State pension reform – 2012

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There are two parts to the UK State Pension: the basic State Pension, which is flat-rate, and the additional State Pension, which is earnings-related. The additional State Pension was provided through the State Earnings-Related Pension Scheme (SERPS) between 1978 and 2002 and, from 2002, through the State Second Pension (S2P). Under legislation already in place, S2P is becoming more flat-rate, and less earnings-related, over time.

The Labour Government introduced reforms to the State Pension in April 2010, with the aim of improving coverage and making it "less means-tested and closer to universal" than if the previous indexation arrangements continued indefinitely. The reforms included a reduction to 30 in the number of "qualifying years" needed for a full basic State Pension, from 44 (for men) and 39 (for women). The aim was that the State Pension should provide a better foundation for private pension saving. This was important to support the workplace pension reforms which would start to be introduced in 2012 (including the requirement for employers to automatically enrol employees and make contributions to a pension scheme). While, these reforms attracted broad support, opposition parties were concerned that they did not go far enough in reducing means-testing and that there was a risk the workplace pension reforms would be undermined if it was not clear enough to people that it would pay to save.

On 4 April 2011, the Conservative-Liberal Democrat Coalition Government published a consultation paper setting out options for reform of the State Pension, including the option of a single-tier pension, combining the basic State Pension and State Second Pension, set above the level of the Pension Credit standard minimum guarantee. The aim was to "better support people to save for their retirement." The Government said it would legislate to introduce a single-tier pension for future pensioners early in the next Parliament. Further detail will be set out in a White Paper.

This note aims to provide some background to the proposal for a single-tier State Pension, to the end of 2012. A further note SN 6525 *Single-tier state pension* takes the story forward from publication of the White Paper in January 2013. Other aspects of reform are discussed in more detail in separate notes, for example: SN 2234 *State Pension age* and SN 4947 *Pensions: automatic enrolment and employer contributions.*

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1 Overview

The 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 in 2012/13 is £107.45. The number of qualifying years needed for a full basic State Pension is 30, for people reaching State Pension age 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" (£142.70 a week for a single person, £217.90 for a couple, in 2012/13). Additional amounts are payable in respect of severe disability, certain caring responsibilities and housing costs. The earliest age from which it can be claimed is linked to the State Pension age for women. The Savings Credit aims to provide an additional amount for those aged 65 or over who have made some provision for their retirement.The maximum Savings Credit for a single person in 2012/13 is £18.54.

The **second tier** is the additional State Pension, which is earnings-related. People have accrued entitlement through:

- 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.

The SPA is rising. The SPA for women was in any case scheduled to increase from 60 to 65 over the period April 2010 to April 2020.[4] In the *Pensions Act 2007* the Labour Government legislated to increase the equalised SPA: to 66 over two years starting from April 2024; to 67 over two years starting in April 2034; and to 68 over two years starting in April 2044. Provisions in the *Pensions Act 2011*, accelerated the pace of SPA equalisation for women from April 2016, so that women's SPA reaches 65 in November 2018. The SPA then increases to 66 for both men and women from December 2018 to October 2020.[5]

Since 1978 it has been possible to "contract out" of the additional State Pension into a private pension scheme that meets certain requirements. Where an individual is contracted-out into a salary-related scheme, they and their employer pay lower NICs, reduced by the amount of the "contracted-out rebate". The scheme used for contracting-out has to meet certain conditions.[6]

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[1] *Pensions Act 2007*, s1
[2] Between 1961 and 1978, earnings related provision was provided through Graduated Retirement Benefit
[3] This is discussed in more detail in Library Standard Note SN/BT 255 State Second Pension
[4] *Pensions Act 1995,* section 126 and schedule 4
[5] This is discussed in more detail in Library Standard Note SN/BT 2234 State Pension age
[6] This is discussed in more detail in Library standard note SN/BT 4822 Contracting-out

From 6 April 2012, the contracting-out option has been removed for Defined Contribution (or money purchase) schemes. People contracted-out into a DC scheme, on that date, were brought back into the additional State Pension and began to build up additional State Pension rights.[7]

2 The Labour Government's reforms 1997-2010

In the period before it set up the Pensions Commission in 2002, the Labour Government made a number of changes to the State Pension system. Key changes included:

- Replacing the State Earnings Related Pension Scheme (SERPS) with the State Second Pension (S2P) to "boost the pension entitlements of those on low incomes and carers" and to help moderate earners build up better second pensions.[8]

- Introducing Pension Credit with the dual aim of tackling pensioner poverty and boosting the incentive for future pensioners to save for their own retirement.[9]

2.1 State Second Pension (S2P)

Between April 1978 and April 2002, additional State Pension entitlement was built up under the State Earnings-Related Pension Scheme (SERPS). However, in a 1998 Pensions Green Paper, the Government said reform was needed because SERPS gave least to those in greatest need:

> Those on very low incomes can save through SERPS all their working lives and still need income-related benefits in retirement. This means they gain nothing from their years of saving. This is because SERPS, being earnings-related, gives least to those in greatest need.[10]

It proposed to replace it with a State Second Pension (S2P) which would better reward those on low incomes (i.e. £9,000 in 2001):[11]

> 15 the basic state pension will remains as the foundation of retirement income for rich and poor alike. It will not be means tested. We will raise it in line with prices, to keep its real value over time.
>
> 16 The basic state pension alone will not provide a decent income in retirement. Nor will SERPS. That is why we are replacing SERPS to give greater help to those in need. Our replacement – the new State Second Pension – will reward those who work even on low incomes, and also those who are unable to stay in work because of caring responsibilities, illness or disability.
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> 17 All those earning less than £9,000 (but, as now, above the Lower Earnings Limit of £3,300) will receive an additional pension – on top of the basic state pension. This additional pension will be double the amount that SERPS now pays to someone earning £9,000 a year. This will mean a dramatic rise in pension entitlement on the lowest incomes – for many, much more than doubling their second pension.

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[7] Directgov website – Contracting out of the additional State Pension
[8] DWP, *A new contract for welfare: partnership in pensions,* December 1998, Cm 4179, p39
[9] DWP, *Pension Credit: the Government's proposals*, November 2001, page 3
[10] DWP, *A new contract for welfare: partnership in pensions,* December 1998, Cm 4179, p39
[11] The amount of the "low earnings threshold" in 2011/12 is £14,400

> 18 As well as this, carers and long-term disabled people who are off work will, for the first time, receive 'credits' (in effect, pension contributions on their behalf) towards their State Second Pension.[12]

Moderate earners would initially gain more from S2P than SERPS. However, the Government hoped to encourage them to save for retirement in funded schemes. To enable this, it proposed to introduce stakeholder pensions. These would combine:

> Low overheads and high security of occupational pension schemes with the flexibility of the best personal pensions, and will be available to all. They are particularly designed to help those on middle incomes (between roughly £9,000 and £18,500 a year) to start their own pension but will benefit those on higher incomes too.[13]

The intention was to move towards a flat-rate State Second Pension as stakeholder pensions established themselves:

> In the second stage, when stakeholder pension schemes have established themselves as low-cost, value-for-money, funded second pensions, we expect the new State Second Pension to become a flat-rate scheme for those on lower earnings, with those on moderate and higher earnings joining a funded pension (with contracted-out rebates continuing to be earnings-related).
>
> We do not believe it would be prudent to move to a new flat-rate State Second Pension in one step. It would cause significant disruption to existing provision, require millions of people to change their pension arrangements, and be costly. It would also be better to allow time for our new pension framework to become established.
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> We envisage that the move towards a new flat-rate State Second Pension might begin, for those with a significant part of their working lives still remaining (for example, those aged under 45 at the point of change), five years after the introduction of stakeholder pension schemes.[14]

2.2 Pension Credit

In 1997, the Labour Government identified as a priority addressing the "immediate problem of pensioner poverty today."[15] Until 2003, pensioners were entitled to a minimum level of income through Income Support. From April 1999, Income Support for pensioners was re-named as the Minimum Income Guarantee (MIG) and the level of support increased "several times above indexation." From April 2000, the MIG was uprated in line with earnings and other increases (over and above indexation) were announced over time.[16] One of the effects of this was to widen the gap between means-tested support and the basic State Pension. Arguably, this exacerbated a problem which already existed: pensioners with small amounts of income in addition to the basic State Pension were not necessarily better off as a result of having saved.

In 2000, the Government issued a consultation paper which identified a number of problems with the MIG, including complexity and a means-test which, as well as being intrusive, penalised saving. For example:

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[12] Ibid, p4
[13] Ibid, p47
[14] DSS *A new contract for welfare: partnership in pensions* December 1998 p39-40. For more detail, see Library Standard Note SN/BT 255 *State Second Pension.*
[15] DWP, *Pension Credit, the Government's proposals,* November 2001, p 2
[16] Budget 1999, para 5.28; Budget 2001, para 5.40

> Those just above MIG levels feel let down because they are so little better off for having saved: currently, a pensioner with £20 a week of occupational pension and a full basic state pension finds herself with just one or two pounds a week more than someone who saved nothing.[17]

Its proposals for Pension Credit were designed to address these problems. The proposed reforms included measures to relax the means-test by changing capital rules and changing the way support is claimed. However, it was the proposals for Savings Credit which represented a novel solution to the problems identified with means-tested support for pensioners. Savings Credit is an extra amount aimed at people aged 65 or over, who have made some provision for their retirement, such as private pension saving. The Government's consultation paper said:

> The Pension Credit represents a fundamental reform to the welfare system – for the first time, saving will be rewarded instead of being penalised. The Pension Credit will ensure that pensioners who have save modest amounts – whether it is through an occupational scheme, a stakeholder or personal pension, the State Second pension or other savings – will gain from having done so.[18]

2.3 Pensions Act 2007 changes

The *Pensions Act 2007* introduced changes aimed at improving coverage of the state pension and reducing the extent of means-testing over time. They were introduced in response to recommendations of the Pensions Commission.

