland review also recommended "redefining the conditionality for older job-seekers who qualify for means-tested support" when the State Pension age increased to 68:

> Such a system would formally acknowledge that those out-of-work claimants who are within five years of reaching State Pension age could have their conditionality requirements adjusted so that they can only be required to find part-time work, without being penalised for doing so.
>
> For older claimants who are in work, Universal Credit may expect them to take steps to increase their hours or their earnings if they are working part-time. We believe that the system should be more flexible in allowing older workers approaching State Pension age to work part-time. This is already the case for Working Tax Credits, where people over 60 are eligible for support even where they work, on average, for 16 hours (well below the general 30 hours rule). We recognise that the in-work conditionality of Universal Credit is still under development and the Review's recommendation is that this proposal for flexibility should be included in the design of Universal Credit as it evolves currently. It would need to be in place, at the latest, by the point at which State Pension age rises to 68, in order to fulfil its mitigation objective.[69]

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65 Independent State Pension age review. Smoothing the transition. Final Report, March 2017, p103

66 Pensions Commission, Second Report, December 2005, p340

67 DWP, Security in retirement: towards a new pensions system, Cm 6841, 25 May 2006, para 3.40-1

68 PPI, The distributional impact of SPA increases, September 2016

69 Ibid, section 5.5.1

There is a precedent for this in the decision in the 1980s, in response to high unemployment, to cease requiring men aged 60 or over to register as unemployed to qualify for Supplementary Benefit.[70]

Additional one-off payments

The OECD states that some governments of some countries (such as Australia and Canada) taken steps to support people of pension age, especially those on a low income:

> Australia provided up to two additional payments to eligible beneficiaries of the means-tested Age Pension of AUD 750, which is around 3% of the maximal annual amount of the Age Pension. Canada granted a one-off allowance of CAD 300 to pensioners receiving the basic pension (Old Age Security) and an additional CAD 200 to those with the lowest income who therefore receive the Guaranteed Income Supplement; the total allowance at CAD 500 is about 10% of the average monthly disposable income among the 65+. New Zealand doubled the Winter Energy Payment benefit paid to all pensioners between May and October at NZD 20.45 per week, representing 4% of the basic pension. Slovenia introduced a so-called solidarity bonus to increase the lowest pensions. Israel granted a special allowance, up to NIS 4 000 a month - about 40% of the average monthly disposable income among the 65+ - to laid-off workers who are older than 67.
>
> Some countries went beyond temporary measures. Australia relaxed the Age Pension asset test permanently by reducing the withdrawal rate, resulting in an average increase in benefits of AUD 313 a year – which equates to around 1% of the maximal annual amount of Age Pension (ISSA, 2020[7]). As of June 2020, Hungary permanently exempted those combining pensions with self-employment from paying social security contributions. Turkey increased the lowest level of minimum pension by 50% to TRY 1 500, which is almost equal to the average monthly disposable income among the 65+, on top of anticipating by one month the payment of the holiday bonus to retirees, which is a benefit paid twice a year in addition to monthly pensions.[71]

In the UK, one-off payments have occassionally been made to people of pension age under the *Age-Related Payments Act 2004.* Section 7 (1) enables the Secretary of State to "make regulations providing for the making of payments by him to persons who have attained the age of 60 years."

The background to this is explained in Library Research Paper 04/34, *Age-Related Payments Bill* (29 April 2004). In winter 2005/2006, two additional payments were made along with the Winter Fuel Payment - a £50 payment for "living expenses" for pensioners aged 70 or over and getting the guarantee element of Pension Credit, and a £200 "Council Tax Refund" for households containing someone aged 65 or over but not getting the guarantee element of the Pension Credit.[72] The legislation was amended in 2013 to enable ex-gratia payments to be

70 DWP, Security and retirement: towards a new pensions system, Cm 6841, May 2006, para 3.103
71 OECD, Pensions outlook 2020,
72 More information is available in Library Briefing Paper SNBT 3429 £200 council tax refund for pensioners, March 2005

made in cases where a with-profits annuity was brought from Equitable Life before 1992.[73]

[73] Explanatory Memorandum - *Transfer of Functions (Age-Related Payments) Order 2013/1442*

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