

# Consultation Response

Age UK's response to the Work and Pensions Committee's examination of the Draft Pensions Bill in relation to the single-tier State Pension

February 2013

Ref: 0513

Name: Sally West  
Email: [sally.west@ageuk.org.uk](mailto:sally.west@ageuk.org.uk)

Age UK  
Tavis House  
1-6 Tavistock Square  
London WC1H 9NA  
T 0800 169 80 80 F 020 3033 1000  
E [policy@ageuk.org.uk](mailto:policy@ageuk.org.uk)  
[www.ageuk.org.uk](http://www.ageuk.org.uk)

Age UK is a charitable company limited by guarantee and registered in England (registered charity number 1128267 and registered company number 6825798). The registered address is Tavis House 1-6 Tavistock Square, London WC1H 9NA.



# Key points and recommendations

Age UK supports the aim of a single-tier State Pension above the basic Pension Credit rate which would provide a fairer, simpler system and particularly benefit those with low lifetime earnings due to low pay and caring responsibilities. Reducing pensioner poverty should also be an objective.

The level of the single-tier pension needs to be high enough to provide an adequate platform for saving and to reduce means-testing. We question if this will be achieved if it is set at £144 in today's terms – just £1.30 over the basic Pension Credit level.

With a pension based on 35 qualifying years and no derived rights it is essential that people are encouraged to claim credits due and that low paid part-time work is adequately recognised.

The single-tier will be simpler in the future but inevitably the transition will be complex, especially as people have limited understanding of the current system. Communications about the changes and their impact present a challenge.

We welcome the protection in the Bill for some derived rights. However this needs to ensure everyone with a legitimate expectation of receiving a pension based on their partner's contributions is able to accrue a single-tier pension of at least the same amount.

State Pensions should be uprated for all UK pensioners living abroad.

The triple lock should be set out in the legislation for the basic pension and the new single-tier pension.

The level of the single-tier pension, combined with transitional protection for means-tested support, needs to ensure that those with very modest incomes reaching SPA in the early years of the single-tier are no worse off than under the current system.

The Government should consider extending the single-tier pension to current pensioners, perhaps phasing this in over a period of time as costs allow. In the meantime more needs to be done to help the 1.7 million older people currently living in poverty.

Under the proposals spending on State Pensions and benefits would fall in the longer term and the Government will also receive increased NI revenue. This provides scope for improvements such as a higher starting level.

## 1. Introduction

1.1 Age UK welcomes the opportunity to comment to the Committee on the State Pension reforms. We support the aim of a single-tier State Pension above the basic Pension Credit rate which would provide a fairer, simpler system and particularly benefit those with low lifetime earnings due to low pay and caring responsibilities. The reforms need to result in a State Pension that reduces pensioner poverty and enables more people to build up an adequate retirement income.

## 2. The single-tier State Pension

2.1 Clause 1 creates 'a benefit called State Pension'. Age UK welcomes the change from the term 'retirement pension' which does not reflect the changing nature of later life. This should prompt the DWP to refer to 'State Pension' in all communications as many older people object to their contributory pension being described as a 'benefit'.

2.2 The single-tier pension will only be available to those who reach State Pension age (SPA) on or after the date of implementation. While this response focuses on the proposed new system we also raise concerns about current pensioners and those who will reach SPA before implementation.

## 3. The level

3.1 Age UK believes that the single-tier pension needs to be set at a level that tackles poverty, reduces reliance on means-testing, and provides a decent platform for saving. The level will be decided at the time of implementation but a figure of £144 in today's earnings terms is used in the White Paper and the Impact Assessment. This is only £1.30 above the current basic Pension Credit guarantee level whereas the Green Paper figure of £140 was £7.40 (nearly 6 per cent) higher than Pension Credit guarantee at the time (2010-11 rates).

3.2 Age UK believes that it is important to maintain a gap of at least this level - while still maintaining the current value of Pension Credit. We question whether £144 will be sufficient to meet the aims of the reforms.

## 4. The contribution record

4.1 Clauses 2 and 3 provide for the full pension based on 35 years of contributions or credits with a reduced pension for those with fewer years, but at least a minimum number - modelled as ten in the White Paper.

