Pensions Policy Institute

PPI

THE PENSIONS PRIMER

A GUIDE TO THE UK PENSIONS SYSTEM

UPDATED AS AT JUNE 2023

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A REFERENCE MANUAL
BY THE PENSIONS POLICY INSTITUTE (PPI).

This version of a **guide to the UK pensions system** reflects the current position of, and legislated future changes to, the UK pensions system as at 1 June 2022. Any change in Government policy that may have occurred after that date is not included in this version.

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ABOUT THE PENSIONS PRIMER

As part of the Pensions Policy Institute's (PPI) core work, funded from donations received both from our Supporters and individuals, the PPI produces **The Pensions Primer: a guide to the UK Pensions system** annually. It is aimed at a wide audience, and for this reason, sections vary in complexity. The initial guide gives an outline of the UK pensions system and the influences of current policy. There are signposts throughout the Primer to the **Appendix**, which provides additional, more detailed explanations of past and present policies.

The guide is intended for people wanting to learn about, or update their knowledge relating to, current UK pensions policy. It covers both State and private pension provisions.

It should not be used to make individual pensions decisions.

This version published in **June 2023** reflects the current position of, and legislated future changes to, the UK pension system as at **1 June 2023**. Any changes in Government policy that may occur after this date are not included in this version.

Understanding The Pensions Primer can be assisted by referring to the PPI Pensions Glossary, which provides additional explanation for the frequent terminology used throughout this guide.

To compliment further learning, the PPI hosts **Knowledge Sharing Seminars** throughout the year which provide additional context beyond the Pensions Primer. These Seminars are delivered in an informal conversational format designed to cut through the jargon and help participants understand the landscape today, and how and why we arrived here, as well as coverage of recent policy developments.

Further details of the Knowledge Sharing Seminars can be found here.

AN INTRODUCTION TO THE UK PENSIONS SYSTEM

The first UK employer pension was the Chatham Chest in 1588, which provided a benefit for sailors injured in the line of duty. The state started to provide an income to older people in 1908, which was non-contributory, means-tested and paid only to people over age 70. The foundations of the current UK State Pension system were laid in the 1940s when male and female State Pension ages (SPa) were set at 65 and 60 respectively, and the contributory, National Insurance Fund was introduced. Since the 1960s, successive Governments have made many changes to both state and private pensions, resulting in today's pension system, which is complex and multi-layered.

This document provides a description of the UK pensions system for the purposes of considering pensions policy. It should not be used as a basis for making individual financial decisions.

To explain the UK pensions system, this report uses a multi-tier framework. The UK pensions system possesses three tiers:

- **Tier 1** is provided by the state and consists of a basic level of pension to which almost everyone either contributes or has access, providing a minimum level of retirement income. This consists of the new State Pension (nSP), which people who reach State Pension age (SPa) from April 2016 receive, and the basic State Pension (bSP), or old State Pension, which people who reached SPa prior to April 2016 receive. The nSP is covered in this document, the bSP is explained in detail in the Historical Annex document.

- **Tier 2** is also administered by the state and aims to provide pension income that is more closely related to employees' earnings levels. Tier 2 is less redistributive (from higher income to lower income) than Tier 1. Tier 1 and Tier 2 operate on an unfunded 'pay-as-you-go' contributory basis, through the National Insurance (NI) system, though **people can no longer accrue entitlement to Tier 2.**[1]

- **Tier 3** is voluntary (private) pension arrangements that are not directly funded by the state. This includes public and private sector occupational pension schemes, as well as any individual's personal pension savings. Private pension contributions from the employer and/or the individual provide designated pensions for the individual. The primary aim of private pensions is to redistribute income across an individual's lifetime, and not to redistribute income from higher-income to lower-income people. Tier 3 includes pensions arising from automatic enrolment, a policy requiring employers to enrol eligible employees into a qualifying workplace pension scheme.

Figure 1 illustrates the three-tier UK pensions system as it stands today. Although means-tested benefits span across the three tiers, they are covered in the **Tier 1 provision section**. With the introduction of the "single-tier" new State Pension, these three tiers will eventually become a two-tier system with a "state" tier and a "private" tier as there are fewer recipients of the old basic State Pension (bSP), only becoming a fully two-tier system by the 2050s.[2]

[1] See PPI Pensions Primer Historical Annex for more information on Tier 2 pension
[2] Currently, in 2023, around 60% of State Pension recipients receive the basic State Pension, this is expected to fall to around 50% by 2025, then to, around 25% by 2032. There are likely to be some basic State Pension recipients up until the 2050s.

The current UK pensions system

Figure 1

TIER 1
STATE PENSION

PUBLIC

Unfunded-pay-as-you-go system that is paid through National Insurance contributions.

Redistributes money throughout the population to provide all individuals with a minimum standard of living.

basic State Pension (bSP)
new State Pension (nSP)

TIER 2
ADDITIONAL STATE PENSION

PUBLIC

This provides individuals with additional state pension more closely related to their earnings level than the flat rate that people receive from the first tier.

From April 2016 people are no longer able to accrue entitlement to the additional State Pension (aSP) and people reaching State Pension age (SPa) after this date cannot claim Savings Credit.

Graduated Retirement Benefit (GRB)
State Earnings Related Pension Scheme (SERPS)
State Second Pension (S2P)

TIER 3
PRIVATE PENSION

PRIVATE

Funded through individual and/or employer contributions.

Contribution and returns receive tax relief.

Intended to distribute earnings across the life course.

Defined Benefit (DB) and Defined Contribution (DC) Pensions.

Occupational/ Personal / Multi-Employer Schemes

PUBLIC MEANS-TESTED	Pension Credit = Guarantee Credit + *Savings Credit*	Public Tier benefit = Housing Benefit	Universal benefits = Winter fuel allowance

TIER 1
PROVISION

Tier 1 provision

Tier 1 is provided by the State and consists of a basic level of pension provision to which everyone either contributes or has access, providing a minimum level of retirement income. Included in this section are:

- The basic State Pension (bSP) and additional State Pension
- The new State Pension (nSP)
- Means-tested benefits

Tier 1 operates on a 'pay-as-you-go' basis, through National Insurance (NI) and general taxation. Pension Credit is funded through general taxation.

The new State Pension - For people reaching State Pension age on or after 6th April 2016

The new State Pension (nSP), introduced in April 2016, is a contributory pension in the sense that the final amount of nSP paid to an individual depends on the number of qualifying years attained before reaching State Pension age (SPa), through either NI contributions (NICs) levied on workers' earnings, or credited as a result of some qualifying activity. The nSP replaced the bSP and additional State Pension in order to make the State Pension more streamlined, easier to understand, and to provide a more comprehensive basic level of income to pensioners above the level of means-tested benefits.

