



## BRIEFING PAPER

Number CBP-01121, 19 February 2020

# Pension integration (or 'clawback')

By Djuna Thurley

**Contents:**

1. Background
2. Criticisms
3. Debates in Parliament



# Contents

<b>Summary</b>	<b>3</b>
<b>1. Background</b>	<b>4</b>
1.1 Legislation	4
1.2 Public service schemes	5
1.3 Private sector	6
<b>2. Criticisms</b>	<b>9</b>
<b>3. Debates in Parliament</b>	<b>11</b>
3.1 Ongoing campaign	11
3.2 The early 2000s	13

## Summary

When the State Pension was introduced in 1948, it was recognised that some employees in the public and private sectors already had occupational pensions. A state pension paid in addition could provide them with incomes in retirement which would not be not far short of retiring salary. Also, where the occupational scheme was contributory, the total contributions required might be quite heavy. Provision was therefore made for occupational pension schemes to take account of the new State Pension.

Public service schemes included a reduction in pensions at State Pension age (SPA) to avoid duplication of benefits. These 'national insurance modification' rules were abolished from 1980.

Private sector occupational schemes also included such arrangements in their rules, which are sometimes described by the term "pension integration," clawback or bridging pension.

On 16 November 2017, Pensions Minister Guy Opperman said he had received a number of representations on the HSBC scheme and its clawback policy. Such arrangements were set in scheme rules and it would not be right to compel schemes to withdraw them:

The Department for Work and Pensions has received a number of recent representations on the HSBC defined benefit occupational pension about its pension clawback policy from individuals and from Members of Parliament writing on their behalf.

This is one of a number of what are sometimes called integrated pension schemes. These schemes were designed to avoid additional contributions from sponsors and members by taking account of some or all of the State Pension when calculating the amount of occupational pension payable. The arrangement is set out in scheme rules which would have been available to members when they joined the scheme.

Such arrangements are not a requirement of Department for Work and Pensions legislation. It would not be right to compel schemes to withdraw this integration arrangement. That would amount to a retrospective change imposing significant additional unplanned costs. Pension scheme rules on the calculation of benefits are many and varied, and must remain a matter for employers and scheme trustees to decide ([PO 112545](#)).

An [Early Day Motion](#) in the name of Jim Cunningham in the 2017-19 Parliament, which got 42 signatures, called on the Government to "abolish pension clawback schemes and to ensure that older people have security and dignity in retirement."

The HSBC Trustee provided a detailed explanation of the steps it had taken to communicate the impact of the State Pension deduction in a [letter to the Work and Pensions Committee on 12 January 2018](#).

Groups campaigning on this issue include the [Midland Bank Clawback Campaign](#) and [Unite the union](#). An All Party Parliamentary Group on [Pension Clawback](#) has been set up to campaign for HSBC to remove clawback from its post-1974 Defined Benefit Pension Scheme. It is also working to raise awareness of pension clawback more generally, especially in cases where it has been poorly communicated, and to highlight its discriminatory impacts.

This note looks at the background and campaign to change the rules in the early 2000s.

# 1. Background

The introduction of the system of social insurance in 1948, under the *National Insurance Act 1946* meant many more people than previously would get a State Pension. This created a problem for some occupational pension schemes. It could result in some receiving an amount of state and occupational pension which would be not far short of final salary. Also, where the occupational scheme was contributory, the total contributions required might be quite heavy. One response to this was to enable schemes to take account of the State Pension in their rules. Different terms have been used for this: state pension integration, 'clawback' or bridging pension. In 2012, the then Pensions Minister Steve Webb explained:

Some defined benefit occupational pension schemes pay members who retire before state pension age a higher pension at the outset, which is then reduced at state pension age to take account of the payment of state pension. This allows a member's total retirement income to be smoothed over the period of retirement, alleviating possible financial hardship between the date of retirement and the payment of state pension.