4.2 Some individuals contacting Age UK have voiced concerns about the increase from 30 qualifying years. On balance we feel that this is an acceptable trade off given extending working lives and the better off calculation, as long as work and other contributions are adequately recognised. It will be essential that people understand the rules and are encouraged to claim any credits due. For example while most carers receive credits automatically some need to make a claim. And some unemployed or disabled people do not receive benefits - perhaps because they have a working partner - but may still need to claim and fulfill work conditionality requirements in order to maintain their NI record. It is also important that the earnings threshold for building up pension entitlement adequately recognises low paid part-time work - currently 16 hour's work at the minimum wage would be below this threshold.

4.3 We understand the arguments for a minimum number of year's contributions although it does produce a cliff edge. If ten years is agreed then legislation should ensure this number is not exceeded so those who might be affected can plan ahead with certainty.

## 5. The impact

5.1 The flat-rate pension gives equal weight to paid earnings and credited contributions so will provide a better deal for many women, carers and self-employed people with at least 35 years contributions who are currently building up little or no additional State Pension. For example the Impact Assessment shows that around 750,000 women reaching SPA in the first ten years of the single-tier will receive an average of £9 a week more.

5.2 Including changes to means-tested benefits, the Impact Assessment shows there are more winners than losers in the UK up to 2040. By 2050 proportions are similar and by 2060 there are more losers. Median changes are relatively modest. For example in 2020 median gains are £3 and losses £2 a week – by 2060 gains and losses are both around £12 a week. Especially in the early years there is limited difference across income groups. However we would like to see more information about the range of losses and the characteristics of groups affected.

5.3 Some, particularly higher earners and people with long working lives, would receive a higher pension under the current system. We know that some people feel it is unfair that in the future they will get a poorer return for their contributions. While it is right that State Pension is focused on those less able to build up private provision, it must also enable those with higher earnings to have a decent retirement income. A flat-rate pension will provide a simpler platform for savings but the level is important and as above we question whether £144 in today's terms provides a high enough platform to reward long-term contributors.

5.4 If the State no longer provides an earnings-related pension then there will be greater reliance on private provision. Automatic enrolment will enhance private saving but there must be decent workplace schemes in which people can save, the restrictions on NEST need to be removed, and people must receive a fair return for savings on retirement.

## 6. The transition

6.1 Clauses 4 to 6 and Schedules 1 and 2 provide for the calculation of the pension where people have qualifying years before introduction. Although the flat-rate pension will be much simpler in the longer term there will inevitably be a complex transition due to entitlements already accrued and adjustments for contracting out.

6.2 We welcome the approach of calculating a 'foundation amount' at the point of implementation based on the higher of entitlement under the current system or the single-tier. This provides a quicker and clearer transition than the offset described in the Green Paper. We strongly support the need to protect pensions built up over and above the level of the single-tier. This should be revalued in line with earnings – not prices as proposed - at least until State Pension age, in line with current expectations.

6.3 Many people who have heard about the single-tier pension incorrectly assume this means that everyone will receive a basic pension of £144 rather than £107. The communication of the changes will be a major challenge and the Government will need to ensure that people have full information about their own future entitlement as well as a reasonable understanding of the reforms.

## 7. Derived benefits

7.1 In general, under the single-tier system people will not be able to claim a pension on their spouse or civil partner's contributions. There will be some exceptions. Clause 7 provides for the inheritance of additional State Pension and clauses 11-12 provide some protection for married women and widows who have paid the reduced rate contributions. We welcome the protection for these groups. However, we are concerned that there will still be some people who will lose out because they expected to use their partner's contributions and will not have time to build up an equivalent pension in their own right.

7.2 For example Age UK has been contacted by a 59 year old woman who will reach SPA after April 2017 and is extremely concerned that she will not be able to use her husband's contribution record. She worked for a few years early on in life but since then has not worked due to health reasons and has not had children. She and her husband managed on his earnings. She did not want to claim disability benefits and did not think she needed to in order to get credits because she expected to receive a State Pension on her husband's contributions.

7.3 The majority of men and women reaching SPA in the future will be able to receive a pension under the single-tier system of at least the amount they could have received based on their partner's record. However this will not be the case for everyone.

7.4 In responding to a question about the position of a widow expecting to receive a State Pension on her late husband's record the Pensions Minister stated 'We will honour the past. People will not build up new rights under those sorts of arrangements, but those they already have will be honoured.'<sup>1</sup>

7.5 Age UK believes that transitional provisions should ensure that there is protection for everyone who has a legitimate expectation of receiving a pension based on their partner's contributions and will not have sufficient years between implementation and their SPA to be able to accrue a single-tier pension of at least the same amount.