Pensions Commission

The Pensions Commission was established in December 2002 in response to growing concerns that people were not saving enough for their retirement and that measures taken to encourage private sector provision were not succeeding. Its remit was "to keep under review the regime for UK private pensions and long-term savings" and make recommendations on whether there was "a case for moving beyond the current voluntarist approach."[19] The members of the Pensions Commission were Lord Turner of Ecchinswell (chair), Jeannie Drake and John Hills.[20]

The Pensions Commission's first report, *Pensions: Challenges and Choices*, published on 12 October 2004, concluded that:

> Faced with the increasing proportion of the population aged over 65, society and individuals must choose between four options. Either:
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> (i) pensioners will become poorer relative to the rest of society; or
> (ii) taxes/National Insurance contributions devoted to pensions must rise; or
> (iii) savings must rise; or

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[17] DSS, *The Pension Credit: a consultation document,* CM 4900, November 2000, p17

[18] DWP, *Pension Credit, the Government's proposals,* November 2001, p4; For more detail, see Library standard note SN/BT 1439 *Pension Credit.*

[19] Pensions Commission, Pensions: Challenges and Choices: The First Report of the Pensions Commission, October 2004, pix

[20] Ibid, pvii. At the time the Pensions Commission was established, Adair Turner was Vice Chair of Merrill Lynch Europe, a director of United Business Media plc and chair of the UK Low Pay Commission. Jeannie Drake was Deputy General Secretary of the Communication Worker's Union and President of the TUC. John Hill was Professor of Social Policy and Director of the ESRC Research Centre for Centre for Analysis of Social Exclusion at the London School of Economics.

> (iv) average retirement ages must rise.
>
> But the first option (poorer pensioners) appears unattractive; and there are significant barriers to solving the problem through any one of the other three options alone. Some mix of higher taxes/National Insurance contributions, higher savings and later average retirement is required.[21]

The Commission found that the UK state pension system was "among the least generous in the developed world."[22] Although this had long been recognised, it had been accepted, partly from the "point of view of fiscal sustainability" and partly because "the UK has had one of the most extensive voluntary funded pension systems in the world, with a higher percentage of people in occupational schemes, mostly DB in nature, and large pension fund assets as a percentage of GDP."[23] However, this was changing:

> ...the state plans to provide decreasing support for many people in order to control expenditure in the face of an ageing population and the private system is not developing to offset the state's retreating role. Instead it is in significant decline.[24]

Previous government initiatives to stimulate the growth of voluntary pension saving - including the introduction of stakeholder pensions - had not succeeded:

> A primary policy initiative that focused on increasing participation, the Stakeholder Pension, while achieving some reduction in costs, has not achieved any measurable increase in participation. Eighty per cent of all employer designated Stakeholder schemes are "empty shells": nominated schemes but with no members.[25]

The extent of means-testing in the system had increased overtime and would increase further if existing indexation approaches were continued indefinitely:

> The Government wishes to avoid pensioner poverty, and has therefore been increasing the Guarantee Credit in line with average earnings. But it also wishes to contain public expenditure on pensions and has therefore been increasing the BSP in line with prices.[26]

The Commission considered that means-testing within the state system both increased complexity and reduced (in some cases reversed) the incentives to save in a pension.[27]

Furthermore, its contributory basis disadvantaged many people (particularly women) who had had interrupted careers, caring responsibilities, or multiple part-time jobs:

> The system was originally designed around the assumption that most women would gain state pension rights through full-time working husbands. Over the years it has been adjusted ad hoc to cope with the realities of periodic unemployment, female employment, increases in the number of part-time workers and higher divorce rates. Around one third of all rights accrued within the BSP [Basic State Pension] system now arise not from paid NI contributions but from various types of credit (related to unemployment, certain types of training, ill health and Home Responsibilities

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[21] Ibid, Executive Summary
[22] Pensions Commission, Pensions: Challenges and Choices: The First Report of the Pensions Commission, October 2004, p58
[23] Ibid, p60
[24] Ibid, px
[25] Ibid, page 48
[26] Ibid, p224
[27] Ibid, pxiii

> Protection). Today however, only around a third of newly retired women pensioners are receiving a full BSP [...] and the vast majority of pensioners dependent on means-tested state benefits are women. Over time the percentage of women with full BSP and significant S2P rights will improve, but even in the long-term a small percentage of women (and an increasing percentage of men) will fall short of full BSP rights [...].[28]

The Commission's second report, published at the end of 2005 recommended two key elements of reform. To encourage and support private pension saving, it recommended:

> The creation of a low cost, national funded pension savings scheme into which individuals will be automatically enrolled, but with the right to opt out, with a modest level of compulsory matching employer contributions, and delivering the opportunity to save for a pension at a low Annual Management Charge.

State pension reform was needed to provide "clear incentives and an understandable base on which private pension saving looking forward can build." The Commission recommended:

> Reforms to make the state system less means-tested and closer to universal than it would be if current indexation arrangements were continued indefinitely. In order to achieve this while maintaining the standard of living of the poorest pensioners it will need to be more generous on average. In the long-term this implies some mix of both an increase in taxes devoted to pensions expenditure and an increase in State Pension Ages.[29]

The Commission recognised that there were different ways in which the State Pension could be reformed. It argued that the key choice was between moving to a single unified state pension - an Enhanced State Pension (ESP) - or building on the existing system which combined a basic State Pension and the State Second Pension. Having considered the issues, it recommended building on the existing two-tier system by:

- Accelerating the evolution of the State Second Pension to a flat-rate system, thus enabling the state to concentrate the use of constrained tax resources on the provision of "as generous and non-means-tested, flat-rate provision as possible"; and

- Over time, linking the value of the basic State Pension to earnings and freezing in real terms the maximum amount of Savings Credit payable. This would "stop the spread of means-testing which would occur if present indexation arrangements were continued indefinitely."

- Improving the coverage of the State Pension to ensure that "all people, including those with interrupted paid work records and caring responsibilities can be certain of a significant floor of non-means-tested state provision". The Commission recommended basing entitlement to the basic State Pension on residency rather than contribution records or eligibility for credits and improving the value of carer credits within S2P.[30]

Responses

The Pensions Commission produced its final report in April 2006. It found that a "wide-ranging debate" since the publication of its second report had revealed a "high degree of consensus on the direction of policy reform now required." There was a general acceptance that "future policy needed to be based "both on significant reforms to the state system and on

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[28] Pensions Commission, A New Pension Settlement for the Twenty-First Century; The Second Report of the Pensions Commission, November 2005, p148
[29] Ibid, p6
[30] Ibid

a new approach to private pension saving which goes beyond a wholly voluntary approach."[31] As regards state pension reform, the following five propositions had commanded widespread support:

- That the core function of the state pension system is to provide as generous and as non-means-tested, flat-rate pensions as possible.

- That the UK state pension system needs to become simpler, more generous, and less means-tested than it would become if present indexation arrangements were continued indefinitely.

- That it also needs to ensure fairer treatment of people with interrupted careers and caring responsibilities, in particular women.

- That the State Pension Age should rise over the long-term as life expectancy rises but as part of a package whose overall impact is fair, allowing for differences in life expectancy by socio-economic group, and which is accompanied by policies to support flexible retirement and later working.

- And that some increase in the percentage of GDP devoted to state pensions is unavoidable if the objectives set out above are to be achieved, but that this increase can be offset in part by increasing the State Pension Age.[32]

It acknowledged that the Labour Government now faced the "difficult challenge of deciding how far and how fast state pension reform can be afforded." However, the Commission said its recommendations formed an integrated package and parallel progress on all dimensions was essential to its success. In particular:

- The less generous and more means-tested the state system is, the more that people would have to save, for instance through higher minimum contributions to the NPSS [National Pension Savings Scheme], to achieve adequate pensions, but the greater the actual and perceived disincentive that they would face as a result of means-testing.

- More limited progress towards making the state system less means-tested than proposed in our Second Report would therefore imply the need for higher minimum employer contributions to the NPSS to ensure strong and clear incentives for employee participation. Without higher employer contributions, limited success in reducing the spread of means-testing could undermine the success of the NPSS.[33]

May 2006 Pensions White Paper

On 25 May 2006, the Labour Government published its proposals for reform in a White Paper: *Security in retirement: towards a new pensions system.* This said that although the Government had already "made great strides to tackle the immediate problem of low pensioner incomes and put in place necessary reforms to help people plan for the future", it recognized that "further steps would be needed to ensure that people could get the retirement income they expect in the future."[34] The then Secretary of State for Work and Pensions, John Hutton, indicated that the Government agreed with the Commission's overall approach:

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[31] Pensions Commission, Implementing an integrated package of pension reforms: The Final Report of the Pensions Commission, p 12
[32] Ibid, p 14
[33] Ibid, p16
[34] DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006, page 6, para 13

> I believe that the proposals in today's White Paper address the challenges that the Pensions Commission identified. We will therefore introduce a new system of personal accounts that will make it easier for more people to save. We will reform state pensions so that they are simpler and more generous. We will modernise the contributory principle and make the state pension fairer and more widely available. We will increase the state pension age, keeping the proportion of life spent receiving the state pension stable for each generation and helping to secure the long-term financial stability and sustainability of the state pension system. Let me take each of those in turn.[35]

However, it did not agree future state pension rights should accrue on a residency basis, preferring to retain the link to contributions:

> Our core objection to a residence test is one of principle. *A new deal for welfare: Empowering people to work* reaffirmed our view that our system of welfare should be based on the recognition that with rights come responsibilities. The Government believes it is right for people to receive state pensions in return for making economic or social contributions during their working lives. We do not think it is fair to recognise people for State Pension purposes purely on the basis of residence while others are contributing to society through working and caring.[36]

Instead, it proposed significant changes to the contribution conditions for state pensions to make it easier for women and carers to qualify for a full pension. The proposed changes, which took effect in April 2010, were:

- A reduction in the **number of qualifying years** (i.e. years with sufficient national insurance contributions paid or credited) required to achieve a full basic state pension from 44 (for men) and 39 (for women) to 30, for people reaching State Pension age from 6 April 2010.