These arrangements are often described as bridging pensions, but they are also referred to by other terms, including, integrated pensions, step-up pensions, claw-back pensions and state pension offsets. They can either be part of a scheme's basic design, or an option offered to members at retirement of either a bridging pension, or a level pension from the outset. Where there is an option the amount payable after age 65 will be lower if a member has opted for a bridging pension, so that the overall cost to the scheme will generally be calculated to be the same whichever option is chosen.<sup>1</sup>

## 1.1 Legislation

Bridging pensions are expressly permitted by regulation 13 of the [\*Occupational Pension Schemes \(Equal Treatment\) Regulations 1995 \(SI 1995/3183\)\*](#).

In addition, pension tax legislation provides for the exceptions to the general that scheme pensions in payment cannot reduce, including where an individual becomes entitled to the State Pension:

(4) None of the following prevent the pension satisfying the condition in sub-paragraph (3)—

[...]

(c) if the member becomes entitled to state retirement pension, a reduction in the rate of the pension which does not exceed the rate at which state retirement pension is payable (or, if the rate at which state retirement pension is payable is greater than the rate of the pension, the pension ceasing to be payable).<sup>2</sup>

---

<sup>1</sup> [HC Deb, 26 Mar 2012, c 100WS](#)

<sup>2</sup> [Finance Act 2004](#), Sch 28 (2) (4) (c)

The reduction cannot exceed the amount of the ‘state retirement pension’, defined as basic State Pension and graduated retirement benefit (subparagraph 5).

The Government amended the rules in the [Finance Act 2013](#) (s51) to enable schemes to continue paying bridging payments to a new and higher State Pension age as that increased.<sup>3</sup>

## 1.2 Public service schemes

Gerald Rhodes explains how the policy developed in the public sector:

[...] the institution of formal pension schemes in this country began with certain special groups, such as civil servants and the police, and intervention by the State to provide pensions for the population generally did not begin until 1908, and then only on a limited scale. Extension of the State’s responsibility for pensions and particularly the universal provision of pensions under the National Insurance Act 1946, has created a number of problems for occupational pension schemes.[...]

Schemes for the public services, like the majority of public sector schemes, were designed to provide reasonable benefits for a man to live on in his retirement; to this end, after forty years of faithful service, he could look forward to a pension only one-third less than his retiring salary. The original Old Age Pensions served a rather different purpose: to preserve from destitution those who were unable to provide for themselves. There was no reason why the two kinds of arrangement should not exist side by side. With the introduction of a national system of contributory pensions in 1925, provision was for the first time made for a basic pension for a large part of the population. This was not a universal system, however, and those in the Civil Service, local government and a number of other occupations in which adequate pension provision existed were exempted from taking part in it, and their employment was treated as ‘excepted’ under the Act.

The situation changed with the introduction of the new National Insurance Scheme in 1948 based on the Beveridge proposals. Those proposals depended on ‘Six Principles of Social Insurance’, of which the three most important for the present discussion were: flat rate subsistence benefit; flat rate of contribution and comprehensiveness.

[...] if public servants were to be eligible for National Insurance benefits, including retirement pensions, it could well happen, especially in the case of lower-paid staff, that the amount of state and occupational pension together would be not far short of retiring salary. Moreover, where the occupational scheme was contributory, the total of contributions for National Insurance and the pension scheme might be quite heavy, especially again in the case of lower paid staff. Sir William Beveridge clearly recognised these points and suggested (in paragraph 149 of his Report): ‘as regards pensions...if there are any occupations which have already made provision for these circumstances, they should do so in future in the light of the basic provision being made for all, including their members, by the national plan for Social Security. All that is needed is that they should be given time to readjust their own schemes.’...

