Pensions Bill

Second reading briefing, House of Commons
June 2013

Introduction
This bill introduces a single-tier flat rate state pension, which will replace the current basic and additional pensions for people reaching state pension age on or after 6th April 2016. It makes provisions for increasing state pension age and for automatic transfers to consolidate pension savings.

Age UK welcomes proposals for the single-tier pension which aim to introduce a fairer, simpler and sustainable state pension. An adequate state pension is critical to provide individuals who have limited ability to make private provision with a decent income in retirement, and to enable everyone to have certainty and clarity about what to expect from the state in retirement as a platform for saving. The single-tier pension is not a solution to retirement saving in itself but will complement the recent introduction of automatic enrolment into a workplace pension including the National Employment Savings Trust (NEST).

Together these reforms should ensure that people can achieve an adequate income in later life and make it easier to plan for retirement during their working life.

Age UK's view
Age UK supports the aims of the single-tier pension. Generally those who will benefit from the changes will be people with low lifetime earnings and those who have had time out of the labour market due to unemployment, caring or disability. The self-employed, who currently only build up entitlement to the basic state pension, could also receive a higher state pension. However there are a number of areas where we would like the government to clearly outline their intent on the face of the bill and where we feel more could be done to ensure particular groups of individuals are not penalised by the changes. We are also concerned that the level indicated in the White Paper is only just over the level of pension credit guarantee yet overall money is being taken out of the pensions system through the abolition of contracting out. We are disappointed that this bill does nothing for current pensioners including the 1.7 million who currently live in poverty and who will not benefit from the changes in this legislation.

We have long argued that the current state pension does not provide an adequate income for retirement and is so complex that planning ahead for retirement is a significant challenge. We have also been concerned that the system does not tackle inequality and women continue to have lower state pensions than men. A further problem with the current system is the heavy reliance on means-testing. Benefits such as pension credit are vital for poorer pensioners but the systems are complicated and many do not claim their entitlements. Older people with modest private savings often feel penalised for saving, while for younger people the prospect of future means-testing may act as a disincentive to saving.

One of the key principles in the Green Paper was that the proposals would be cost neutral. Age UK recognises that reforms carried out on this basis inevitably mean if some people receive higher pensions than under the current system, others will receive less. Age UK has been supportive of the principles of the reforms because of the benefits for people on lower incomes and the advantages to all of the simpler system. However the impact assessment anticipates that going forward, rather than being cost neutral, there will be savings in public spending on pensions in the medium to long term and the Institute of Fiscal Studies has stated 'these proposals imply a cut in pension entitlements for most people in the long run'. The suggestion is that this could include people born from about 1970 onwards i.e. reaching state pension age in the 2030s onwards. Age UK believes that the reforms should not result in lower spending on pensions in the short or longer term. The single-tier pension should be paid at a sufficiently generous level and retain its value through the triple lock, in order to balance the trade-offs in the bill.

Although in the early years the reforms will cost the same as the current system there will be an immediate increase in revenue to the Treasury through the abolition of contracting out resulting in increased National Insurance payments. Before this money is reallocated there should be consideration given to using it to protect the pension income of particularly vulnerable groups who may lose out in these changes, and current pensioners who do not stand to benefit from the single-tier pension.

Recommendation: Age UK remains concerned that overall, less money will end up going into the pension system in future and we want to see a full debate about the reallocation of savings before decisions are made.

Key points

Ensuring an adequate level for the single-tier pension
The White Paper suggests the single-tier pension will be worth about £144 in current prices. The level needs to be high enough to provide an adequate platform for saving and to reduce means testing. Under the current system by 2040 around 40% of all pensioners would be eligible for some sort of means-tested benefit (including help with rent and council tax) these reforms would only reduce this by around four percentage points. Eligibility for pension credit falls by more – it is expected to halve in the short and longer term for post single-tier pensioners – mainly due to the abolition of savings credit.

If individuals can not satisfy themselves that the single-tier pension will be enough to avoid means-testing then it will prove difficult to know whether it is worth making private provision. At the time of its publication (January 2013) the White Paper's illustrative figure of £144 was only £1.30 (less than 1%) higher than the pension credit guarantee level whereas the Green Paper figure of £140 was £7.40 above it, nearly 6% higher (at March 2011 prices). We want to see a reasonable level paid which balances affordability with the practical need to clearly exceed the pension credit level. Setting this level at 5% above the pension credit guarantee level (providing a pension of just under £150 at current prices) would satisfy these demands.

Recommendation: Level of single-tier pension to be fixed at 'at least 5%' above pension credit guarantee rate by placing this requirement on the face of the bill.