- **Home Responsibilities Protection** (HRP) would be converted from a system which reduces the number of qualifying years required to a system of positive credits for each week of relevant responsibilities. There would be credits for each week of receipt of Child Benefit for a child up to the age of 12 for both BSP and the State Second Pension (S2P) (rather than 16 for HRP and 6 for S2P). It would be possible to **combine** periods with earnings (and, therefore, paid contributions) and periods with credits (eg for caring responsibilities) to make up a qualifying year for S2P purposes.

- A new specific **credit for carers** would be introduced for people caring for a severely disabled person for 20 hours or more a week.

- The **"25 per cent *de minimis* rule"** and the requirement for **one year's paid contributions** would be removed. 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 must have at least 25% of the number of qualifying years required for a full pension.

It was estimated that these reforms would make a considerable difference to the proportion of women qualifying for a full pension in their own right:

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35 HC Deb, 25 May 2006,c1648-9

36 Ibid, Box 3c

2.3 Currently around 35 per cent of women reaching State Pension age in Great Britain are entitled to a full basic State Pension, compared with around 85 per cent of men. Around 50 per cent of women reaching State Pension age in 2010 would have been entitled to a full basic State Pension without reform.

2.4 Women's State Pension coverage will improve significantly as a result of reform. Women will increasingly build up individual State Pension entitlement based on their own contributions regardless of their marital or partnership status, with caring contributions valued equally with paid contributions. Under reform an estimated three-quarters of women reaching State Pension age in 2010 will be entitled to a full basic State Pension. By 2025, this will rise to around 90 per cent, the same proportion as men, and as a result of reform half a million extra women pensioners over State Pension age will be entitled to a full Basic State Pension.[37]

The generosity of the basic State Pension would be improved over time by restoring the link with earnings, probably from 2012:

3.24 During the next Parliament, therefore, we will re-link the uprating of the basic State Pension to average earnings. Our objective, subject to affordability and the fiscal position, is to do this in 2012, but in any event at the latest by the end of the next Parliament. We will make a statement on the precise date at the beginning of the next Parliament.[38]

To help pay for this, the State Pension age would increase:

3.33 In order to maintain stability in retirement incomes, people need to take greater personal responsibility for their working and saving decisions. To help them do this, the Government will provide a foundation by linking the basic State Pension with earnings. But in doing this it is imperative that we don't pay for progressively longer retirements.

3.34 We therefore support the Pensions Commission's recommendation that the State Pension age should rise to 68 by the middle of the century. We propose to introduce legislation to raise the State Pension age in stages:

the first increase, from 65 to 66, to be phased in over two years, starting in April 2024; the second increase, from 66 to 67, again phased in over two years, from April 2034; and the third increase, from 67 to 68, also to be phased in over two years, from April 2044.

3.35 By 2050, these reforms to State Pension age alone will reduce the costs of our proposed reforms to the state pension system by around £30 billion. By doing this we will continue to tackle pensioner poverty, be able to sustain the generosity per pensioner of the State Pension, and sustain the balance between work and retirement.[39]

As recommended by the Commission, the Government would accelerate the transition to a flat-rate State Second Pension:

3.47 The beginning of this chapter made clear that, in the face of an ageing population and the need for the state system to provide a foundation for people's savings, the State should move away from the direct provision of pensions related to individuals' earnings and concentrate on flat-rate provision in the future. The introduction of the new personal accounts scheme will mean that for the first time everyone will have

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[37] DWP, *Gender Impact Assessment of Pension Reform,* 5 December 2007
[38] DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006
[39] Ibid

> access to a genuinely low-cost private savings vehicle. We do not want the State Second Pension to duplicate this, which is why we are able to reinforce and speed up its change in focus to a flat-rate top-up benefit for years spent working, caring or parenting.
>
> 3.48 Accruals will start to become flat rate more quickly at the same time as we start to uprate the basic State Pension by earnings. We estimate that the State Second Pension will become completely flat rate in around 2030, or shortly afterwards.[40]

In accordance with the Commission's recommendations for encouraging and enable private pension saving, it would:

> Introduce low-cost personal accounts to give those without access to occupational pension schemes the opportunity to save. People will be automatically enrolled into either their employer's scheme or a new personal account, with the freedom to opt out. Employers will make minimum matching contributions.[41]

2.4 Debate in Parliament

The state pension reforms included in the *Pensions Act 2007* attracted broad support. The then Shadow Work and Pensions Secretary, Philip Hammond, said that the Conservative Party supported the objectives of addressing "the worst elements of unfairness in the current system" and providing "a platform for a workplace pension savings scheme intended to rekindle the savings habit, particularly among those on average and below average incomes."[42] However, he was concerned that the measures did not go far enough in reducing mean-testing. Regarding the development of the new system of personal accounts (now the National Employment Savings Trust, or NEST), he explained that after thinking "long and hard" the Conservatives had taken the decision to support the proposals to automatically enrol employees into the scheme and the compulsory employer contribution.[43] However, he was concerned that the projected level of means-testing represented "a serious disincentive to pension saving."[44]

The then Liberal Democrat Work and Pensions spokesperson, David Laws, said there were "major concerns that there was too much reliance on means-testing, which is dangerous":

> Not only will many people lose money under this scheme but, because of the degree of means-testing, many of the people who start personal accounts will not know at the time whether they will get a decent return.[45]

The issue of automatic enrolment and whether it would "pay to save" came up again in debate on the legislation which would introduce the workplace pension reforms (and that became the *Pensions Act 2008*).[46] At Public Bill Committee stage, the then Pensions Minister, Mike O'Brien said the Government would undertake further work on the issue,

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[40] DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006
[41] Ibid, p15
[42] HC Deb, 16 January 2007, c671
[43] Ibid, c680
[44] Ibid, c680
[45] Ibid, c689-95
[46] For more detail, see Library standard notes SN/BT 4847 Pensions: automatic enrolment and employer contributions and SN/BT 4826 *National Employment Savings Trust (NEST).*

together with stakeholders.[47] The results of this work were published in February 2009. The Government said:

> The headline findings of this analysis are that, given these assumptions about the future benefit system and other factors, of those making savings into a defined contribution pension after 2012 with an employer contribution:
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> - Virtually everybody modelled – over 99% - is better off in retirement by saving. In other words, they have more money available to them in retirement than if they hadn't saved;
> - For the vast majority – over 95% - the improvement is greater than the cost of their contributions, even after taking inflation into account;
> - The large majority of savers get back more than twice what they put in, even after taking inflation into account; and
> - There is no readily identifiable group in the working age population whose members would not, on average, gain more than they put in to a pension.[48]

The Pensions Policy Institute (PPI) argued that the results needed careful interpretation:

> The Government's conclusion that most people can expect to be better off in retirement by saving, with the majority getting back more than double what they save needs careful interpretation. This finding is based on a specific set of assumptions which may, or may not, transpire in the real world. All individuals who save in money purchase pension schemes are exposed to the risk that the value of their pension pot can go down as well as up.[49]

3 Policy of the Conservative-Liberal Democrat Coalition Government

Following the 2010 General Election, the Conservative-Liberal Democrat Coalition Government announced changes to the arrangements for uprating the State Pension. From April 2011:

- The measure of prices used to uprate the additional State Pension (State Second Pension/State Earnings Related Pension Scheme) would be the Consumer Prices Index rather than the Retail Prices Index.