---

<sup>3</sup> HMRC, [Bridging pension](#), 2013

## 6 Occupational pension clawback

The government accepted that some adjustment was needed to public sector schemes as a result of the introduction of National Insurance, and proposed a reduction in pensions so as to avoid duplication of benefit under both an occupational and the national scheme. The reduction was not, however, to exceed 26s a week (which was the rate of retirement pension for a single person), and was to be accompanied in contributory schemes by an 'adjustment' of contributions.<sup>4</sup>

Different public sector schemes adopted different methods of modification. Rhodes explains that careful attention was paid to detail in an attempt to devise a system that was both "accurate but fair."<sup>5</sup>

Where modification still applies in public service schemes, it is in respect of service before 1 April 1980:

8.3 The details of National Insurance Modification vary between public service pension schemes. In some schemes new pension awards are no longer modified. Where modification still applies it is in respect of service, if any, before 1 April 1980.

8.4 Where National Insurance modification applies it takes effect from State Pension age whether or not the member decides to defer their State Retirement Pension. Where a member's public service pension begins at State Pension age, National Insurance modification will be applied before the public service pension is brought into payment. Pension increases will subsequently apply to that modified pension. However, where the public service pension begins to be paid before State Pension age the pension increases are calculated at first on the basis of the actual initial pension. Once the member has reached State Pension age the pensions increases are normally calculated on the basis of the modified pension from the date the public service pension began (Chapter 4). Pension payments received before State Pension age are unaffected by the recalculation.

8.5 However, some schemes, such as the Armed Forces Pension Scheme 1975, have different arrangements for applying the modification.<sup>6</sup>

The Civil Service Pensions Manual explains that the arrangement was abolished in 1980 but - for reasons of equity and cost - the change only applied in respect of reckonable service on or after 1 April 1980.<sup>7</sup>

### 1.3 Private sector

The Pension and Lifetime Savings Association (PLSA) produced a document explaining the development of the rules in the private sector

The principle under which the rate of an individual's occupational pension scheme takes account of his state retirement pension derives from the introduction of the state national insurance scheme in July 1948.

Before that date participation in the state national health insurance scheme was compulsory for effectively blue collar workers, but optional for white collar workers. Many of the latter,

---

<sup>4</sup> Rhodes G, *Public Sector Pensions*, (1965), p158-9

<sup>5</sup> Ibid

<sup>6</sup> HM Treasury, [Guidance on the operation of pensions increase legislation for public service pension schemes](#), April 2016

<sup>7</sup> Civil Service Pensions Manual, Volume 2, section 7, [Modification](#), 2011, para 7.1.4

therefore, did not look to the state to provide their retirement pension, but instead received a pension provided solely through their employers' pension scheme, funded either by their employer alone or by contributions paid jointly by the employer and employees.

### **Beveridge**

When, however, the new legislation following the Beveridge Report made participation in the state national insurance scheme compulsory for everyone with a liability for national insurance contributions imposed on all employers and employees, many employers and employees did not wish to be faced with an extra obligation by having to pay national insurance contributions in addition to contributions to the occupational pension scheme. Equally the pension received from the occupational scheme was at a sufficient level for the employees' retirement and there was no need for this to be supplemented by the new retirement pension from the state. Accordingly the employer and employees agreed to offset national insurance contributions against contributions to the occupational pension scheme, thereby reducing the latter, and to offset the state retirement pension against the pension received from the occupational pension scheme, thus ensuring the same rate of pension in aggregate as had been received from the occupational pension scheme alone, before participation in the national insurance scheme became compulsory. These offsets were introduced not only by private employers, they were also introduced by the Government to in relation to their own employees. Schemes with such offsets are known as integrated schemes.

### **What has been happening to integration?**

In some cases, over time, the original offset became modified in others it was abolished. Some schemes raised the contribution and benefit offsets fully in line with increases in national insurance contribution and retirement pension increases. Others increased the offsets only partially. Others, including the Government retained the offset at the 1948 level with no account taken of national insurance contribution or retirement pension increases. Eventually the level of the offset against public service pensions was proportionately so insignificant that it was phased out.