## 8. Overseas residents

8.1 In line with current rules, Clause 20 provides for people living in certain overseas countries not to receive annual increases. This has long been a major concern for people who retire abroad – perhaps to be close to family or to retire to their country of origin. These pensioners have contributed for many years when they lived and worked in this country and often point out that they do not claim UK benefits or use the NHS or other services. Age UK believes that people should receive annual increases wherever they live. This Bill provides the opportunity for this issue to be reconsidered.

## 9. Up-rating

9.1 Schedule 12, makes provision for the single-tier pension to be up-rated at least by earnings in line with provisions for the current basic pension. Age UK has strongly welcomed the Government's commitment to up-rate the basic pension by the triple

---

<sup>1</sup> *Hansard HoC debate*, 14 Jan 2013, col 617

lock. We believe this should be set out in the legislation for the basic pension and the new single-tier pension.

9.2 The triple lock is integral to the reforms to ensure that a reasonable platform for savings is maintained going forward. It is also important that once people reach State Pension age they have at least one source of income that maintains, or improves its value over time. During the course of retirement, savings often fall and many other sources of income such as private pensions and annuities lose their real value. A State Pension increased by the triple lock will help prevent older people ending up on Pension Credit later in life.

9.3 The White Paper and Impact Assessment are based on the assumption that the single-tier pension is uprated in line with the triple lock. Even with this uprating mechanism, by 2050 the single-tier is projected to cost less than the current system as a proportion of GDP. Expenditure would be lower under the reforms by 2040 if it is only uprated by earnings.

## 10. Means-tested benefits in retirement

10.1 Part 3 of Schedule 12 removes the right to receive savings credit for those reaching SPA under the single tier. This also has an impact on Housing Benefit and Council Tax Benefit for people aged 65 as the rates are linked. However the White Paper states 'support will be retained for a period of five years for those people who may have received more help with housing costs by virtue of the availability of savings credit'.

10.2 One of the aims of the reforms is to reduce means-testing. The Impact Assessment shows that under the current system by 2040 around 40 per cent of pensioners are expected to be entitled to means-tested support of some form and this is expected to fall by only three percentage points under the single-tier.

10.3 Eligibility for Pension Credit falls by more – it is expected to halve in the short and longer term for post single-tier pensioners. However eligibility for the guarantee element of Pension Credit falls by less than two percentage points as a result of the single-tier pension. The main impact is the abolition of savings credit – so reliance on Pension Credit tends to be lower because the benefit is less generous rather than due to a higher State Pension. Furthermore individuals who are not entitled to Pension Credit may also lose other 'passported' help such as cold weather payments and help with health costs.

10.4 Age UK supports the aim of reducing means-testing but this should be done through better pension provision rather than by cutting means-tested support. We would like to see more information about the overall impact of changes in support including passported help. We also believe the Government should provide projections showing the impact reforms have on poverty levels going forward.

### The impact of losing savings credit and related support

10.5 Although savings credit is little understood it can make a considerable difference to the financial position of people with modest amounts of income above the basic pension level.

10.6 For example take Brian, a 70 year old man with a basic and additional pension of £160 a week. He pays rent of £60 a week and council tax of £15 a week. He has no other income and savings under £10,000.

10.7 Under the current system he receives total benefits of around £78 a week (savings credit, Housing Benefit and Council Tax Benefit)<sup>2</sup>. If the single-tier pension had been in place since April 2012 without any transitional protection, his pension would be the same because it is higher than £144. However due to the abolition of the savings credit he would receive benefits of only about £60 a week – no savings credit and less help towards rent and council tax. The transitional protection will help although we do not know precisely how this will work and it is only proposed for five years.

10.8 While it is hoped that in the future someone like Brian will be able to build up a higher retirement income, it will take some years before automatic enrolment has a significant impact on private saving. And many will still have difficulty building up decent private pensions due, for example, to low pay or having multiple jobs.

10.9 We welcome the recognition that transitional protection is needed and will be looking carefully at the impact of this. The level of the single-tier pension, combined with transitional protection for means-tested support, needs to ensure that those with very modest incomes reaching SPA in the early years of the single-tier are no worse off than under the current system.