The nSP is designed to redistribute wealth across the population to provide all pensioners with a minimum standard of living, and to provide a base for saving into a private pension. It is a flat-rate pension payable once an individual reaches SPa. Subject to having made the same number of contributions, individuals will receive the same level of benefit, irrespective of the size of their contributions. An individual pensioner with a complete NIC record of 35 years or more is eligible at their SPa to receive the **full nSP of £203.85 a week (2023/24)**, although those who have contracted-out may receive a reduced amount directly from the state.[3]

Qualifying years and NI contributions

State Pension entitlement is based on an individual's NI contributions record. Any tax year in which an individual makes, or is credited with making, sufficient NICs is known as a qualifying year.

People can gain credits for the State Pension if, for instance, they are entitled to Statutory Sick Pay or Statutory Maternity, Paternity or Adoption Pay, Child Benefit, Universal Credit or Carer's Allowance.[4]

There are a number of ways in which NICs can be made or credited. For example, individuals who are self-employed pay a different level than individuals who are employed, and people can make voluntary contributions to fill gaps in their contribution record.

For people reaching SPa on or after 6th April 2016, 35 years of NICs are necessary to qualify for a full nSP. A minimum of 10 qualifying years are necessary to receive any nSP.

Please refer to **Appendix 1** for more information on NI, what constitutes as a qualifying year and the different classes of NI contributions.

Starting Amount

When calculating the amount received under the nSP, a "starting" amount will be calculated for each individual, based on their entitlement built up under the State Pension system prior to 6 April 2016. This amount will be compared to the amount that the individual would have built up in the nSP system had it been in place. Individuals will then take forward the higher of the two amounts (adjusted for time spent contracted-out of the additional State Pension) into the new system. Previously the starting amount was known as the "foundation amount".

If the starting amount is higher than the nSP level, the amount above the nSP level will be paid on top of the nSP. This amount is called a "protected payment" and increases each year with the Consumer Prices Index (CPI).

If the starting amount is less than the nSP level, each qualifying year accrued after April 2016 will be added on top of the starting amount until reaching SPa or the full nSP amount. Each year adds £5.29 a week to retirement income (£185.15 divided by 35, as of 2023/24).[5]

[3] Department for Work and Pensions (DWP) (2022) Benefit and pension rates 20223to 2024, https://www.gov.uk/government/publications/benefit-and-pension-rates-2023-to-2024/benefit-and-pension-rates-2023-to-2024
[4] www.gov.uk/national-insurance-credits/eligibility
[5] https://www.gov.uk/new-state-pension/how-its-calculated

CONTRACTING-OUT

The nSP replaces the bSP and the additional State Pension (See **Tier 2**). Between 1978 and 2016, it was possible to contract-out of the additional State Pension. Where employees were contracted-out, both employees and their employers paid lower NICs (through a rebate) on the condition that the pension scheme provided pensions broadly in line with, or better than, the future state benefits that the individual was giving up by contracting-out. In 2015/16, this meant that contracted-out employees paid NICs at a rate of 10.6% instead of 12%, and their employers paid at a rate of 10.4% instead of 13.8% up to the Upper Accrual Point (UAP) of £40,040. In turn, employees who were contracted-out did not accrue entitlement to additional State Pension of State Earnings Related Pension Scheme (SERPS) or State Second Pension (S2P) during those years.

Under the nSP, people who contracted-out of SERPS and/or S2P are treated as having built up less State Pension rights than similar individuals who did not contract-out. Part of the 'state' pension for those who contracted-out will be delivered through a private pension scheme, so an equivalent value is deducted from their 'starting' amount at the time the nSP is introduced. This means that an individual who has been contracted-out will have a lower starting amount than an identical individual who has not been contracted-out.

People who contracted-out and reached SPa on or after 6 April 2016 can receive an estimate of the additional State Pension they would have built up if they did not contract-out. This is known as the contracted-out pension equivalent (COPE).

If people who contracted-out are close to retirement, then they are likely to receive a lower nSP than an individual who has not contracted-out. However, if these people have a number of years still to go to SPa, then the contracted-out individual may receive a similar or equivalent nSP at SPa to the individual who has not contracted-out, as long as they continue to add further qualifying years to their NI Record.

Casestudy

Robert is a median earning male who has never been **contracted-out**. At age 45 in 2016, his starting amount is £127 a week. This is made up from £87 of bSP entitlement, and £40 of SERPS/S2P (from his 22 qualifying years). When he retires at 67 in 2038, he will have had additional qualifying years and, as he will have exceeded the required 35 years, will receive the full nSP (£203.85 a week in 2023/24), which replaces his bSP and additional State Pension.

Ibrahim is a median earning male who has been **contracted-out** for his entire career prior to 2016. At age 45, in 2016, his starting amount was £87 a week from bSP entitlement (from his 22 qualifying years). As he had contracted-out of the additional State Pension, he has not accrued the additional entitlement and has paid less in NICs. When he retires at 67 in 2038, he receives the full nSP amount (£203.85 a week in 2023/24), as he will have exceeded the required 35 years and has enough qualifying years on top to overcome his contracted-out deduction. He also receives the contracted-out private pension equivalent of £40 a week in 2016 earnings terms as part of his private pension.

Mala is a median earning woman who has been **contracted-out** for her entire career prior to 2016. At age 59 in 2016, her starting amount was £119 a week. Her starting amount is the higher of her entitlement under the old State Pension system of £119 a week from bSP entitlement (from having full qualifying years already), compared to an nSP entitlement of £105.65 (£155.65 full nSP (in 2016) minus a £50 contracted-out deduction). When she retires at 66 in 2023, she receives her starting amount plus she has been able to accrue seven further qualifying years on top, bringing her total pension, in 2023/24 terms, to £197 (£156.24 revalued starting amount plus 7/35 x £203.85). She also receives the contracted-out private pension equivalent of £50 a week in 2016 earnings terms.

State Pension age

The State Pension age (SPa) is the minimum legal age at which a State Pension can be claimed and depends on an individual's birth date.

SPa for both men and women increased incrementally from age 65 to age 66 in a staged process until October 2020 (Pensions Act 2011).[6] Refer to **Appendix 2** for a table on SPa increases.

Under previous legislation, SPa was scheduled to increase to age 67 between 2034 and 2036, and to age 68 between 2044 and 2046. However, the Government has brought forward the rise to age 67 to now take place between 2026 and 2028.[7] This change was included in the Pensions Act 2014 and was judged to still be appropriate in the conclusions of the State Pension Age Review published in March 2023.