Why, therefore, do almost half of all occupational pension schemes still retain integrating offsets, based either on the current state retirement pension level (£64.70 per week) or the equivalent rounded lower earnings limit for liability for national insurance contributions (£64)?

### **Non-contributory schemes**

Where the scheme is non-contributory, i.e. the whole cost is borne by the employer, to disregard, in whole or in part, the first £64 of an employee's earnings, reduces the overall cost to the employer of providing a pension scheme for its employees. The establishment of an occupational pension scheme by employers is voluntary. For many employers facing the burden of funding a pension scheme on the basis of gross earnings, in addition to their Ni contribution liability, could lead them to decide that the cost of establishing or continuing to operate a pension scheme was too high. Such a decision would deprive employees of any occupational pension scheme to supplement the state provision. Integration may make a scheme affordability. However, with an integrated scheme pensioners, do not lose the pension derived

from that initial tranche of earnings as this is provided by the state retirement pension.

### **Disregarding earnings**

If many employers, such as Barclays, choose to reduce their overall pensions liabilities to a manageable level by disregarding earnings below the state retirement pension or lower earnings limit level, others do so in a different way by requiring scheme member employees to contribute towards the provision of their own pension. It is, therefore, possible that members of non-contributory integrated schemes who object that the initial tranche of earnings is not pensionable pay could reverse that situation, but only at the cost of themselves contributing towards the pension. Nevertheless, it is not infrequent for contributory schemes also to disregard earnings below the state retirement pension or lower earnings limit level.<sup>8</sup>

As in the public sector, where schemes were already in existence at the time the national insurance system was introduced, many employers and employees did not wish to be faced with an extra financial burden. So pension benefits were designed to take account of the state benefits the member was deemed to receive.<sup>9</sup> It was done in two main ways:

- **Earnings integration:** the scheme deducts a certain amount from a person's earnings before using the earnings to calculate the pension. For example, the scheme might deduct the lower earnings limit for making National Insurance contributions from the person's earnings in each year in which s/he was a member of the scheme.
- **Pension integration:** the scheme deducts an amount from the pension itself. For example, the scheme might deduct from the pension a fraction of the state pension for each year that the person was in the scheme.

A 2005 Annual Survey found that the number of open schemes imposing a State Pension deduction was declining:

Overall 70% of open DB/hybrid schemes, covering 61% of members, impose no deduction from their occupational pension on account of the basic State Pension (BSP). The 2002 Survey had found that 60% of schemes (48% of members) did not integrate benefits. Private sector schemes have traditionally been more likely to integrate than public sector schemes, so this change may be explained by the fact that a smaller proportion of open DB can be found in the private sector. The exception is in hybrid schemes, where 55% of members face a deduction from pensionable earnings of 1 x BSP or less.

Members facing a deduction from pensionable earnings of 1 x BSP or less (18%) outnumbered those facing a deduction of 1 x BSP or more (8%) by a margin of more than two to one.<sup>10</sup>

---

<sup>8</sup> PLSA, Integration of occupational schemes with the state pension, 2001

<sup>9</sup> 'Court rules on 'integrated' pension schemes', [Labour and European Law Review, Weekly Issue 71, June 2002](#); NAPF, *Integration of occupational schemes with the state pension*, June 1998

<sup>10</sup> NAPF, Annual Survey 2005. The State of Britain's Pensions, Figure 36

## 2. Criticisms

A campaign to scrap integration was launched at the end of April 1998 by the financial services union UNIFI, particularly in relation to the partial integration scheme at Barclays Bank. In April 1999, the Guardian reported that Barclays was amending its rules:

Fifty years on, many people argue that clawback is anachronistic and unethical, and trade unions, pensioners' organisations and politicians have been calling for it to be abolished. They argue that at a time when everyone is being urged to make adequate provision for their retirement, it cannot be right for employers to be able to claw back a portion of their retired employees' pensions.