## 11. Ending contracting out

11.1 Employees in defined benefit schemes and their employers will face an increase in NI when contracting-out ends. The proposed calculation of a foundation amount at the time of implementation will mean that although contributions will increase, the majority will build up more State Pension as a result.

11.2 Public sector employers will not be able to change scheme rules due to agreements made, but private sector employers will be able to make adjustments. While we understand the reasons that employers may wish to change scheme rules it is essential that this is not done in a way that reduces their overall costs.

## 12. People reaching State Pension age before the single-tier

12.1 The Government states that April 2017 is the earliest that the single-tier pension can be introduced to give the occupational pension sector time to adjust. Age UK has been contacted by many older people who feel it is very unfair that people who are already pensioners will not also be guaranteed a State Pension of £144.

12.2 Many feel that they are missing out on over £35 a week – the difference between the basic pension and the single-tier pension. This will not necessarily be the case as the single-tier also replaces the additional pension. However there will still be many who would receive more under the single-tier.

12.3 The Government should consider extending the single-tier pension to current pensioners, perhaps phasing this in over a period of time as costs allow. In the mean-

---

<sup>2</sup> By 2017 the savings credit may provide less support because the level is being frozen.

time with 1.7 million older people currently living in poverty, we want the Government to set out a timetable for the reduction and abolition of pensioner poverty and a strategy for achieving this. This should include measures to address the problem of low benefit take-up given between £3.7 and 5.5 billion of benefits go unclaimed each year by older people.

Women reaching State Pension age just before implementation

12.4 There is a particular group of women born between 6 April 1952 and 5 July 1953 who feel aggrieved that they will just miss out on the single tier State Pension whereas men born between those dates will be in the new system. Some who will reach SPA in March 2017 complain that they have had their SPA put back twice and now find that they will not benefit from the single-tier.

12.5 We acknowledge that if the single-tier is introduced from a specific date then there will always be a cliff edge. However we believe the Government should consider whether specific provisions should be introduced for this group – for example giving them the option of being treated as a man with the same date of birth.

### 13. State Pension age

13.1 Recent changes to SPA have resulted in many women feeling the goal posts have been moved. People need clarity about what they will receive from their pension but also when they can expect to receive it. Age UK recognises that as life expectancy increases it is reasonable to consider extending working lives. However we believe it is very important to look at a range of factors including differences in healthy life expectancies and employment opportunities. We are therefore pleased that the White Paper says an independently-led body will be commissioned to produce a report on wider factors as part of a five year review in addition to a report from the Government Actuary's Department. The White Paper sets out a range of factors that the Government expects to be covered and also states that 'the framework will seek to provide a minimum of ten years' notice' for any increase to an individual's SPA.

13.2 However clause 26 of the Bill simply requires the Secretary of State to commission a person or persons to report 'on other specified factors relevant to the review'. Either through the Bill or regulations there should be a list of factors that should be taken into account and provisions setting out clearly how any increases are to be introduced. Age UK's strong preference is for a minimum of ten year's notice to be included on the face of the Bill.

### 14. Cost of reforms

14.1 We acknowledge that any improvements such as a higher starting level would increase costs and we know that the Government has stated that the new system will cost no more than the current one. We do not accept this necessarily has to be the case given that the overall costs of public pensions in the UK are lower than in many developed countries. Furthermore we note that in the longer term the costs of State Pensions and benefits under the reforms are lower as a share of GDP than under the current system.

14.2 And these figures do not take into account the additional NI revenue from ending contracting out. This is expected to increase by £5.9 billion in 2017, £4.3



billion by 2030 and £5.8 billion by 2060. Some of the increase will be from public sector employers (£3.7 billion in 2020) who will not be able to offset these costs by, for example, reducing benefits due to commitments made on public sector pensions.

14.3 However even if some of the additional NI revenue is used to support the extra costs of public service employers there will still be significant net income for the Exchequer which could be used to improve the reforms. This would potentially allow a higher level to be set, or more generous transition arrangements to be established, or both.

14.4 It is important that the single-tier pension results in a simpler, fairer system that supports private saving and leads to lower levels of poverty and low income in retirement. If overall it ends up being a less generous system it may fail to meet these objectives.

14.5 The Government has now said that some of this extra NI revenue will help finance the implementation of the 'Dilnot reforms' concerning the funding of long term care. We will be looking more closely at the impact of these proposals and the most appropriate funding mechanisms once full details are published.