- The basic State Pension would be uprated by a "triple guarantee" of earnings, prices or 2.5 per cent.[50]

Following a review, the Government announced proposals to speed up the increase in the State Pension age to 66.[51] Measures to implement this are in the *Pensions Bill [HL] 2010-11* (clause 1 and schedule 1), which is currently before Parliament.[52]

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47 Pensions Bill Deb, 22 January 2008, c163-4

48 DWP Research Report No 558, *Saving for retirement: Implications of pensions reforms on financial incentives to save for retirement*, February 2009

49 Pensions Policy Institute Press Release, "Government report on incentives to save in a pension moves the debate forward but needs careful interpretation" says Pensions Policy Institute", 5 February 2009

50 HM Treasury, Budget 2010, HC 61, June 2010; For further information, see Library Standard SN/BT 5649 *State Pension Uprating – 2010 onwards*

51 DWP, *A sustainable State Pension: when the State Pension age will increase to 66*, CM 7956, November 2010, Foreword

In October 2010, there were reports that the Government was considering more radical reform.[53] On 16 November, Pensions Minister, Steve Webb, confirmed that the Government was considering "a number of options for simplifying the state pension system but final decisions have not yet been made."[54] In Budget 2011, the Government said it would consult on options for reform including a proposal for a single-tier pension:

> **1.129** The Government will simplify the state pension system so that it is fair and supports personal responsibility, and so that costs are sustainable, both today and for future generations.
>
> **1.130** The state pension system is complex. It is not clear to working-age individuals what they might receive from the state, in particular from the State Second Pension, making it difficult to plan retirement saving. **The Government will look to reform the state pension for future pensioners so that it provides simple, contributory, flat-rate support above the level of the means-tested Guarantee Credit.** DWP will shortly publish a Green Paper to consult on options for reform, which will include a proposal for a single tier pension, currently estimated to be worth around £140 a week. Moving to single tier provision would end contracting out for defined benefit pension schemes. In itself, this could bring significant simplification of the personal tax system. However, the Government will investigate the potential impact on employees and schemes in both the private and public sectors. The Government will honour contributions to the current system. Given longer-term pressures on the public finances, these reforms will be designed so as not to increase public spending dedicated to state pensions. Final proposals are subject to confirmation, including on affordability, and will reflect the projections set out in the Office for Budget Responsibility's forthcoming Fiscal Sustainability Report.[55]

3.1 Green paper on State Pension reform

The Green Paper, *A state pension for the 21st century*, was published on 4 April 2011. This set out "four clear guiding principles" for reform:

> **personal responsibility** – enabling individuals to take responsibility for meeting their retirement aspirations in the context of increased longevity;
>
> **fairness** – ensuring an adequate level of support for the most vulnerable, ensuring everyone with a full contribution record should be entitled to a state pension above the standard level of means tested support1, and ensuring all groups are treated fairly;
>
> **simplicity** – simplifying the state pension so that it is easier for people to plan and save for their retirement; and
>
> **affordability and sustainability** – given longer-term pressures on the public finances, any state pension reform must be affordable. Any options for reform must be cost neutral in each and every year to avoid placing an unsustainable burden on future taxpayers. Any proposals will be subject to confirmation, including on affordability, and will reflect the projections set out in the Office for Budget Responsibility's forthcoming

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52 Pensions Bill [HL] Explanatory Notes, para 8. For further detail, see Library Standard Note SN/BT 2234 State Pension age

53 See, for example, Pensions Advisory Service News, 25 October 2010, 'Green paper to propose state pension uplift'

54 HC Deb, 16 November 2011, c713W

55 HM Treasury, Budget 2011

> Fiscal Sustainability Report. In addition, changes to State Pension age should ensure the system is sustainable for future generations.[56]

It argued that there were three main problems with the existing system:

- **The complexity and uncertainty of outcomes in the state pension** – makes it difficult for people to know what they will get when they retire, meaning it is more difficult to plan and save for retirement.

- **High levels of means testing** – can deter people from saving as the incentives are not sufficiently clear and too many pensioners are forced to rely on Pension Credit to top up their income. Around a third of pensioners do not claim the Pension Credit they are entitled to.

- **Significant inequality remains in the system** – groups such as women, the low paid and the self-employed tend to have lower state pensions.[57]

The Government's view was that reforms introduced in the *Pensions Act 2007,* had not gone far enough. For instance, although steps had been taken to accelerate the evolution to a two-tier flat-rate State Pension, this would take some time:

> 40. In an attempt to simplify the state pension and give people greater clarity over what they will get when they retire, the *Pensions Act 2007* legislated to remove the earnings-related component of the State Second Pension so that the state pension will evolve into two separate flat-rate components by the 2030s.
>
> 41. One of the reasons for this change was that a flat-rate pension, in contrast to the complexity of the partly earnings-related State Second Pension we have today, would make the state pension more transparent and make it easier for people to work out what they will get from the state when they retire.
>
> 42. However, it takes time for the greater simplicity and clarity provided by a flat-rate pension to come into effect – the first person will not retire with a completely flat-rate pension until the 2080s.[58]

Women would not reach comparable outcomes with men in the State Second Pension until 2050:

> 55. The comparatively poorer state pension outcomes for women can be seen to result from the fact that, historically, women have tended to have lower earnings and were less likely to have a sufficient number of qualifying years to get a full basic State Pension. They were also less likely to be entitled to a comparable level of additional State Pension because periods spent outside the labour market caring for children were not recognised in the additional State Pension until 2002.
>
> 56. As part of the *Pensions Act 2007*, reforms were taken forward in an attempt to reduce inequalities for women in the state pensions system. Key measures included reducing to 30 the number of years needed to qualify for a full basic State Pension and introducing more generous credits for carers to ensure more people, particularly women, could become entitled to a higher level of State Second Pension.

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[56] DWP, A state pension for the 21st century, Cm 8053, April 2011, p7
[57] Ibid, p13
[58] Ibid, p18

> 57. However, it will take time for these measures to translate into improved pension entitlement. The proportion of women qualifying for a full basic State Pension will not catch up with men until around 2020. It will take a further 30 years, until 2050, before women reach comparable outcomes with men in the State Second Pension.[59]

And the proportion of pensioners on Pension Credit would not fall far or fast enough:

> 52. Currently, just under half of pensioners (45 per cent) are eligible for Pension Credit to top up their state pension. This is projected to fall to around a third by 2050 as more pensioners qualify for a full state pension in their own right and benefit from a more generous uprating of the basic State Pension. While reliance on Pension Credit is projected to fall gradually the Government is concerned that, in light of the challenges facing current generations of savers outlined earlier, it does not fall fast or far enough.
>
> 53. It is also worth noting that Pension Credit is not claimed by around a third of pensioners who are entitled to it, a proportion which has proved fairly resilient despite efforts by successive governments to encourage pensioners to take up their entitlement. In 2008/09 between £1.6 billion and £2.9 billion Pension Credit was unclaimed by pensioners, with those who do not claim missing out on an average of around £34 a week.[60]

Responses to the consultation are requested by 24 June 2011.[61]

3.2 Reform options

The Green Paper asked for views on two broad options for reform:

> Option 1: acceleration of existing reforms so that the state pension evolves into a two-tier flat-rate structure more quickly; or
>
> Option 2: more radical reform to a single-tier flat-rate pension set above the level of the Pension Credit standard minimum guarantee.[62]

It also asks for views on the mechanism for determining future increases in the State Pension age.[63] This issue is discussed in more detail in Library standard note SN/BT 2234 *State Pension age*.

Option 1 – Speeding the transition to a two-tier flat-rate pension

Under legislation already in place, the earnings-related part of the S2P is set to be phased out in the early 2030s.[64] Under Option 1, this process would be speeded up so that S2P became flat-rate more quickly:

> 67. The transition to a flat-rate State Second Pension could be speeded up by phasing out the earnings-related component of the State Second Pension more quickly – by 2020 instead of the mid-2030s. Currently, people can build up earnings-related State Second Pension on earnings between around £14,000 and £40,000. Under current legislation this band is being reduced gradually. Under option 1, the upper band of

[59] Ibid, p22. See also, *DWP, Gross State Pension entitlement – February 2011*
[60] DWP, A state pension for the 21st century, Cm 8053, April 2011, p21
[61] Ibid, p51
[62] Ibid, p9
[63] Ibid, p11
[64] *Pensions Act 2007.* sections 10-12

> £40,000 would be brought down to £14,000 over seven years. At the end of this period, people would only build up the flat-rate amount of £1.60 for each qualifying year.[65]

The qualifying criteria for both parts of the State Pension would remain broadly the same and the method of uprating would continue as now. The Government's initial view was that under this option, the Savings Credit would need to be retained for future pensioners.

Further steps could be taken to align the two elements of the State Pension more closely (although any resulting increase in costs would need to be met by finding savings elsewhere):

> In order to address inequalities and ensure more people receive a state pension above the level of the standard means test, it would be possible to:
>
> a) bring the self-employed and job seekers into eligibility for the State Second Pension.
>
> b) apply the same indexation rate to increase the basic State Pension and State Second Pension in payment.
>
> However, the level of a two-tier system would need to be set so as to achieve cost neutrality.[66]

The Government's assessment was that although this option would make the State Second Pension more transparent and provide people with a clear indication of what they would receive, it would be "relatively slow to deliver improved state pension entitlement":

> Under this option, the large majority of people could expect to receive a state pension that lifted them above the standard level of means-tested support only by around the middle of this century. This raises questions about whether this option would clarify savings incentives in time for the roll-out of automatic enrolment from 2012 and go far enough in delivering the platform that is needed to support current generations in saving for their retirement.
>
> 78. Fairer support for women and others who traditionally have lower pension entitlement would take many years to be delivered in full under option one.[67]

Option 2 - A single-tier state pension

If pursued, this would mean combining the basic State Pension and State Second Pension into a single-tier for people who reach State Pension age on or after the date any changes are introduced. Key features of this option would be that:

- Everyone with 30 years of contributions or credits reaching State Pension age would receive a weekly flat-rate payment currently estimated at around £140, which would be above the Pension Credit standard minimum guarantee.
- Everyone would qualify individually – whether single, married, divorced or widowed and no special rules for marriage, bereavement or divorce.
- For self-employed as well as employees (subject to National Insurance considerations).
- Uprated by the higher of earnings, prices or 2.5 per cent.

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[65] DWP, A state pension for the 21st century, Cm 8053, April 2011, p26

[66] Ibid, p27

[67] Ibid, p28

- Minimum qualification of seven years of National Insurance contributions or credits.

The following components of the existing system would end for future pensioners:

- The State Second Pension, and with it the ability to contract out of the State Second Pension.