This week, as part of a £100 million package of pension scheme changes, Barclays said it was amending its system of integration so that no service prior to 1977 can be counted towards pensions clawback. The change will benefit a significant number of Barclays' 29,000 pensioners.<sup>11</sup>

However, the issue extended beyond the financial services sector and abolition was supported by other unions and the TUC, which said:

The "discriminatory practice" of integrating occupational schemes with the state pension should be ended - this would have a beneficial effect on the very low paid, the majority of whom are women.<sup>12</sup>

The Pension and Lifetime Savings Association recommended that any disregard for part-timers should be determined on a pro-rata basis:

The adoption of an integrated basis for pension provision is not an attempt to deprive members of part of their rightful entitlement, but has been an attempt to remove disincentives both the employers to operate schemes and to employees to become members.<sup>13</sup>

In *Uppingham School v Shillcock*, the High Court ruled that there was no indirect discrimination as there was no relevant difference in treatment; and that, even if there was, that difference was objectively justified.<sup>14</sup>

In *Birds Eye Walls Limited v Roberts* [1994] ICR 338, [1993] OPLR considered the case of an employer who had paid a bridging pension to an employee who had retired on ill-health grounds before becoming entitled to a state pension. Tolley's pension law explains:

The purpose of the bridging pension was to compensate for the state pension that a female would have received had she retired at the same age. This meant that the pension payable by the scheme was higher for male employees than it was for female employees, even though the total pension provision taking into account the state pension would in fact be the same for each.

---

<sup>11</sup> ['Clawback victories, The Guardian, 17 April 1999](#)

<sup>12</sup> TUC, *Looking forward to retirement?*, 1998

<sup>13</sup> PLSA, *Integration of occupational schemes with the state pension*

<sup>14</sup> *Uppingham School v Shillcock*, [2002] EWHC 641, 19 April 2002; ['Court rules on 'integrated' pension schemes', Labour and European Law Review, Weekly Issue 71, June 2002](#)

## 10 Occupational pension clawback

Reversing the decision of the EAT, the ECJ stated that it was not contrary to [article 157](#) to take account of the amount of state pension which male and female employees would subsequently receive and to reduce the bridging pension accordingly, even though, in the case of those between 60 and 65, the result is that a female ex-employee will receive a smaller bridging pension than her male counterpart.

The result in *Birds Eye* is perhaps surprising because the female employee who brought the complaint had chosen to pay National Insurance contributions at a reduced married woman's rate and was therefore not actually entitled to a state pension at age 60. The ECJ held that art 157 did not prevent the employer taking account of the full state pension which she could potentially have received.<sup>15</sup>

---

<sup>15</sup> Tolley's Pension Law, para D2.106

## 3. Debates in Parliament

### 3.1 Ongoing campaign

In autumn 2017, members of the HSBC (Midland Bank) Scheme were calling on MPs to “lobby the government over the legal but “shameful” practice known as clawback.”<sup>16</sup>

An [Early Day Motion](#) in the 2017-19 Parliament, in the name of Jim Cunningham, had 42 signatures:

That this House notes that employees of HSBC Midland Bank's Defined Benefit Occupational Pension Scheme believe that they were not adequately made aware of the clawback feature; further notes that this feature reduces the bank's pension contribution when basic state pension becomes payable; is concerned that this means that many staff were denied the opportunity to make additional financial plans for their retirement; further notes that other banks have not applied, or have withdrawn, this scheme; and calls on the Government to abolish pension clawback schemes and to ensure that older people have security and dignity in retirement.

The [Midland Clawback Campaign](#) is calling for the removal of clawback from the Midland Post 1974 defined benefit pension scheme. It says that it accepts that “this probably cannot be retrospective but should be from a fixed date in the near future.” It is working with the [All Party Parliamentary Group on Pension Clawback](#), which been set up to campaign for the removal of clawback from that scheme and to “raise awareness of pension clawback more generally, especially in cases where it has been poorly communicated, and to highlight its discriminatory impacts.” [Unite the union](#) is also campaigning on the issue.