Bringing forward the SPa rise to 68 and the mechanism for determining future rises

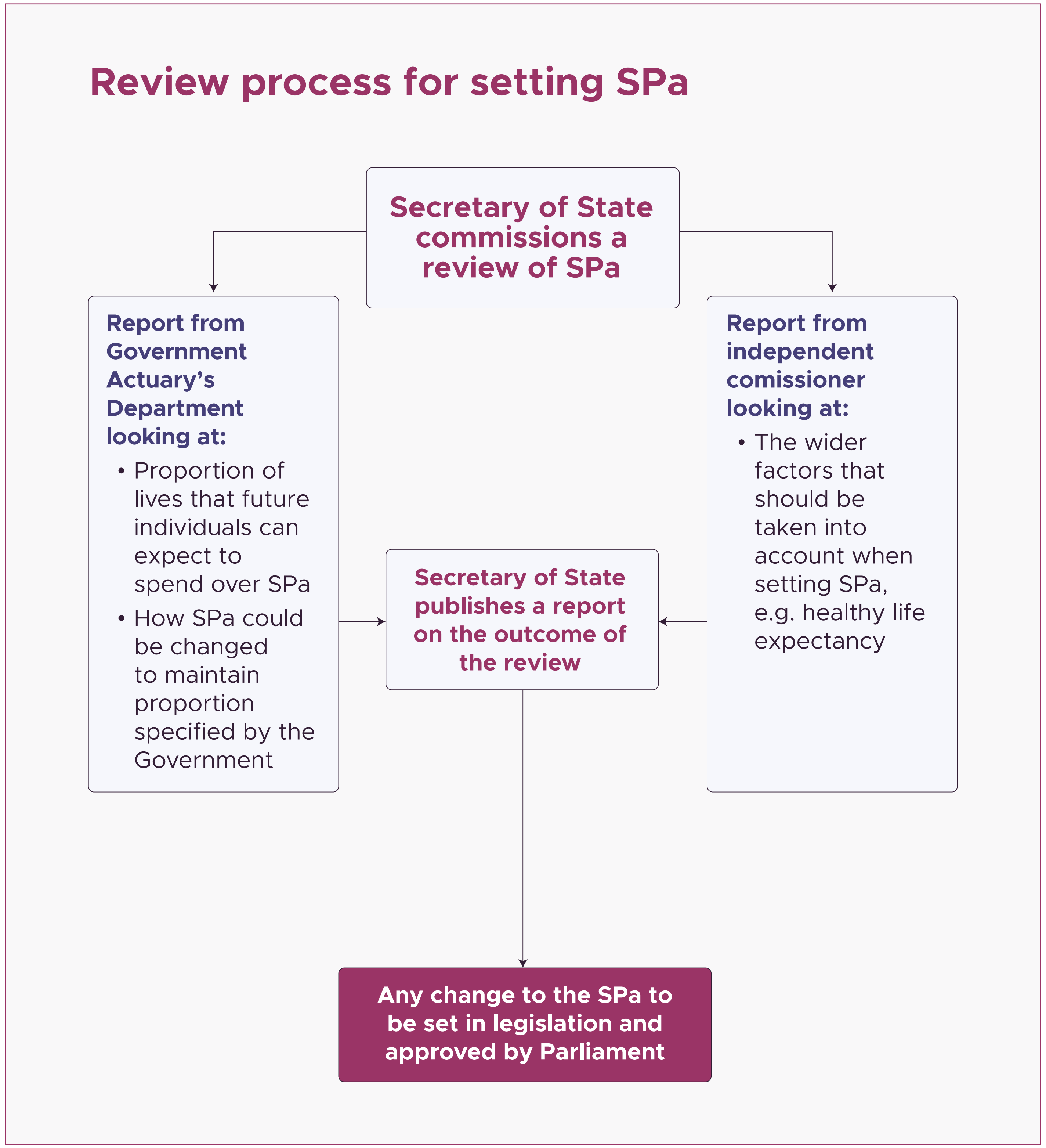
The Pensions Act 2014 sets out the Government's plans for the SPa in the future (**Figure 2**).[8] This includes a review of the SPa at least once every six years, to date there have been two reviews. The reviews are based around the principle that people should expect to spend a third or less of their adult life in receipt of State Pension (based on analysis provided by the Government Actuary's Department and an independently led body). For this purpose, adult life is defined as starting at age 20.[9]

In March 2017, the final report of the Independent State Pension Age Review was published. The report recommended that the SPa should increase to age 68 over a two-year period, starting in 2037 and ending in 2039, to reflect changes in life expectancy. The report also recommended that SPa should not increase by more than one year in any ten-year period, unless there are exceptional changes to the underlying data (e.g., costs or life expectancy projections).[10]

In March 2023, the second State Pension Age Review was published. The Independent Report recommended that the increase from age 66 to 67 between 2026 and 2028 was appropriate and the Government confirmed that this will go ahead as scheduled. The Report also recommended that SPa should increase from age 67 to 68 between 2041 and 2043. This is earlier than currently legislated for (2044-46), but later than proposed by the first State Pension Age Review.[11]
The Government announced that no immediate changes would be made regarding the planned increase to 68, but a further review will be held within two years of the next parliament to reassess in light of more up-to-date data on the long-term impact of COVID-19.[12]

[6] Department for Work and Pensions (2013) State Pension age timetable www.gov.uk/government/uploads/system/uploads/attachment_data/file/310231/spa-timetable.pdf
[7] Announced in the Chancellor's Autumn Statement, 2013: www.gov.uk/government/topical-events/autumn-statement-2013
[8] *Pensions Act 2014* www.legislation.gov.uk/ukpga/2014/19/contents/enacted
[9] DWP (2013) The core principle underpinning future State Pension age rises: DWP background note
[10] Independent Review of the State Pension Age: Smoothing the Transition (2017) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/611460/independent-review-of-the-state-pension-age-smoothing-the-transition.pdf
[11] The Independent Report also recommended setting a cap on the cost of State Pension at 6% of GDP, this could increase the speed at which State Pension age rises occur. The Office for Budget Responsibility puts the cost of State pensions at 4.8% of GDP in 2021/22 increasing to 8.1% of GDP by 2071/72, however the Government has said it will not be adopting this recommendation at this time
[12] https://www.gov.uk/government/publications/state-pension-age-review-2023-government-report/state-pension-age-review-2023

Figure 2



Casestudy

At **Lauren's** SPa in May 2022, she has 35 qualifying years, so would have been entitled to receive a full nSP of £185.15 a week.

She decides to defer receiving her nSP for a year until May 2023. At that time, when she chooses to start receiving her pension, the rate of nSP is £203.85 a week. Lauren is entitled to receive the full current rate of nSP plus an enhancement resulting from the deferment of £11.78 a week (£203.85 x 1% x 52 weeks/9).

Lauren's total State Pension in 2023 is £215.63 (£203.85 + £11.78).