Maintaining the level of the single-tier pension through the 'triple lock'
The bill currently only requires the single-tier pension to be up-rated annually in line with earnings. The government has expressed the desire to increase it in line with the triple-lock, that is whichever is the higher of earnings, prices (as measured by the CPI) or 2.5%, and have committed to doing this for the current basic state pension for the duration of this parliament. The impact assessment assumes the pension is uprated by the triple lock. The triple-lock is the best way of preserving the value of the single-tier pension which is essential to achieve the aims of providing an adequate state pension and reducing means-testing.

Recommendation: The legislation should clarify that the rate of the single-tier pension will be increased using the triple lock.

Measures to address current pensioner poverty
Current pensioners have been overlooked in these reforms and we know many pensioners and others due to reach state pension age before 6 April 2016 are disappointed to have been excluded from the single-tier pension. We have had many letters, emails and calls on this subject. Age UK is keen to see improvements for those people who have already retired and we believe current pensioners should also benefit from the single-tier. There are a number of options available to achieve this objective; for example the Government could consider extending the single-tier pension to current pensioners, perhaps phasing this in as economic circumstances allow or the level of pension credit guarantee could be increased to the level of the single-tier for current pensioners who will otherwise miss out.

In the short term, with 1.7 million older people currently living in poverty, of whom 1 million are in severe poverty (with incomes of less than half median income) we want the Government to set out a timetable and a strategy for reducing and abolishing pensioner poverty.

Recommendation: the government should consider extending the single-tier pension to current pensioners as soon as economic circumstances allow.

The government should publish details of measures to end pensioner poverty.

Public awareness of the need to claim credits
We acknowledge that given longer life expectancy and extended working patterns it is not unreasonable to increase the number of National Insurance contributory years from 30 to 35. People who have contributed for less than 35 years but for at least the minimum qualifying period (7 to 10 years) will receive a proportion of the pension. However it is absolutely critical that this change is clearly communicated to individuals so they can ensure that any years outside of work, for example because of ill-health or caring responsibilities, are counted as years of contribution.

While credits are normally given automatically linked to the receipt of particular benefits there are times when people need to act. Some carers need to make a claim to receive carer credits. Sometimes people may not be eligible to be paid a benefit but it could be important that they make a claim and fulfill any claimant requirements in order to receive credits towards their future pension. For example someone who is ill or unemployed might not qualify for means-tested support because of their partner’s earnings or a non-working woman may need to claim child benefit in order to receive credits towards her pension even if the benefit cannot be paid under the new restrictions because she has a high earning partner.

Recommendation: the government should put in place a public communication strategy that provides clear information about the changes to the pensions systems and a framework for understanding income in retirement.

Part-time workers
There is a particular group of people, mainly women, who have more than one part-time job but who earn below the National Insurance earnings limit in each job so are not building up rights to a future pension. For example an individual with two part-time jobs earning £100 a week in each job will not be accruing pension rights unless they are covered by credits. This is deeply unfair and could prejudice hard-working people who are doing everything possible to provide for themselves and their families at a time when full time jobs are acknowledged to be in short supply. Neither will they be able to depend on a private pension as they are also excluded from automatic enrolment.

Recommendation: Ensure that all those in work with earnings above the lower earnings limit are building up rights to their state pension.

Protection for individuals who will lose additional benefits
Pension credit and other means tested benefits will continue to provide a safety net for poorer pensioners but the savings credit element of pension credit will be abolished for people reaching state pension age after the single-tier is introduced. Savings credit determines the level of means tested support for rent and council tax for people over 65, payments which could therefore be reduced. The government has said there will be transitional arrangements which will mean that for 5 years these people will be given additional support. However, it is not clear precisely how this will work and what will happen after this period. We are concerned that as things stand once the transitional arrangements end some people could lose out by quite a significant sum.

Recommendation: the government should set out details of the planned transitional protection so Parliament can consider if this provides sufficient support for those approaching state pension age. For example the period of protection may need to be increased to 10 years so there is not a steep ‘cliff edge’ of difference between people reaching state pension age just before and just after the implementation date.

Protection for people who will lose derived benefits
The single-tier pension will be an individual entitlement with no special rules for people who are married, bereaved or divorced. Currently people who are, or who have been married or in a civil partnership, may be able to use their partner’s record to receive a state pension or to increase the amount they receive on their own record.

There will be transitional protection in some situations to protect inheritance of the additional state pension and the protected payment for women who paid reduced rate NI contributions. However this could still leave some people who were relying on their partner's record with lower pensions. There will be some people, mainly women, in the next few years who will, quite reasonably, have been expecting to receive the married woman's pension or a full basic pension if widowed and who will not have time to make up the contribution years before they reach retirement age. The Work and Pensions Select Committee recommended a solution to protect the group of women (estimated to be around 30,000 in 2020) likely to be affected by allowing individuals within 15 years of state pension age to be allowed to retain this right. This seems only fair.