The Equality and Human Rights Commission has also written to HSBC to ask for further information regarding whether women could be put at a particular disadvantage compared to men as they are more likely to have been on lower salaries.<sup>17</sup>

### The Trustee's response

A *Guardian* article on 28 October 2017, included the following statement from pension scheme Trustee:

The state deduction feature became part of Midland Bank's non-contributory pension scheme in 1975 and has been consistently communicated to members of the scheme. We have pension obligations to a wide group of employees and increasing the benefits for these members could be seen as unfairly preferring one group of members over others.<sup>18</sup>

---

<sup>16</sup> [‘Former HSBC employees fight clawback of pension income’ the Guardian, 28 October 2017](#)

<sup>17</sup> [Pensioners to protest at HSBC's annual meeting, BBC website, 11 April 2019](#)

<sup>18</sup> [‘Former HSBC employees fight clawback of pension income’ the Guardian, 28 October 2017](#)

## 12 Occupational pension clawback

In response to a letter from chair of the Work and Pensions Committee, Frank Field, the Trustee gave details of what had been done to communication the state deduction (SD) to members:

The SD is consistently described and illustrated in communications to Members – in generic Scheme member guides and in specific correspondence – pensions benefit statements, communications when Members leave the Scheme and when their pension starts.<sup>19</sup>

In addition, the Trustee's practice was to issue annual benefit statements to all active members. These statements "clearly shows for this post 1974 Midland Section member the amount of the will be applied to the member's pension at the point he attains State Pension age (SPA) as well as the amount of SD accrued as at the date of the pension statement." Additional communications were provided to all active members at the time changes were being made to the scheme in 2009 and 2013.<sup>20</sup>

### The Government's response

On 16 November 2017, Pensions Minister Guy Opperman said that such arrangements were set in scheme rules and it would not be right to compel schemes to withdraw them:

The Department for Work and Pensions has received a number of recent representations on the HSBC defined benefit occupational pension about its pension clawback policy from individuals and from Members of Parliament writing on their behalf.

This is one of a number of what are sometimes called integrated pension schemes. These schemes were designed to avoid additional contributions from sponsors and members by taking account of some or all of the State Pension when calculating the amount of occupational pension payable. The arrangement is set out in scheme rules which would have been available to members when they joined the scheme.

Such arrangements are not a requirement of Department for Work and Pensions legislation. It would not be right to compel schemes to withdraw this integration arrangement. That would amount to a retrospective change imposing significant additional unplanned costs. Pension scheme rules on the calculation of benefits are many and varied, and must remain a matter for employers and scheme trustees to decide.<sup>21</sup>

In debate on the [\*Finance \(No. 2\) Bill 2017-19\*](#), he said:

I can only reiterate here that it would not be write for Government to compel schemes to withdraw this integration arrangement as it would amount to a retrospective change imposing significant additional costs. Any proposed change in legislation would affect all integrated schemes and would potentially risk their future solvency, particularly those which are not well funded.<sup>22</sup>

---

<sup>19</sup> [Letter to Rt Hon Frank Field from chair of Trustee Board, 12 January 2018](#)

<sup>20</sup> Ibid

<sup>21</sup> [PQ 112545; DEP 2018-0015](#)

<sup>22</sup> [HC Deb 18 December 2017 c812; See also PQ 189598, 14 November 2018](#)

The Government has not made an estimate of the “cost to the public purse of the longstanding practice of private pensions operating integrated pension scheme arrangements.”<sup>23</sup>

## 3.2 The early 2000s

The Labour Government said it had “no plans to abolish pension clawback.”<sup>24</sup> The then Pensions Minister, Jeff Rooker, explained the government’s approach in March 2001:

Mr. Hilary Benn: To ask the Secretary of State for Social Security if he will make a statement on the practice of pension clawback by companies operating occupational pension schemes.