Deferring new State Pension

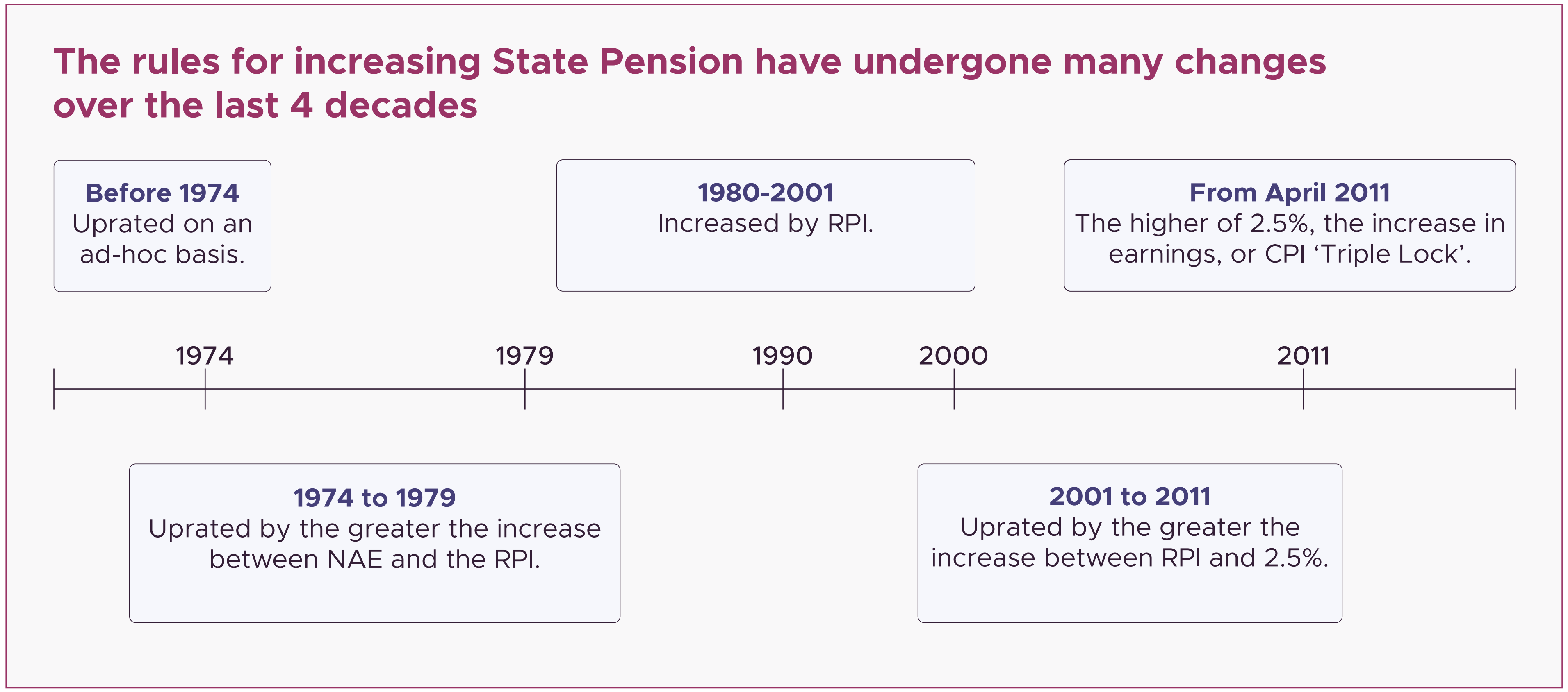
Individuals can choose to defer the commencement of their nSP after reaching SPa in return for an increase in the level of State Pension payments, also known as an enhanced pension.

For each nine weeks of deferral, people can receive an increase of 1% in their pension. This is an equivalent of around 5.8% for each year people defer.[13] After claiming, the extra amount will increase in line with growth in the Consumer Prices Index (CPI).

Uprating of the State Pension

Between 1974 and 1979, the State Pension increased annually by the greater of the increase in National Average Earnings (NAE) or the increase in the Retail Prices Index (RPI) (**Figure 3**). Since 1979, annual increases have generally been linked to RPI.[14] The net effect of past uprating has been that, although the value of the full bSP has increased in price terms since the 1970s, it has reduced relative to average earnings from 24% of NAE in 1974, to an estimated 16% of NAE in 2009.[15]

Figure 3



[13] https://www.gov.uk/deferring-state-pension/what-you-get
[14] Thurley, D (2010). Pension uprating – background. House of Commons Library
[15] PPI estimate; Department for Work and Pensions (DWP) (2009) Abstract of Statistics 2008 Section 5 - Rates of Benefit research.dwp.gov.uk/asd/asd1/abstract/abstract2011.pdf and Office for National Statistics (ONS) (2009) Annual Survey of Hours and Earnings 2009 www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2009-revised/index.html

Between 2001 and April 2011, the State Pension was increased by the greater of 2.5% or the RPI. The net effect is that, although the value of the State Pension increased in price terms, when compared to average earnings its value has gradually eroded since 1979 (**Table 1**). The nSP introduced in April 2016 provides 24.8% of mean full-time earnings, improving the value relative to earnings in comparison to the bSP, (though full entitlement to bSP plus some additional State Pension may be above 24.8% of average full-time earnings).

From April 2011, the bSP has been uprated by the higher of the increase in earnings, the CPI or 2.5%.[16] The Government has named this mechanism the **"triple lock"**.[17] However, legislation only provides that the increase in the State Pension must be at least at the rate of the increase in the general level of earnings, therefore the bSP or nSP may be re-indexed at some point in the future, unless the triple lock becomes enshrined in legislation.

The Government suspended the triple lock for the financial year 2022-23 due to pandemic-related distortions in NAE. For 2022-23, a 'double lock' was implemented, removing earnings inflation from the equation. The Government re-established the triple lock from 2023 onwards.[18]

Table 1: Uprating of bSP and nSP in relation to National Average Earnings

	Weekly Amount		Adjusted to April 2023 prices		Weekly NAE[19]	As a percentage of NAE	
	bSP	nSP	bSP	nSP		bSP	nSP
Oct-72	£6.75		£87.86		£32.00	21.1%	
Nov-77	£17.50		£106.94		£70.20	24.9%	
Nov-82	£32.85		£115.29		£136.50	24.1%	
Apr-87	£39.50		£112.62		£198.90	19.9%	
Apr-92	£54.15		£116.80		£304.60	17.8%	
Apr-10	£97.65		£148.05		£598.60	16.3%	
Apr-11	£102.15		£148.23		£602.90	16.9%	
Apr-12	£107.45		£151.37		£607.80	17.7%	
Apr-13	£110.15		£151.55		£620.20	17.8%	
Apr-14	£113.10		£152.81		£620.80	18.2%	
Apr-15	£115.95		£156.97		£627.00	18.5%	
Apr-16	£119.30	£155.65	£161.02	£210.08	£644.90	18.5%	24.1%
Apr-17	£122.30	£159.55	£160.74	£209.70	£661.10	18.5%	24.1%
Apr-18	£125.95	£164.35	£161.61	£210.88	£685.20	18.4%	24.0%
Apr-19	£129.20	£168.60	£162.39	£211.91	£703.40	18.4%	24.0%
Apr-20	£134.25	£175.20	£167.34	£218.38	£708.10	19.0%	24.7%
Apr-21	£137.60	£179.60	£169.02	£220.61	£726.60	18.9%	24.7%
Apr-22	£141.85	£185.15	£159.87	£208.67	£755.60	18.8%	24.5%
Apr-23	£156.20	£203.85	£156.20	£203.85	£799.21	19.5%	25.5%

Refer to **Appendix 3** for a more detailed table on the historic uprating figures, and for the projected level of bSP and nSP compared to average earnings.