- Savings Credit, as most people could expect to retire on a state pension that lifted them clear of the Pension Credit standard minimum income guarantee.[68]

Who would the reform apply to?

In his statement to the House of Commons on publication of the Green Paper, Pensions Minister, Steve Webb, explained that both options would affect future pensioners only:

> Both options are for future pensioners; pensioners who have already reached state pension age by the date of reform would not be affected, so no existing recipient of state pension would see their income reduced.[69]

The rationale was that pensioners of the future faced particular challenges:

> However, the pensioners of tomorrow face a new landscape. With longevity continuing to increase, future pensioners can expect to work for longer and they may not have the same levels of housing equity. They are less likely to have the certainty of a final salary pension and from 2012 we will introduce a new system of automatic enrolment into workplace pensions. Today, the Government are publishing a consultation document, which looks at whether the existing pensions system is suitable for meeting the challenges of the future. This Green Paper marks the next step in the coalition's plan to create a system that is fair and simple for pensioners and that rewards those people who do the right thing and take responsibility for their future. It is right that we ask people to take responsibility for their retirement by saving over the course of their working lives, but it is also right that the Government should play their part by ensuring that we support those who make the right choices for their future and those of their families. If we want to encourage pension saving, the key is getting the state pension system right.[70]

Furthermore, he said the Government had already taken steps to support current pensioners:

> The coalition has already taken steps to support current pensioners by reintroducing the earnings link for the basic state pension. Indeed, we went one step further with our triple guarantee, which will mean that a pensioner retiring today can expect to receive about £15,000 more in basic pension over the life of their retirement.[71]

How would individuals be affected in the transition to a single-tier?

The Minister also explained that "for future pensioners, we would also continue to honour the contributions that people have built up to the date of reform":

> The first option involves bringing forward existing reforms so that the state pension would evolve into a two-tier, flat rate system more quickly. The second, more radical, option is to move to a single-tier state pension. Both options are for future pensioners; pensioners who have already reached state pension age by the date of reform would

[68] Ibid, p30

[69] HC Deb, 4 April 2011, c795 ff

[70] Ibid

[71] Ibid

not be affected, so no existing recipient of state pension would see their income reduced. For future pensioners, we would also continue to honour the contributions that people have built up to the date of reform.[72]

The Green Paper says one of the main issues to address in the transition to a single-tier would be "recognising people's pension records under the existing system in a way that is fair, but facilitates transition to the new system as quickly as possible":

> This could be achieved by calculating pension records under the existing system and then, during transition to the new system, recognising amounts in excess of the currently estimated single-tier pension of £140. This would mean people with higher amounts of additional State Pension before the introduction of single tier would receive correspondingly higher weekly payments than the current estimate of £140.[73]

In answer to a parliamentary question in May 2011, Pensions Minister, Steve Webb said the Government would consider how inheritance rights to the additional state pension could be simplified in a way that ensured they were fairly recognised:

> Guto Bebb: To ask the Secretary of State for Work and Pensions what proposals he has on the transfer of pre-1997 state earnings related pension schemes from a deceased pensioner to the surviving spouse. [49933]
>
> Steve Webb: Following publication of 'A state pension for the 21st century' which launches a consultation on the future of the state pensions system, the Government are consulting on options for simplifying the state pension. Any reforms resulting from these proposals would apply to future pensioners only. The Government will be considering how supporting rules, such as inheritance rights to additional pension under the current scheme could be simplified in a way that ensures they are fairly recognised during the transition to a different system.[74]

People who are contracted-out

Under the single-tier option, from the date of change, the State Second Pension would be closed and no new rights to it would be built up. Contracting-out would end and, with it, the related National Insurance rebates. The Green Paper explains that this would mean "sponsors and members of Defined Benefit schemes contracted out of the state second pension would face an increase in National Insurance contributions, so that they would pay the same rate of National Insurance as other employers and employees."[75] They would also start to accrue entitlement to the State Pension on the same basis as other people.

People who have been contracted-out at some point

The Green Paper notes that under the single-tier option, people who had been contracted-out will "receive their single-tier pension from a combination of their state and contracted-out scheme, as happens now."[76] In other words, their single-tier pension will be less than £140 (as currently estimated). This is to reflect the fact that, while people were contracted-out, they did not contribute to the additional State Pension and thus paid a lower rate of National Insurance (the National Insurance rebate). The rationale was that their scheme should provide a pension at least as good as the state pension they gave up:

[72] Ibid

[73] DWP, A state pension for the 21st century, Cm 8053, April 2011, chapter 2, para 95

[74] HC Deb, 5 May 2011, c897W

[75] Ibid, para 79

[76] Ibid

> Under the current system, people who have spent periods in schemes contracted out of additional State Pension (State Second Pension and its predecessor State Earnings-Related Pension Scheme (SERPS)) have an amount deducted from the state pension they receive when they retire. This reflects the fact that people in contracted-out schemes do not contribute to the additional State Pension and thus pay a lower rate of National Insurance (the National Insurance rebate). The rationale for the rebate is that people receive an amount of pension from their contracted-out scheme at least as good as the state pension given up. In Defined Benefit schemes, the scheme provides members with a minimum level of benefit and Defined Contribution schemes invest the rebate on members' behalf. The purpose of the contracting-out offset is to ensure that all provision funded by the taxpayer, including that funded by the National Insurance rebate, is taken into account when calculating people's entitlement to the state pension.[77]

The Green Paper says that "taking account of periods spent contracted out of the State Second Pension in a way that is fair, but delivers simplicity and clarity as quickly as possible" would be one of the main issues to address in managing the transition from the current system to single-tier.[78]

3.3 The future of Pension Credit

As outlined above, the Government has said that its proposed state pension reforms would not affect people who have already reached State Pension age at the date of change. Accordingly, Pension Credit would continue to be available to them:

> 103. Whatever the shape of the state pension, the Government recognises that there will always need to be a safety net benefit to help those pensioners who do not have sufficient resources to meet their basic needs in retirement.
>
> 104. Pension Credit currently fulfils this support for pensioners' basic needs, and will continue to support today's pensioners who have insufficient resources for their basic needs in retirement.[79]

However, if the single-tier option is pursued, the Savings Credit element of Pension Credit would be abolished for future pensioners:

> 111. As Chapter 2 outlined, there are two potential options for reform of state pension. Under Option 1 Savings Credit would be retained. Option 2 on the other hand would see the abolition of Savings Credit for future pensioners as the vast majority of future pensioners would have a single-tier pension which lifted them above the basic level of support provided by Pension Credit.
>
> 112. Pension Credit is an effective safety net in helping to keep today's pensioners out of poverty. However, we are interested in views as to whether a continuation of the current system of Pension Credit for future pensioners would help achieve the Government's principles of a state pensions system that is simple, fair, promotes personal responsibility, and is affordable and sustainable. Any reforms would need to [be] delivered without increasing public spending in any year.[80]

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[77] Ibid

[78] DWP, *A state pension for the 21st century*, Cm 8053, April 2011, chapter 2, para 95

[79] Ibid

[80] Ibid

3.4 Summary of responses to the consultation

The Government published its summary of responses to the consultation in July. It found broad support for reform. It would consider further the issues that had been raised before making decisions:

> The responses show that there is broad support for reform of the state pension system, and in particular for the idea of a single tier pension. But they also highlight how many more details there are to think about and work through before any firm decision is taken on whether to pursue reform.
>
> This summary of responses outlines the many comments from organisations and individuals who responded to our request for views. It is not intended to be a Government response to the consultation in that it does not set out what we will do next. We need to think carefully about the issues raised during this consultation before making any decisions.[81]

There was particular support for the option of a single-tier pension:

> There was widespread consensus among organisations who responded, regardless of their preferred option, that the current state pension system should be reformed, largely because of its complexity.
>
> The consultation indicated broad support for the single tier option, with around three quarters of organisations who responded supporting a single tier pension in principle.
>
> There was little support for the faster flat rating option. Around half of organisations who responded said they would not support it, mainly because it did not end the complexities of the current system. Only two said that given a choice between faster flat rating and single tier they would choose faster flat rating. Their reasons were potential increases in National Insurance contributions for the self-employed, and the belief that retaining a two tier system would allow greater policy flexibility in the future. A small number of organisations did not support either option but instead said that they would prefer the continuation of the current system.
>
> Respondents identified a number of specific issues about the proposed reforms that they felt required further assessment.[82]

3.5 White Paper

In the March 2012 Budget, the Chancellor announced that that the Government would reform the State Pension into a single tier. A White Paper would be published in the Spring:

> **2.10 State Pension reform** – The Government will reform the State Pension into a single tier pension for future pensioners. The new system will be introduced early in the next Parliament and will be set at a level above the means-tested standard Guarantee Credit and all State Pension records will be recognised. As set out in the Green Paper published by the Department for Work and Pensions (DWP), the single tier will cost no more than the current State Pension system in every year. The Government will bring forward further detail in a White Paper in spring 2012, with final decisions on the detailed implementation of the policy being taken at the next spending review.[83]

The announcement was warmly welcomed by the National Association of Pension Funds:

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[81] DWP, *A state pension for the 21st century: A summary of responses to the public consultation*, CM 8131, July 2011

[82] Ibid, Executive summary

[83] HM Treasury, Budget 2012, para 2.10

Today's announcement is a breakthrough moment for pensions in the UK. At long last, people will know that it pays to save.

The new state pension will take millions of people off means-tested benefits. It will encourage people to start saving and to save more for their old age. A simple, more generous state pension will be a major step forward in tackling the nation's pensions crisis. And it will ensure that auto-enrolment, due to start later this year, is a success.