Mr. Rooker: Occupational pension provision is voluntary, and it is for employers to decide the nature of the scheme and the benefits provided. The decision as to whether a scheme should continue to operate on an integrated basis, or if not, how and when integration should be abolished, is a matter for employers.<sup>25</sup>

The campaign against the rules was supported by a number of Labour MPs. Opening a Westminster Hall debate on 16 October 2011, Linda Perham said:

Clawback is officially known as pension integration or abatement. It means a reduction in retired people's company pension simply because they receive a state pension. Employers can—and all too often do—deduct a sum every week up to the amount of a single person's basic state pension from the occupational pension that the former employee receives. Even those who are not entitled to a full state pension can find their company pension reduced by anything up to £72.50 per week.

That means that hundreds of thousands of pensioners lose significant sums every year. How can that be justified? An obscure legal loophole under the [National Insurance Act 1946](#) allows companies to take account of state retirement benefits when paying retired employees a company pension. In most cases, an amount equivalent to the current value of the basic state pension or the lower earnings limit is deducted; in other words £3,770 a year for a single person from April 2001.<sup>26</sup>

The then Pensions Minister Ian McCartney said the decision on whether to abolish these rules was an issue for employers:

We must bear it in mind that employers do not have to provide occupational pension schemes for their employees. The costs of running a pension scheme are part of the overall remuneration package that a company offers. All pension schemes vary in the structure of the benefits that they provide. The level of benefits of course affects the cost of providing them. Because of this, the employer must make the decision of how and when integration should be abolished. If employers were forced to change their schemes overnight and remove clawback rules, many of them might decide that they could no longer afford to provide a scheme at all. An integrated scheme is surely better than no occupational pension at all. [...]

---

<sup>23</sup> [PO 121746 Financial Institutions: Pensions, 16 January 2018](#)

<sup>24</sup> [HC Deb 22 November 2000, c234W](#)

<sup>25</sup> [HC Deb 14 March 2001, c605W](#)

<sup>26</sup> [HC Deb 16 October 2001, c1142-50](#)

## 14 Occupational pension clawback

Pension schemes vary greatly in the type of benefits that they provide, as do the rules on how those benefits are calculated. Integrated schemes have been in place since the introduction of the state retirement pension. Now to compel schemes to withdraw integration would be in effect a retrospective measure and likely to place significant unexpected costs upon employers. It has to be a matter for employers to decide whether their schemes should continue to operate on an integrated basis.

The contribution levels of schemes are based on benefits that accrue under them. Removing clawback may also result in scheme members having to make higher levels of contributions than they do now. In recent years, trade unions and members in general have pressed employers to review integrated arrangements.<sup>27</sup>

It was important that scheme members fully understood how the system worked:

Although the aims of integration are clear, the result is that the occupational pension can be reduced to a level lower than that expected by the scheme member. It is important that employees fully understand the pension benefits that they can expect from their scheme at retirement.

The Government place great importance on the provision of good, clear information, enabling individuals to make adequate provision for their retirement. All schemes are required by law to provide every member with basic information about the scheme, either before they join or shortly after. That information must include an explanation of contribution and benefit rates that includes how benefits are calculated.<sup>28</sup>

As to whether the rules were discriminatory against women or part-time workers, he said:

As to whether the clawback system is unfair to women, all pension schemes must have an equal treatment rule. Since May 1990, the date of a European Court ruling, occupational pensions have had to be equal for men and women who are doing the same work of equal value. If a member believes that the rules of her scheme discriminate against women, she can lodge a claim with an employment tribunal. The same applies to a part-time worker.<sup>29</sup>

Linda Perham also put down an EDM calling for the abolition of integration in the 2000/01 Parliamentary session. There was a previous EDM in the 1998/99 session which received 200 signatures.<sup>30</sup> Ms Perham's motion reproduced the text of the earlier EDM:

That this House believes that the practice of integrating occupational pensions with the state pension, commonly known as clawback, which allows employers to deduct a significant proportion of their employees' pension, affecting up to 2.5 million pensioners across the United Kingdom and hitting the lowest paid and part-time workers hardest, is unfair, as pensioners who have paid national insurance contributions all their working lives are entitled to benefit from the provisions intended by Government to be available to all; and believes that the Government should legislate to phase out this practice, following the example set by

---

<sup>27</sup> Ibid

<sup>28</sup> Ibid

<sup>29</sup> [HC Deb 16 October 2001, cc1142-1150](#)

<sup>30</sup> [EDM 557 \(1998/99\)](#)

the Republic of Ireland where a recently introduced Bill, which has the full support of the Irish Government, states that the amount deducted from occupational pension payments by trustees of pension schemes cannot increase when the amount of the state pension is increased, effectively freezing the amount which can be deducted.<sup>31</sup>

In 2004 by Kerry Pollard MP introduced a Private Members' Bill on the issue:

The essence of my Bill, which is similar in scope to one enacted in the Republic of Ireland some four years ago, is that any future increase in state pension could not be clawed back. For example, if the state pension increased by £10 per week, that increase could not be clawed back in the manner of previous increases. As a result, over time the disbenefit of clawback, particularly for the low paid, would gradually disappear. This arrangement has been in place in the Republic of Ireland for some time without civilisation as we know it coming to an end.

(...)

The practice of clawback is quite common. According to the most recent survey by the National Association of Pension Funds, just under half of all private sector schemes include clawback; in the public sector, the figure is much less. Blue chip companies that practise clawback include British Aerospace, Cornhill, GKN, General Electric, Imperial Tobacco and Unilever.

Why does clawback matter? Scheme beneficiaries usually assume that on retirement they will be better off by the amount of the state pension, less tax. Clawback also discriminates against the lower paid, particularly part-time workers. I shall give three fictitious but worked-out examples to demonstrate the disproportionate effect on the low paid. With clawback, John, a senior manager on a £45,000 final salary with 40 years' pensionable service, would receive a pension of £27,712, which is equivalent to 61.5 per cent. of final salary. With clawback, Bob, a shop floor worker on £15,000 and with the same length of service, would receive a pension of £7,712, which is equivalent to 51 per cent. of final salary. With clawback, Cathy, a part-time cleaner on £8,000 and with the same length of service, would receive a pension of £3,045, which is equivalent to 38.1 per cent. of final salary. These typical examples show that the lower a person's pay, the more they are penalised by clawback.<sup>32</sup>

---

<sup>31</sup> [EDM 311 \(2000/01\)](#)

<sup>32</sup> [HC Deb 20 July 2004 c192](#)

### About the Library

The House of Commons Library research service provides MPs and their staff with the impartial briefing and evidence base they need to do their work in scrutinising Government, proposing legislation, and supporting constituents.

As well as providing MPs with a confidential service we publish open briefing papers, which are available on the Parliament website.

Every effort is made to ensure that the information contained in these publicly available research briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

If you have any comments on our briefings please email [papers@parliament.uk](mailto:papers@parliament.uk). Authors are available to discuss the content of this briefing only with Members and their staff.

If you have any general questions about the work of the House of Commons you can email [hcenquiries@parliament.uk](mailto:hcenquiries@parliament.uk).

### Disclaimer

This information is provided to Members of Parliament in support of their parliamentary duties. It is a general briefing only and should not be relied on as a substitute for specific advice. The House of Commons or the author(s) shall not be liable for any errors or omissions, or for any loss or damage of any kind arising from its use, and may remove, vary or amend any information at any time without prior notice.

The House of Commons accepts no responsibility for any references or links to, or the content of, information maintained by third parties. This information is provided subject to the [conditions of the Open Parliament Licence](#).