[16] Earnings growth considered for the triple lock is the annual growth in average weekly earnings up to July of the previous year, CPI is assessed as the annual growth up to September of the previous year, leading to some inconsistency of time periods and a lag in the State Pension uprating compared to growth in prices or earnings.
[17] Thurley, D (2018) State Pension uprating – 2010 onwards https://commonslibrary.parliament.uk/research-briefings/sn05649/
[18] https://www.gov.uk/government/speeches/annual-review-of-state-pension-and-industrial-death-benefit-rates Accessed 27.04.2022
[19] Mean full-time earnings from Annual Survey of Hours and Earnings. This represents the average amount of income to a full-time employee. The earnings growth considered in determining the uprating of state pension tends to be in line with a different measure, the growth in all earnings. It is lower because it includes part time workers at their lower rate of pay. As a comparison of the state pension level to the general level of earnings in the UK, we use the full-time only measure. Rates comparing to the total average weekly earnings, used in the definition of the uprating are presented in Appendix 3.

The basic State Pension – For people reaching State Pension age before 6th April 2016

There are various differences between the basic State Pension (bSP) and the new State Pension (nSP). **Table 2** provides a comparison of the State Pension systems before and after 6th April 2016.

Table 2: The differences between bSP and nSP

	Basic State Pension (for those reaching SPa before 6th April 2016)	New State Pension (for those reaching SPa on or after 6th April 2016)
Full amount	The full amount of bSP is £156.20 a week (2023/24 rate).	The full amount of the nSP is £203.85 a week (2023/24 rate).
Qualifying years	People retiring between 6 April 2010 and 5 April 2016 needed 30 qualifying years to receive a full bSP. There was no minimum number of qualifying years required during this period.	People retiring on or after 6 April 2016 need 35 years of National Insurance contributions or credits to receive a full rate of pension. People will also need a minimum of 10 qualifying years to qualify for any State Pension.
Pension Credit	People reaching SPa before April 2016 were eligible to receive Guarantee Credit (GC) and Savings Credit (SC) if they met certain criteria.	SC is unavailable to people who reach SPa on or after 6 April 2016. Means-tested support will continue to be available through the GC element of Pension Credit. For a transitional period of five years (until April 2021), support was retained for those people who may have been eligible for SC under the old system.[20]
Additional State Pension and contracting-out	Prior to April 2016, members of some pension schemes could contract-out of the additional State Pension and pay less in National Insurance contributions.	Under the nSP, further entitlements to the additional State Pension (**Tier 2**) have been abolished. Schemes are no longer able to contract-out, meaning National Insurance contributions may increase for those who were contracted-out prior to April 2016.
Deferral	Before April 2016, individuals could defer bSP and receive either an enhanced pension or a taxable lump sum. For each five weeks of deferral, people could receive an increase of 1% in their pension. This was an equivalent of 10.4% for each year people deferred.	From April 2016, individuals who defer can only receive an enhanced pension. For each nine weeks of deferral, people can receive an increase of 1% in the pension. This is an equivalent of just under 5.8% for each year people defer.
Uprating	bSP will be uprated by a triple lock of the greater of the growth in the Consumer Prices Index (CPI, average earnings between May and July of the previous year or 2.5% for 2023/24. The additional State Pension is uprated by the growth in CPI.	nSP will continue to be uprated by the triple lock for 2023/24. The protected payment is uprated by the CPI.[21] The nSP is expected to continue to be triple locked from 2023/24 onwards.
State Pension based on partners contributions	Before April 2016, some people received a State Pension based on their partner's National Insurance contributions. These included individuals who were expecting to receive a pension based on their spouse or civil partner's National Insurance contributions and married women who paid reduced rates of National Insurance on the assumption that they would receive a derived pension based on their husband's contributions. For more details on the categories of bSP, please refer to **Appendix 4**.	The National Insurance record of an individual's spouse or civil partner will only be relevant up to and including the tax year 2015/16 to calculate any entitlement. Under the measures set out in the Pensions Act 2014 those who reach SPa under the nSP will not be able to claim derived entitlement based on their partner's State Pension entitlement. However, women who paid reduced rates of National Insurance contributions at any point during the 35 years before their SPa will be able to claim an amount equivalent to the full rate of the 'married woman's' basic pension rate.

[20] Pensions Act 2014
[21] Department for Work and Pensions (2016) Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP www.gov.uk/government/uploads/system/uploads/attachment_data/file/482871/impact-of-new-state-pension.pdf

Means-Tested Benefits

In addition to the State Pension, there are several means-tested benefits that pensioners may be eligible for, depending on their circumstances.

Pension Credit has two components:

- Guarantee Credit (GC) - It is currently payable from age 66. The minimum age for receiving GC is increasing in line with increases in SPa (as introduced by the Pensions Act 1995), with further increases to age 67 from 2026.[22]
- Savings Credit (SC) - SC is no longer available for people retiring after 6 April 2016, but is still paid to those already in receipt.

Guarantee Credit

GC is the main means-tested benefit currently paid to those aged 66 and above. People (or households) become eligible for GC if other sources of income do not reach a certain level. If claimed, GC provides a safety net of a minimum level of income. Its effect is redistributive – the benefit is paid from taxes that are related to income and only paid to those on low income.

In 2023/24, GC provides a minimum income of £201.05 a week for single people and £306.85 a week for couples.[23] GC entitlement can be higher for disabled people, people with caring responsibilities or people with a mortgage.

The Pensions Act 2007 requires the GC to be increased by a percentage at least equal to the increase in the general level of earnings. For 2023/24, the Government increased the GC by 10.1%, the same as the uprating of the nSP.[24]

Savings Credit

With the introduction of the nSP and the removal of the mechanism for accruing entitlement to additional State Pension, SC is no longer available for people reaching SPa after 6th April 2016. SC was designed to ensure that those who made some private provision for retirement, or had entitlement in excess of the State Pension, including State Earnings Related Pension Scheme (SERPS) and State Second Pension (S2P), were better off than those who had made no provision.

The maximum amount payable under SC is £15.94 a week for a single person and £17.84 a week for a couple from April 2023 for those already in receipt. For every £1 of income received[25] above the level of the Savings Credit threshold (£174.49 for single pensioners and £277.12 for couples, in 2023/24),[26] but below the level of GC, SC pays an additional benefit of 60p. The credit is then 'tapered down' for additional income above the GC level .

Casestudy

Ayisha retired under the old State Pension system. She is entitled to a bSP of £145.79 a week in 2023 (from her 28 qualifying years), which is £10.41 below the maximum entitlement for a single person.

She also receives an occupational pension of £40.00 a week giving her a total weekly income of £185.79.

She is entitled to a guaranteed element of Pension Credit of £15.26 (to increase her income to the Guarantee Credit level of £201.05 a week).

She also receives Savings Credit of £6.78 a week. This is worked out as it is 60% of her weekly income above the Savings Credit threshold of £174.49, giving her a total weekly income of £207.83.