The NAPF has been campaigning for a more generous single tier state pension for many years and we welcome today's announcement.

"The Government is to be congratulated for taking this bold step.[84]

The Queen's Speech on 9 May announced that there would be a Pensions Bill in the 2012/13 parliamentary session to "reform the state pension system, creating a fair, simple and sustainable foundation for private saving". Its main elements would be:

- Replacing the current, complex state pension system with a new single tier pension, as set out in the Budget, set above the level of the basic pension credit means test (currently estimated to be set at around £140 per week), so that those of working age can save for their retirement with confidence.
- Bringing forward the increase in the state pension age to 67 between 2026 and 2028.
- Committing to ensuring that the state pension age is increased in future to take into account increases in longevity.[85]

The legislation is to apply to England, Wales and Scotland. The intention is to introduce the single-tier pension in 2016.[86]

On 12 July, the Pensions Minister announced that further detail would be set out in a White Paper in the autumn:

State Pensions Reform

The Minister of State, Department for Work and Pensions (Steve Webb): I should like to inform the House about the progress this coalition Government are making with their plans for state pensions reform.

At Budget 2012, the Chancellor confirmed that we will reform the state pension system to introduce a simpler, single tier state pension for future pensioners to better support saving for retirement. A simple flat-rate state pension above the basic level of the means test will bring much needed clarity and simplicity to the pension system, and provide the foundation needed to support automatic enrolment into workplace pensions, enabling people to save for their retirement with confidence. The reforms will be introduced in the next Parliament and will not cost any more than the current system overall.

The Budget also confirmed that the Government will introduce a mechanism so that future increases in state pension age take changes in longevity into account.

[84] NAPF press release, 12 March 2012
[85] DWP press release, 9 May 2012
[86] HC Deb, 23 April 2012, c637 [Steve Webb]

> Together, these reforms will deliver a state pension system that is fit for the 21st century.
>
> Given the scale, complexity and importance of these two significant reforms we are still working on the details, to ensure we get them right. Therefore, we will set out further detail on both the single tier reform and state pension age review mechanism in a White Paper in the autumn.[87]

In the Autumn Statement on 5 December 2012, the Chancellor re-affirmed the Government's commitment to introducing a single tier pension:

> I want to help the great majority of savers. That is why we are introducing a generous new single-tier pension, so that people know it always pays to save.[88]

On 10 December 2012, Pensions Minister, Steve Webb said the White Paper was at "an advanced stage."[89]

4 Debate on the merits of a single-tier State Pension

The Green Paper contains the following assessment, against the Government's principles for reform:

> **Simplicity**
>
> - Flat-rate payment easy to understand and gives people clarity and certainty.
> - Complexity of contracting out would remain during transition – with many pensioners not receiving the full single-tier pension directly from the state until transition is complete.
>
> **Fairness**
>
> - Large majority get a state pension which lifts them above the standard level of means-tested support.
> - Triple guarantee ensures single tier retains its value over the long term.• Improved pensions for women, self-employed and other groups more quickly than current system.
> - No ability to build up additional state pension entitlement beyond 30 qualifying years.
>
> **Affordability and sustainability**
>
> - Cost neutral.
>
> **Personal responsibility**
>
> - Certainty of a pension above the level of means testing provides a clear and simple platform for private pension saving.
> - It would take until around 2050 for a majority of pensioners to receive their full single-tier pension directly from the state.[90]

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[87] HC Deb, 12 July 2012, c65-6WS
[88] HC Deb, 5 December 2012, c878
[89] HC Deb, 12 December 2012, c5

Organisations such as the Pensions Commission and the Pensions Policy Institute have given detailed consideration in the past to the merits of a single-tier pension. Their analysis may help to identify some of the issues that may arise if the Government proceeds with this option.

The Pensions Commission considered that a single tier had “the huge merit of simplicity” but recommended instead a gradual evolutionary approach to two flat-rate pensions (the existing basic State Pension, in future linked to earnings, and the State Second Pension, which would become over time an entirely flat-rate addition). Its assessment was that, “given the starting point, there is no way forward to a simpler, single-tier system which does not introduce more complexity en-route or high initial costs.”[91] The Labour Government agreed:

> A two-tier system has greater flexibility, there is public attachment to the basic State pension and a two-tier system avoids the transitional complexity of one tier and the risks associated with an immediate cessation of contracting out.[92]

However, a number of commentators argued that the Commission should have recommended “more radical and more rapid action to improve the generosity of the state pension, to simplify it, and to make it less means-tested.”[93]

The Pensions Policy Institute (PPI) has produced a number of reports on the issue. It argues that advantages of a single tier are that it would improve the state pension entitlements of women and carers in particular, reduce means-testing and help retirement planning:

> A Foundation Pension, set at a level of £8,000 a year, would build on the progress made in the recent state pension reforms in providing more equal pensions for everyone, in particular women and carers. The Foundation Pension would also reduce, though not remove, the need for means-tested benefits and improve the incomes of low-income pensioners.
>
> A single state pension could also be more predictable than the current two state pension system and so could help with retirement planning.[94]

Since the publication of the Green Paper, it has published two further reports:

- *An assessment of the Government’s options for state pension reform* (June 2011)
- The implications of Government policy for future levels of pensioner poverty (July 2011)

Some of the related issues are discussed in more detail below.

4.1 Impact on individuals

The Green Paper explains that the effect would be to deliver improved pensions for women, low-paid workers and the self-employed. However, the trade-off is that, in future, entitlement

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[90] DWP, A state pension for the 21st century, Cm 8053, April 2011, p33

[91] Pensions Commission, A New Pension Settlement for the Twenty-First Century; The Second Report of the Pensions Commission, November 2005, Executive Summary, page 8-9

[92] DWP, Security in retirement: towards a new pensions system, Cm 6841, May 2006. For more detail of the Government’s arguments, see Box 3a: *Why not a Citizen’s Pension?*

[93] Pensions Commission, Implementing an integrated package of pension reforms: The Final Report of the Pensions Commission, p14

[94] PPI Press Release, 16 June 2010, ‘PPI publishes evaluation of NAPF proposals for a foundation pension’

would be capped, meaning that people who might have been able to accrue state pension entitlements of more than £140 a week had the existing system continued, would no longer be able to do so:

> 92. This option would deliver improved pensions for women, low-paid workers and the self-employed, providing the basis for a fairer system. The whole pension would be uprated by the triple guarantee so people could be confident their State Pension would maintain its value over time.
>
> 93. However, the trade-off for the greater simplicity and clarity provided by giving everyone with a full contribution record a set flat-rate amount is that the amount of State Pension would be capped at 30 qualifying years. In practice, this means that people who build up National Insurance contributions or credits for additional years would not receive more than the flat-rate payment. In addition, the end of contracting out would mean that people who have paid lower rates of National Insurance, due to being contracted out, would start to pay the same amounts as other employees (for further details see the final section of this chapter).

The Green Paper goes on to look at the impact on individuals in more detail. For example, some people who would gain may be affected by the loss of Savings Credit and reform of inherited rights:

> In broad terms, people on low incomes and people who have been excluded from additional State Pension, such as women and the self-employed, would gain under this option, although loss of Savings Credit and reform of inherited rights would be expected to affect some people in these groups. Groups who would expect to build up more significant amounts of State Second Pension, such as those with longer working lives and higher earners, would not be able to do so under this option. The introduction of a seven year minimum qualifying rule would also affect the entitlement of older people who are either late migrants to this country or who have had very little contact with the National Insurance system.[95]

The Institute for Fiscal Studies identified as the biggest gainers, those who under the current system would not receive Pension Credit or would have received a lower State Pension than the flat-rate amount:

> This would result in significantly higher state pensions for many, but would also lead to some accruing lower state pension. The biggest gainers would be those who under the current system would not receive the Pension Credit and would also receive a lower State Pension than the proposed new flat-rate amount. This includes those who would not take up their Pension Credit entitlement, and those not eligible on grounds of their partner's income. The losers would be those with relatively high lifetime earnings who would have otherwise gone on to accrue state pension rights above £140 per week.[96]

The Pensions Policy Institute concluded, from analysis of the Green Paper proposals for the National Association of Pension Funds, that:

> Introducing a flat-rate single-tier pension at a level of £140 a week (2010 earnings terms) introduced for pensioners who reach State Pension Age from 2016 could lead to:

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[95] DWP, A state pension for the 21st century, Cm 8053, April 2011, chapter 2, para 96
[96] IFS Observations, A simple flat-rate pension, but not any time soon, 6 April 2011

- An increase in the state pension income for some pensioners, but a decrease in state pension income for others.

- A single-tier pension could lead to higher state pension incomes for:

    - Some women and carers, particularly those who have taken time out of the labour market before 2002 or have had very low earnings and didn't qualify for the current state pension.

    - The self-employed, although the self-employed may have to pay higher National Insurance contributions in the future.

    - The unemployed claiming Job Seekers Allowance.

    - Older pensioners and those pensioners who do not claim the means-tested benefits they are entitled to.

    - Pensioner couples

- A single-tier pension could lead to lower state pension incomes for:

    - Individuals who would have qualified for more than 30 years of S2P under the current system.

    - Individuals who have less than seven years of National Insurance contributions.

    - Individuals who would have been eligible for Savings Credit.

- Overall by 2034, the single-tier reform could increase the household incomes of 6.8 million pensioners (gaining an average £23 a week in 2011 earnings terms) but could reduce the household incomes of 5.2 million pensioners (losing an average £18 per week), compared to the current system.