Recommendation: 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 who will not have sufficient years between implementation and their state pension age to be able to accrue a single-tier pension of at least the same amount.

Protection for the particular cohort of women affected by changes
There is a particular cohort of women born between April 1951 and April 1953 who believe they are at a double disadvantage because their state pension age has been increased but they will not qualify for the single-tier pension whereas men of their age will qualify. In general women are likely to benefit from the single-tier pension although whether any individual woman would be better or worse off than a man with the same date of birth will depend on her individual circumstances – for example, her employment history, and the state and private pension she has built up and whether she is entitled to means-tested benefits.

Recommendation: Further consideration should be given to whether there should be specific measures for this group – for example giving them the option to be treated as a man with the same date of birth.

Changes to state pension age
Following the Pensions Act 2011 women's state pension age will reach 65 by November 2018 and then state pension age for both men and women will increase to 66 by October 2020. The White Paper confirms the Government's previous announcement that it will increase state pension age from 66 to 67 between April 2026 and 2028. It will also set up five yearly reviews of state pension age with the first review published in 2017.

In January 2013 the Pensions Minister stated that these reviews will be informed by analysis from the Government Actuary's Department and by the views of an independently led body that is expected to take into account factors such as the variation in life expectancy, trends in healthy life expectancy and labour market factors. The White Paper says that this process should result in people affected receiving a minimum of ten years notice of any increase in their state pension age to allow people sufficient time to plan ahead. However the bill simply requires the Secretary of State to commission a person or persons to report 'on other specified factors relevant to the review'.

Age UK recognises that as life expectancy increases it is reasonable to consider extending working lives. However we believe it is very important to consider a range of factors such as the differences in healthy life expectancy between different groups, and varying employment opportunities for continued working in later life. The bill needs to provide greater clarity about the process. It is also essential that people have sufficient notice of any changes in state pension age in order to make or revise their plans for retirement.

Recommendations: The Bill should set out in more detail requirements for the role of an independently led review body which can provide analysis and recommendations on increases to state pension age taking into account a wide range of factors relevant to state pension age including differences in life expectancy.

Any changes to state pension age must provide people with at least 10 years notice.

Fairness for overseas pensioners
In line with current state pension rules people living in certain overseas countries will not 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.

Recommendation: State pensions should be uprated for all UK pensioners living abroad.

Increased protection for small pension pot holders
The bill also includes proposals for a new “pot follows member” automatic transfer system to help consolidate the estimated 50 million pension pots that will be created by automatic enrolment. Eligible pension pots of £10,000 and under will automatically be transferred, (unless an individual chooses to opt-out) once an individual is enrolled into a new employer’s pension. The bill will also include provisions requiring pension schemes to provide information about the dormant pots held by members and to initiate and process transfers of those pots. The exact detail of how the automatic process will work will be set out in regulations.

Age UK recognises the need to do something to address the issue of small pension pots, since these are harder for people to keep track of and to convert into an annuity. However we are concerned that the ‘pot follows member’ approach may leave individuals at too great a risk of losing out as their pots transfer from one scheme to another; for example, if they go from a scheme with low charges to one with higher charges. These risks could be mitigated by ensuring that only those schemes that meet clear quality standards were eligible to take part in the automatic transfer system. We would also like to see the current restrictions on NEST lifted to enable it to take part fully in the automatic transfer system.

Recommendations: ***The regulations should set out clear standards on: low, fair and transparent charges; governance; high-quality information; and, investment options that meet the needs of members.***

The current restrictions on NEST should be lifted to enable it to take part fully in the automatic transfer system.

Charges

We are pleased that the Government is taking action on pension charges. We welcome the Government's intention to lay regulations to ban consultancy charges in automatic enrolment schemes. We also welcome their commitment to consult on further proposals including a cap on default fund charges in Defined Contribution schemes, in light of a forthcoming OFT report on the workplace pensions market. We would like to see Government proposals include consideration of both pre-existing schemes as well as schemes that will be set up due to auto-enrolment.

Recommendations: ***The proposed ban on consultancy charging should be implemented at the earliest opportunity.***

The further proposals on pension charges that the Government intends to consult on in the autumn must include consideration of both existing defined contribution schemes and those that will be set up as a result of auto-enrolment.

If you would like to discuss any of the issues raised in this briefing please contact Hannah Pearce or Angela Kitching, Government Affairs Manager, Age UK on 020 303 31355/ 31493 or hannah.pearce@ageuk.org.uk/ angela.kitching@ageuk.org.uk