[22] The State Pension Credit Act 2002 sets the qualifying age for the Guarantee Credit to be the same as the State Pension age for women.
[23] Department for Work and Pensions (DWP) (2022) Benefit and pension rates 2023 to 2024, https://www.gov.uk/government/publications/benefit-and-pension-rates-2023-to-2024/benefit-and-pension-rates-2023-to-2024
[24] House of Commons Library, *Benefits Uprating* 2023/24, https://commonslibrary.parliament.uk/research-briefings/cbp-9680/
[25] From ongoing employment, SERPS, Graduated Retirement Benefit, occupational schemes, personal pensions and assumed income from capital savings.
[26] Department for Work and Pensions (DWP) (2022) Benefit and pension rates 2023 to 2024, https://www.gov.uk/government/publications/benefit-and-pension-rates-2023-to-2024/benefit-and-pension-rates-2023-to-2024

On January 14, 2019, the Government implemented a section of the Welfare Reform Act 2012, making changes to the age at which some people could claim Pension Credit.

Before May 15, 2019, people in mixed-age couples (where one person is above SPa and one below) were able to claim Pension Credit based on the age of the older person. After this date, claims could only be made based on the age of the younger person.

As well as mixed-age couples where one reaches or has already reached SPa, the following people will also be unable to claim Pension Credit.

- Single pensioners who start living with a partner who has not reached the qualifying age on or after 15 May 2019.
- People whose circumstances change and become entitled again at any time on or after 15 May 2019, but their partner has not reached the qualifying age.

The Government defines a partner as "a person you live with as if you were a married couple", regardless of whether or not they are married or in a civil partnership.

It is expected that people in mixed-age couples who would have claimed Pension Credit will have to instead claim Universal Credit, or that existing claims for Universal Credit will continue until the younger partner reaches SPa.

Universal credit

Universal Credit (UC) was introduced in 2013 and has brought a number of legacy benefits into one system. These are;

- Child Tax Credit
- Housing Benefit
- Income Support
- Income-based Jobseeker's Allowance (JSA)
- Income-related Employment and Support Allowance (ESA)
- Working Tax Credit

It is designed specifically for people who are out of work or who are on a low income, and was explicitly created to encourage claimants to take up and/or increase paid work. To this end, its unique feature is that for every pound earned while working and claiming UC, the claimant can keep 45p up until the point that their allocated amount is met or exceeded. The allocated amount (maximum UC rate) in 2023/24 for a couple aged over 25 is £578.82 a month. The allocated amount was temporarily raised during the COVID-19 pandemic, but has since returned to pre-pandemic levels.[27]

To read about these benefits in more detail, please refer to **Appendix 5.**

[27] Universal Credit is paid monthly rather than weekly and is therefore presented as a monthly amount. The weekly equivalent for the maximum couple's payment (both over age 25) in 2023/24 of £578.82 would be around £133.57 per week.

Other forms of means-tested retirement income

Housing Benefit and Council Tax Reduction are means-tested benefits available to both pensioners and people under SPa, though working-age people will receive support for housing costs from UC if they are new claimants. Although they are not part of **Tier 1** pension provision, they are included here because they are important benefits that make up a retirement income for many older people.

Housing Benefit (HB) is paid to people on low incomes who rent their home. There is no set amount a person may receive, though there are caps on different household types. It is designed to help with housing costs, including rent and some accommodation-related service charges, and is paid to renters who claim the benefit once they have been assessed as being eligible.

Not everybody that is eligible claims HB. Official estimates show that, in 2019/20, 16% of around 1.4m pensioner households who were eligible did not take up their benefit.[28] For a more detailed description of HB, please refer to **Appendix 6**.

Council Tax Reduction (CTR) is a rebate scheme to provide help with up to 100% of an individual's Council Tax. Local councils design their own scheme.[29]

There are no national data regarding the take-up of CTR, however, estimates of take-up for its precursor, Council Tax Benefit, were relatively low; in 2009/10 between 31% and 38% of pensioner households who were eligible did not take up their benefit.[30]

Since then, the provision of CTR has been devolved to Local Authorities, and there is currently no more up-to-date data on levels of take-up. For a more detailed description of CTR, please refer to **Appendix 7**.

Pensioners receive other, non-pension benefits that could be considered as part of **Tier 1** provision:

- Benefits individually assessed for specific purposes, for example, Attendance Allowance
- (Near) Universal benefits for all or most people at a certain age for example, Winter Fuel Payments

Please refer to **Appendix 8** to see a complete list of other non-pension benefits pensioners may receive.

[28] Department for Work and Pensions (DWP) (2021), Income-related benefits: estimates of take-up: financial year 2019 to 2020, https://www.gov.uk/government/statistics/income-related-benefits-estimates-of-take-up-financial-year-2019-to-2020
[29] www.gov.uk/government/uploads/system/uploads/attachment_data/file/14787/LCTS_Q_A.pdf
[30] Department for Work and Pensions (DWP) (2012) *Income Related Benefits Estimates of Take-up in 2009-10*, www.gov.uk/government/organisations/department-for-work-pensions/series/income-related-benefits-estimates-of-take-up--2

TIER 2
PROVISION

Tier 2 provision

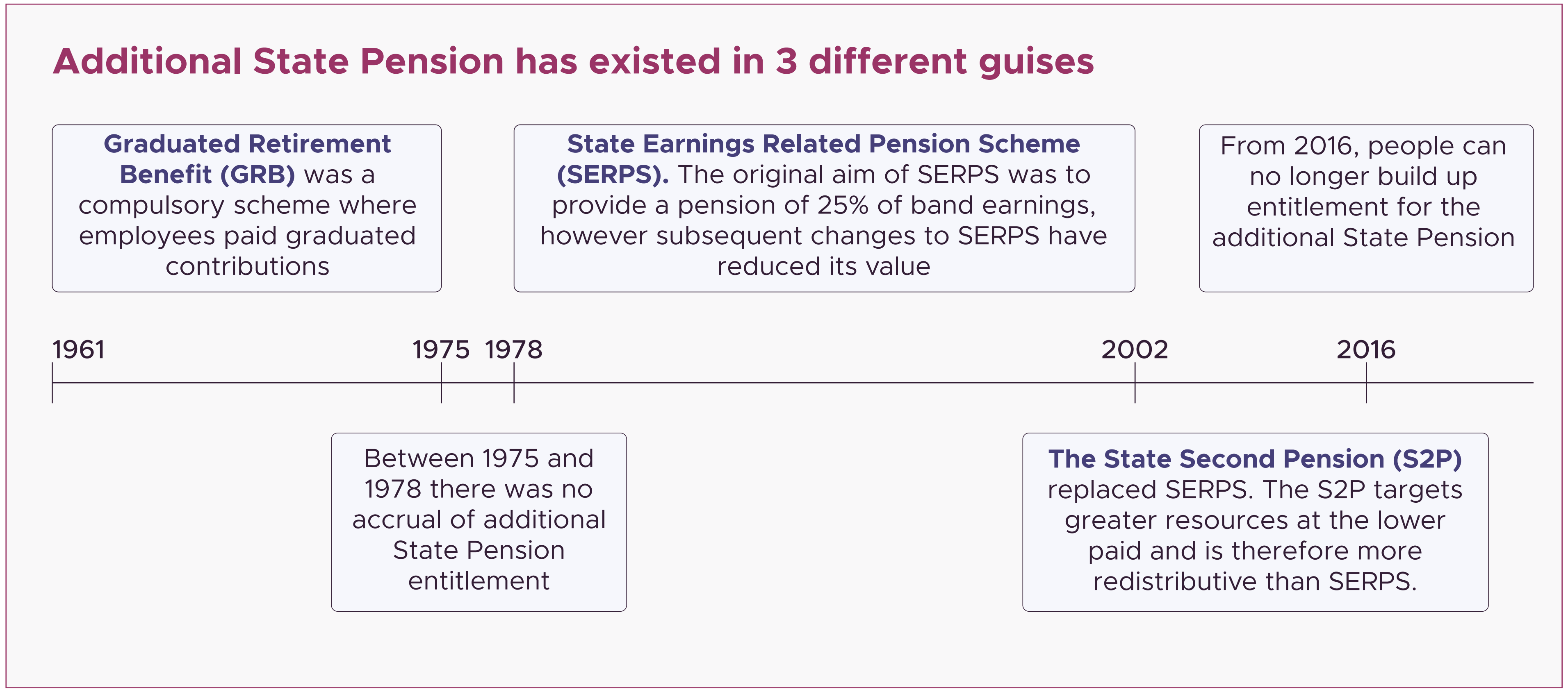
Tier 1 and Tier 2 of pensions are both provided by the State, however they operate in different ways. The UK's Tier 2 of State Pension provision operates on an unfunded 'pay-as-you-go' contributory basis, through the National Insurance (NI) system. Benefits are payable from State Pension age (SPa), but can be deferred. The self-employed were excluded from Tier 2 provision prior to April 2016.