- By 2055 the number of pensioners with higher household incomes under the single-tier system could increase to 11 million (gaining an average £24 per week) and the number of pensioners with lower household incomes could reduce to 5 million pensioners (losing an average £17 per week).

- The reform would dramatically reduce the number of pensioners reliant on means-tested benefits. The proportion of pensioner households eligible to claim Pension Credit could fall from 35% of pensioner households (4.4 million pensioners) in the current system to only 5% of pensioner households (0.8 million pensioners) by 2055. [97]

In a separate report, produced for Age UK, PPI looked that the possible impact on pensioner poverty of implementing a single-tier pension under three different variants:

- • A single-tier pension as proposed in the Government's recent Green Paper, set at £140 a week in 2010, and introduced from 2016 for future pensioners retiring after that date only;

- • A single-tier state pension at the level proposed by the Government, but introduced more widely, for all future and current pensioners from 2016;

[97] - PPI, An assessment of the Government's options for state pension reform, (June 2011)

- • A single-tier pension as proposed in the Government's recent Green Paper, set at £140 a week in 2010 and introduced from 2016 for future pensioners only, along with an increase in the Guarantee Credit to £140 from 2012 and indexing it by the triple-lock.[98]

It concluded that:

- Under all three of the single-tier options modelled the percentage of pensioners living in households in income poverty tend to further decrease over the long-term, compared to a continuation of current policy.

- Introducing a single-tier pension as proposed in the Government's recent Green Paper for future pensioners only, reduces the percentage of pensioners projected to live in households with household income below 60% of median income to around 10% by 2025, compared to 11% of pensioners under a continuation of current policy. This option costs broadly the same as current policy.

- Introducing a single-tier pension for all pensioners from 2016 has the most significant impact on reducing the percentage of pensioners living in households with household income below 60% of median income. Under this option pensioner poverty is projected to reduce to 7% of pensioners by 2025, compared to 11% under current policy. This option also leads to a sharp fall in relative poverty levels immediately after its introduction in 2016, which reflects the immediate effect that it would have in reducing pensioner poverty. However, this option is the most expensive of the single-tier options for Government to implement, increasing Government spending on state pensions and other benefits to around 5.9% of GDP by 2025, compared to 5.7% under current policy.

- Introducing a single-tier pension as proposed in the Government's recent Green Paper for future pensioners only from 2016, along with a commitment from the Government to increase the Guarantee Credit in line with the triple-lock could reduce future levels of pensioner poverty to 8% of pensioners by 2025, compared to 11% under current policy. The Government is projected to spend around 5.8% of GDP on state pensions and other benefits by 2025 under this option, compared to 5.7% under current policy.

- The percentage of pensioner households entitled to means-tested benefits under any of the single-tier options is projected to be lower than under current policy over the long-term.

The report highlights the trade-offs faced by all Governments in terms of the potential effect on poverty reduction of alternative policies and the costs of the different policy options. The policy options examined in this report that appear to be most effective at reducing future levels of pensioner poverty – such as the introduction of a flat-rate single-tier pension for all pensioners – are also the most expensive for the Government to implement. All Governments will have to decide where the balance lies between aiming to reduce pensioner poverty and controlling Government expenditure.[99]

4.2 End of contracting-out

Under the single-tier option, contracting-out would end completely. The Green Paper acknowledges that this would have significant implications (for employees, employers and

[98] PPI, The implications of Government policy for future levels of pensioner poverty, July 2011, Executive summary

[99] Ibid

pension schemes) and asks for views both on the likely impact and how it could be managed:

> 98. This chapter has set out two options for state pension reform. Under option 1 (faster flat-rating), contracting out would continue, although the value of the rebate would fall over time. Under option 2 (single tier) contracting out for Defined Benefit schemes would end completely. The Government is interested in hearing views and receiving evidence on the impact of ending contracting out completely on employees, employers and schemes in the public and private sector. We would also be interested in hearing views on how best to manage the process to remove contracting out, if the decision is taken to end this aspect of the current system.
>
> 99. If, following consultation on the proposals set out in this paper, a decision is taken to close the State Second Pension to new accruals and end contracting out, sponsors and members of Defined Benefit schemes contracted out of the state second pension would face an increase in National Insurance contributions, so that they would pay the same rate of National Insurance as other employers and employees. Based on the value of the rebate in 2012 the increase for employers would be 3.4 per cent of National Insurance contributions on earnings between £5,044 and up to £40,040. Employees would face an increase in National Insurance contributions of 1.4 percentage points to the same upper limit. So while this would be a significant simplification of the personal tax system, it would also have significant implications for employees, employers and schemes. [100]

The possible impact on private sector Defined Benefit (DB) schemes of immediately ending contracting-out was one of the reasons the Pensions Commission did not recommend a single-tier pension in 2005:

> Our preferred option for reform of the state system has implications for the contracted-out rebate. Since we recommend building on the existing two-tier BSP and S2P system, rebates will continue to be paid to employers and employees contracted-out of the S2P. But since we recommend freezing the Upper Earnings Limit for S2P accruals the importance of these rebates will decline over time. We believe this gradual disappearance of the contracted-out/contracted-in system is the most appropriate policy since:
>
> - The contracted-out/contracting-in choice has added complexity to the UK pension system and is poorly understood. Its application to personal pensions helped generate the pension mis-selling problems of the 1990s. And it requires the government to set a "fair" level of rebate: this is likely to turn out in retrospect to be either too high, in which case government has spent money unnecessarily, or too low, in which case people would have been better to stay contracted-in. It is not a feature of the pension system which we would recommend now if it did not already exist.
>
> - But we believe that its immediate abolition would accelerate still further the decline of employer DB pension provision.
>
> - And the Pensions Commission does not believe it prudent to argue that abolition of contracted-out rebates can provide resources to offset the costs of an immediate increase in state pension generosity. Such a policy would reduce national savings by

[100] DWP, A state pension for the 21st century, Cm 8053, April 2011

> reducing the pre-funding of pensions at precisely the time when demographic change makes some increase in the national savings rate desirable.[101]

It recommended removing the contracting-out option for DB schemes from about 2030, by which time accruals to the State Second Pension would have become entirely flat-rate. By then it was likely that there would be only "minimal private sector DB provision" in any case.[102]

In his statement to the House on 4 April 2011, the Pensions Minister made the point that the National Association of Pension Funds supported the proposed transition to a single-tier:

> [...] the National Association of Pension Funds-the trade body for company pensions - welcomes these reforms and supports them, but we are in dialogue with those operating large final salary pension schemes to discuss how these changes will impact on them and how we can work with them to move towards the sort of simpler scheme that they and we want to see.[103]

As regards the impact on members of public service schemes, Lord Hutton of Furness has suggested that any increase in National Insurance contributions (NICs) would "need to be taken into consideration by the Government when setting contribution rates in the reformed public service schemes."[104]

The Pensions Policy Institute said the ending of contracting-out would "increase the Government's National Insurance revenue by £6bn in 2016, £5bn of which would come from public sector pension schemes and £1bn from private sector schemes":

- As a result a single-tier pension could place additional pressure on employers and employees in Defined Benefit schemes in both public and private sectors as NI contributions would increase.
- Employers with DB schemes would pay higher NI contributions (£3.4bn public sector employers, £0.8bn private sector employers in 2016, 2011 earnings terms), and would have to choose whether to reform their schemes in response to the reform.
- Employees in DB schemes would pay higher NI contributions (£1.4bn public sector employees, £0.3bn private sector employees in 2016, 2011 earnings terms), but the impact on their pension incomes would depend on how employers react to the abolition of contracting-out.[105]

The Government's summary of responses to its consultation suggested that employers thought the end of contracting-out would need very careful management:

- We received responses from more than 50 employers and employer representative organisations on ending contracting out. Many commented that ending contracting

[101] Pensions Commission, A New Pension Settlement for the Twenty-First Century; The Second Report of the Pensions Commission, November 2005, Executive Summary, page 26; or further information, see Library Standard Note SN/BT 4822 Contracting-out of the State Second Pension

[102] Pensions Commission, A New Pension Settlement for the Twenty-First Century; The Second Report of the Pensions Commission, November 2005, p 32 and 223; See also, DWP, *Security in retirement: towards a new pensions system*, Cm 6841, May 2006, para 2.22-4

[103] HC Deb, 4 April 2011, c799-800

[104] Independent Public Service Pensions Commission: Final Report, 10 March 2011; For further information, see Library Standard Note SN/BT 5768 Public service pension reform – 2010 onwards

[105] PPI, An assessment of the Government's options for state pension reform, (June 2011)

out for Defined Benefit schemes (which would be a necessary feature of the single tier option) would have significant implications for employers, schemes and members, and would need to be very carefully managed. The majority of respondents did not see the challenges associated with the end of contracting out as insurmountable, or a reason not to pursue reform. There were relatively few comments on contracting out from individuals.

- A number of organisations indicated that if ending contracting out for Defined Benefit schemes was to be an inevitable part of simplification of the state pension system, there were a number of ways the Government could help employers, employees and schemes to make the transition to a new system. Trades unions who responded expressed concern that ending contracting out would trigger the closure of Defined Benefit schemes. They were also concerned about the potential increases in National Insurance contributions for employees.[106]

In debate in Parliament, the Pensions Minister explained:

> When people receive state pensions of less than the full amount because they were contracted out [...], we will continue to take account of that after 2016 [...]. We will have to phase out the arrangement over time, but in 2016 we will continue to take account of past contracting out.[107]

4.3 Cost

One of the current Government's principles for pension reform is it should be affordable: "any options for reform must be cost neutral in each and every year to avoid placing an unsustainable burden on future taxpayers."[108] Its proposal for a single-tier State Pension is designed to be cost neutral:

> Our assessment indicates that a state pension currently estimated at around £140 would be cost neutral. The model set out here could be funded within the overall spending on state pensions. This would be achieved through the abolition of the Savings Credit, closure of the State Second Pension and the introduction of a seven year minimum qualifying rule for future pensioners. The revenue from ending contracting out (the National Insurance rebate) has been excluded from this assessment of costs. Final proposals are subject to confirmation, including on affordability, and will reflect the projections set out in the Office for Budget Responsibility's forthcoming Fiscal Sustainability Report.[109]

In its initial response to the Green Paper, the Institute for Fiscal Studies was sceptical that gains from stopping future accruals to the State Second Pension would be sufficient to finance significant winners in the near future:

> This would result in significantly higher state pensions for many, but would also lead to some accruing lower state pension. The biggest gainers would be those who under the current system would not receive the Pension Credit and would also receive a lower State Pension than the proposed new flat-rate amount. This includes those who would not take up their Pension Credit entitlement, and those not eligible on grounds of their partner's income. The losers would be those with relatively high lifetime earnings who would have otherwise gone on to accrue state pension rights above £140 per week.

[106] DWP, A state pension for the 21st century: A summary of responses to the public consultation, CM 8131, July 2011, Executive summary
[107] HC Deb, 23 April 2012, c637
[108] DWP, A state pension for the 21st century, Cm 8053, April 2011, p8
[109] Ibid, chapter 2, para 90. See also, HC Deb, 4 April 2011, c805

> But given that these losses would only come from future accrual it is not possible that they would be sufficient to finance significant winners from as soon as 2015.[110]

The Pensions Policy Institute, based on an analysis of the Government's Green Paper proposals, said:

> The reform would be broadly cost neutral to introduce, depending on exactly how the system is implemented. PPI estimates suggest the single-tier would be broadly cost neutral, costing less than the current system by less than 0.1% between 2019 and around 2050, and costing more than the current system by about 0.1% by 2055.[111]

4.4 Complexity in transition

The Green Paper acknowledges that in managing the transition to a single-tier, there would be two main issues to address. One of these would be recognising the fact that some people will already have accrued a higher State Pension entitlement. The other would be calculating the entitlement of people who have been contracted-out and would therefore receive part of their single-tier from the State and Part from their contracted-out scheme:

> **1. Recognising people's pension records under the existing system in a way that is fair, but facilitates transition to the new system as quickly as possible:** This could be achieved by calculating pension records under the existing system and then, during transition to the new system, recognising amounts in excess of the currently estimated single-tier pension of £140. This would mean people with higher amounts of additional State Pension before the introduction of single tier would receive correspondingly higher weekly payments than the current estimate of £140.
>
> **2. Calculating entitlement to the new pension taking account of periods spent contracted out of the State Second Pension in a way that is fair, but delivers simplicity and clarity as quickly as possible:** This would mean that during the transition many would receive their single-tier pension from a combination of their state and contracted out scheme, as happens now. This means they would receive less than the currently estimated £140 directly from their state pension. We estimate that around half of pensioners could have an offset applied to their single tier pension by around 2050. Further detail is provided in the box on page 32.[112]

The second of these issues (the "contracting out offset") is explained in more detail below:

> Under the current system, people who have spent periods in schemes contracted out of additional State Pension (State Second Pension and its predecessor State Earnings-Related Pension Scheme (SERPS)) have an amount deducted from the state pension they receive when they retire. This reflects the fact that people in contracted-out schemes do not contribute to the additional State Pension and thus pay a lower rate of National Insurance (the National Insurance rebate). The rationale for the rebate is that people receive an amount of pension from their contracted-out scheme at least as good as the state pension given up. In Defined Benefit schemes, the scheme provides members with a minimum level of benefit and Defined Contribution schemes invest the rebate on members' behalf. The purpose of the contracting-out offset is to ensure that all provision funded by the taxpayer, including that funded by the National Insurance rebate, is taken into account when calculating people's entitlement to the state pension.

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[110] IFS Observations, A simple flat-rate pension, but not any time soon, 6 April 2011
[111] PPI, An assessment of the Government's options for state pension reform, (June 2011)
[112] Ibid

> As an example, consider someone who reaches State Pension age retiring with a state pension worth £177.60 a week. If this person was contracted out of SERPS between 1978 and 1997 and accrued a Guaranteed Minimum Pension of £40 a week – which their scheme will pay – they will receive £137.60 a week directly from their state pension.
>
> Under single-tier, contracting out would end with the closure of the State Second Pension. However, it could take a significant amount of time for members of contracted-out schemes to work through the system. This means that the need to apply an offset to take account of periods spent contracted out of the State Second Pension would continue under single tier. Many pensioners would receive their single-tier pension through a combination of their state pension and contracted-out pension scheme, as happens now. We estimate that around half of pensioners could have an offset applied to their single-tier pension by around 2050.[113]

The Pensions Commission argued that while the logic of this "offset" approach was clear, it might not appear so to individuals:

> The logic of offset is clear: a higher flat-rate state pension is paid, but only if the sum of existing rights (BSP and SERPS/S2P) is less than the ESP [Enhanced State Pension] level. This logic also has to be applied to people who have contracted-out, calculating what SERPS/S2P they would have accrued if they had been contracted-in, and then "offsetting." This is essential for fairness between contracted-out and contracted-in people.
>
> But this logical and theoretically fair system may not be thought as such, particularly if, as possible, some people have achieved a lower return on their contracted-out additional pensions than is assumed in GAD calculations. This could be as result of poor investment performance, or a faster rate of life expectancy increase than was assumed in calculating the rebate level.
>
> Figure 6.9 illustrates the two-fold problem which arises. At the pre-means-tested level the contracted-out person actually gets exactly the same total pension under ESP as he did before, £105. But he does so in an environment where the state pension has been described as "£109 for everyone," and where "offset" will look to him as taking away a notional pension he is not in fact enjoying.
>
> At the total post-means-testing level, meanwhile, he is actually worse off (as indeed can be the contracted-in person) due to the loss of Savings Credit. The problem derives from the fact that the only straightforward way to calculate an individual's private additional pension is to assume that GAD's rebate calculations were at all times fair. The only way to adjust for this perceived and (because the loss of means-tested benefits) actual unfairness is to make the offset calculation dependent not on theoretical additional pension income, but on actual additional private pension income achieved. But this increases still further administrative complexity, and indeed essentially reintroduces means-testing into the system.
>
> In addition the introduction of an ESP with offset would be seen by some as creating unfairness since it would in some circumstances fail to give people a higher pension in return for higher contributions e.g. the self-employed, despite having paid lower past contributions would receive the same as employees. And people who had paid voluntary contributions to top up for missed years could also lose the benefit, unless an additional complexity in the calculations was added.

[113] Ibid, p32

> In theory, the public expenditure costs of the "unified and immediate" option could be reduced by "offsetting" higher ESP pension rights against accrued gross State Earnings Related Pension Scheme (SERPS)/S2P rights. But our detailed analysis suggests that this introduces major transitional complexities, does not completely deal with the problems of increased cost, and creates some undesirable distributional effects.[114]

- "Enhanced State Pension" was the term the Pensions Commission used for a single tier pension, unifying basic State Pension and State Second Pension

The Pensions Policy Institute acknowledged that the transition to a Foundation Pension would be a complex business and communication would be important:

> The transition to a Foundation Pension is complex, mainly due to the interaction with contracted-out pensions, though it is not necessarily any more complicated than the current system. The transition to a Foundation Pension could take a long time, although by 2031, 95% of pensioners could be receiving a state pension at the Foundation Pension level. However, it would take much longer for the remaining contracted-out pensions to cease payment.[115]

The responses to the consultation suggested communication over the transition was seen as a major challenge:

> Many respondents commented that there would be a long and complex transition to a new system. This could potentially undermine the principles of simplicity and clarity.
>
> Communication to individuals was seen as a major challenge here. The majority who raised the issue of transition noted its inevitable complexity and the challenge of how to communicate transition to employers, employees and members of the public.[116]

4.5 Current pensioners

As explained in section 3.2 above, the Government has said that the reforms will apply to future pensioners only:

> Both options are for future pensioners; pensioners who have already reached state pension age by the date of reform would not be affected, so no existing recipient of state pension would see their income reduced.[117]

The Government's summary of responses to the consultation said that:

> 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.[118]

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[114] Pensions Commission, Second Report, p246-7
[115] Pensions Policy Institute, *A Foundation Pension: A PPI evaluation of NAPF proposals,* June 2010, page 28
[116] DWP, A state pension for the 21st century: A summary of responses to the public consultation, CM 8131, July 2011, Executive summary
[117] HC Deb, 4 April 2011, c795 ff
[118] DWP, A state pension for the 21st century: A summary of responses to the public consultation, CM 8131, July 2011, Executive summary

The Pensions Policy Institute found that introducing a flat-rate single-tier pension for all pensioners would be effective at reducing future levels of pensioner poverty but would also be expensive for the Government to implement.[119]

5 Background reading

Pensions Policy Institute (PPI), *The Pensions Primer.*

Institute for Fiscal Studies, *History of state pensions in the UK from 1948 to 2010*.

[119] PPI, The implications of Government policy for future levels of pensioner poverty, July 2011, Executive summary