The original aim of Tier 2 was to provide further pension income to employees more closely related to their earnings level than the flat rate that people receive from **Tier 1**. Though people can no longer build up entitlement to Tier 2 of the State Pension, prior to April 2016 contributions were made in proportion to earnings (in a band between minimum and maximum limits). Benefits reflect these contributions, resulting in less redistribution across the population than in **Tier 1**.

Tier 2 provision in the UK has existed in three different guises (**Figure 4**):

- Graduated Retirement Benefit (GRB: 1961 to 1975) – For more information, go the Historical Annex.
- State Earnings Related Pension Scheme (SERPS: 1978 to 2002) – For more information, go to **Appendix 9**.
- State Second Pension (S2P: from April 2002 to April 2016) – For more information, go to **Appendix 10**.

Figure 4 - How additional State Pensions were accrued



How additional State Pensions were accrued

Prior to abolition, the pattern of accruing benefits under S2P was based on two earnings bands and two accrual rates.[31] For low earners, a flat rate of S2P benefit was accrued, while higher earners accrued an additional earnings-related benefit alongside the flat rate accrual. Disabled people, and some individuals with caring responsibilities, could be credited into the flat rate part of S2P. For more information on S2P accrual, please refer to **Appendix 11**.

[31] Earnings between the Lower Earnings Limit and the Upper Accrual Point. Before 6 April 2010, there were three bands accruing benefits at 40% 10% and 20%. Following provisions in the Pensions Act 2007, the former second and third bands have been merged into a single band accruing benefits at 10%.

CONTRACTING-OUT

Prior to 6th April 2016, people paid National Insurance contributions (NICs) in order to accrue entitlement basic State Pension (bSP), and also towards the additional State Pension.

As members of Defined Benefit (DB) schemes had accrued private pension provision, they could opt out of contributing to the additional State Pension. This means they paid lower NICs, but did not receive additional State Pension income from the state. Instead, their employer was responsible for providing an actuarially assessed equivalent value of private pension. This is known as **contracting-out**.

DB pension schemes could choose for their members to forgo additional State Pension entitlement, provided that the scheme promised to pay benefits that were at least as valuable as the additional State Pension benefits. Individuals who contracted-out paid lower NICs, and so did their employers, since they were considered to be contributing the equivalent amount into the private pension scheme.[32] The reduction in the level of NICs was known as the **'contracting-out' rebate**.

Prior to April 2012, members of Defined Contribution (DC) pension schemes were also able to contract out of S2P.

The size of the rebate was set every five years, with advice from the Government Actuary's Department, and acted as an incentive or disincentive to contract out depending on whether the return on the rebate was perceived to be of higher or lower value than the benefit payable under S2P.

For additional elements associated with contracting-out, please refer to **Historical Annex**.

With the introduction of the new State Pension (nSP) in April 2016, further accrual for the additional State Pension was abolished. People who had contracted-out now have to pay the full NI contributions.

[32] The exception to this is with money purchase or Defined Contribution schemes, where the level of NI contribution remains unchanged, but the Government later pays a rebate into the scheme

Uprating of additional State Pension

The additional State Pension is uprated by the Consumer Prices Index (CPI). The annual increase in CPI was 10.1% to September 2022, therefore the additional State Pension increased in line with this in April 2023, with the maximum amount of additional State Pension increasing from £185.90 (2022) to £203.85 (2023).[33]

Summary of the State Pension

The following gives a summary of the state pension system that has been discussed (**Figure 5**). This includes the nSP, the additional State Pension, and means-tested benefits. As the additional State Pension can no longer be accrued, it has been shaded out to reflect this change.

Figure 5

Tier 1: State Pension

Contributory pension with a flat rate of £203.85 a week for individuals who have 35 qualifying years. People will also need a minimum of 10 qualifying years to qualify for any State Pension.

Redistributive across the population to provide all individuals with a minimum standard of living.

With the introduction of the new State Pension in April 2016, all individuals will have a starting amount calculated based on their entitlement built up before 6 April 2016, which will be compared to the amount they would have built up with the new State Pension. Individuals will then take forward the higher calculated amount.

Tier 2: Additional State Pension

This provides individuals with a pension more closely related to their earnings level than the flat rate that people receive from **Tier 1**.

State Pension has been available in three uises:

- Graduated Retirement Benefit (GRB: 1961 to 1975)
- State Earnings Related Pension Scheme (SERPS: 1978 to 2002)
- State Second Pension (S2P: From April 2002)

Members of a Defined Benefit scheme could contract out of this pension and therefore pay lower NI contributions

From April 2016 people are no longer able to accrue entitlement to the additional State Pension or Savings Credit.

Means-tested benefits

Pension Credit has two components:

- Guarantee Credit paid to individuals who have low incomes and low savings to provide a minimum income of £201.05 a week.
- Savings Credit paid to individuals who have made private pension provisions, or have contributed in excess of the basic State Pension (bSP) and earnings-related pension. This is a maximum of £15.94 a week. Savings Credit is abolished for people who reach pensionable age on or after 6April 2016.
- Universal Credit may be claimed by couples where one person is below SPa and one above. The maximum rate for a couple is £578.82 a month, though this can be topped-up with earnings.

Other public tier benefits include:

- Housing Benefit
- Council Tax Reduction
- Attendance Allowance
- Disability Living Allowance

Near universal benefits include:

- Christmas bonus for recipients of bS
- Winter fuel allowance
- Free NHS prescriptions
- Free off-peak bus travel

[33] Department for Work and Pensions (DWP) (2022) Benefit and pension rates 20223to 2024, https://www.gov.uk/government/publications/benefit-and-pension-rates-2023-to-2024/benefit-and-pension-rates-2023-to-2024

TIER 3
PROVISION

Tier 3 provision

Tier 3 is **private pensions**, including workplace pensions and those that are not directly funded by the state. Private pensions are generally provided through the workplace, though an individual, (for example, someone who is self-employed) can take out a private pension directly with a pension provider.

Unlike State Pension contributions, private pension contributions are voluntary for individuals, though there is an element of soft compulsion through the system of automatic enrolment. Private pension contributions, from the employer and/or the individual, fund designated pensions for the individual. The primary aim of private pensions is to redistribute (or smooth) income across an individual's lifetime.

As with state provision, private pension provision is complicated. The legislative framework has been altered over time, adding layers of new arrangements to those already in place. In addition, because individuals have varied employment histories, many will retire with a number of pensions arising from both employer-sponsored schemes and individual arrangements. The benefits from private pension schemes vary depending on scheme rules and structure.

This section will first give a summary of Defined Benefit (DB), Defined Contribution (DC) and Collective Defined Contribution (CDC) schemes. These are the overall structures of almost all private pensions. The difference between contract- and trust-based schemes are highlighted, then the different schemes for workplace and individual schemes are explained. Figure 6 simplifies the hierarchical structure of pension provision.

A scheme is different from a pension provider. One pension provider may offer thousands of different schemes, as each employer will generally be offered a single "scheme" designed individually for its workforce. Therefore, two employees at different organisations may have pensions provided by the same provider while also being in separate schemes.

Summary of Schemes

Figure 6

PENSIONS POLICY INSTITUTE PPI

Workplace pension schemes

A pension scheme accessed through an employer. The employee and/or employer make contributions to the pension and this money is invested until retirement.

Individual pension schemes

A pension scheme contract taken out directly with a provider.

Trust-based schemes

A pension scheme governed by a board of trustees who have a fiduciary duty towards scheme members. The board of trustees manage investments on the members behalf.

Traditionally these schemes were set up & run by employers.

Contract-based Schemes

A pension scheme governed by a provider and an independent governance committee (IGC) where a contract exists between the individual scheme member and the provider.

Defined Benefit (DB) schemes

Trust based pension schemes run by an employer which offers pension benefits based on salary during working life.

Final Salary or Career Average schemes

Trust based pension schemes run by an employer which offers pension benefits based on salary during working life.

Collective Defined Contribution (CDC) pension schemes

Legislated in 2022.

A trust-based pensions scheme where contributions are pooled in a collective fund. Provides members with an income in retirement that can go up and down based on investment performance.

Royal Mail Scheme

Authorised in 2023.

The first scheme authorised in March 2023 for Royal Mail employees.

Defined Contribution (DC Schemes)

Trust of contract-based pension schemes run by a third party in which pension contributions are invested individually and benefits depend on pot size at withdrawal and method of accessing savings (e.g drawdown v annuity)

Master trust schemes

Trust-based DC pension scheme run by a pension provider & open to multiple employers.

DC trust schemes

Trust-based DC pension scheme run by a single employer.

Group personal pension schemes

Contract-based, DC pension scheme run by a pension provider, designed for a group of employees working for a single employer (includes Stakeholder Schemes).

(Individual) Personal pension schemes

Contract-based, DC pension scheme run by a pension provider, designed for a single individual.

Defined Benefit and Defined Contribution Pension Schemes

Table 3 explains the differences between Defined Benefit (DB) and Defined Contribution (DC) schemes, as well as the CDC alternative model.

Table 3	Defined Benefit (DB)	Defined Contribution (DC)	Collective Defined Contribution (CDC)
How much do members contribute?	Contributions are varied in order to ensure that the level of promised benefits are reached.	Contributions are usually expressed as a percentage of salary or total earnings. The rate of contribution could be a flat rate, or could be tiered by age and/or length of service and/or seniority and/or level of earnings.	Contributions are usually expressed as a percentage of salary or total earnings. The rate of contribution could be a flat rate, or could be tiered by age and/or length of service and/or seniority and/or level of earnings.
How much do members receive in retirement?	A DB pension scheme promises a specific level of benefit when an individual retires. Employers make the promise and are responsible for deficits in scheme funding. The Pension Protection Fund (see **Appendix 9**) was set up in April 2005 to protect members in DB schemes.	A DC scheme operates on the money-purchase basis with a specified rate of contributions being paid into the scheme, but with no guarantee as to the level of the benefit that will be paid out. When an individual reaches retirement, the accrued benefit is withdrawn and may be used to buy a retirement product. This means the scheme member themselves often bear the risks of having a low retirement income in later life.	A CDC scheme provides members with an income for the entirety of retirement, similar to that provided by a DB scheme, rather than a pension pot that can be accessed flexibly. Unlike DB incomes, however, CDC income levels are not guaranteed and can be subject to increases and decreases during both the accumulation phase and after retirement, depending on the scheme's funding position.
Where do the contributions go?	DB schemes operate on a pooled fund basis; all contributions are paid into a common fund, which is invested to provide all retirement benefits. In unfunded public sector schemes, contributions are used to pay the benefits of current scheme pensioners, the balance between contributions and payments is covered by the government.	The contributions are invested. Often there is a choice of investment funds – managed, equity, property, gilts, and overseas – and with some schemes a choice of investment manager.	Contributions to CDC schemes are invested collectively for members in both accumulation and decumulation. It is argued that this will allow CDC schemes to take a longer-term approach to investment than individual DC schemes.

What age can a member start taking their pension?	Schemes usually have a normal pension age of 60, 65 or State Pension age (SPa), but a member can generally retire early with a reduction in benefits. DB schemes are subject to the same minimum pension age as DC schemes.	DC members can access their pension pot at the minimum pension age. This is 55, rising to age 57 in 2028.[34] Before age 55, people can withdraw DC pension savings but will incur a tax charge of 55%.	As with DB schemes, CDC schemes are expected to have a normal pension age of 60, 65 or SPa, with the option to retire early with reduced benefits (after the statutory minimum age of 55).
How does investment performance affect entitlement at retirement?	In the normal course of events, the investment performance of the scheme assets has no or minimal impact on the benefits an individual receives, as it falls to the scheme provider to fill the shortfall.	At retirement, the pension will depend on the accumulated fund, the amount deducted from the fund as a tax-free lump sum (which is usually up to 25% of the total fund) and the method of accessing savings. The size of the pot depends on contributions, length of saving, employer contributions, investment performance, charges, and the choice of retirement product or means of access. If investment returns or retirement income product rates are poor, then the resultant pension will be lower.	A CDC scheme's investment performance determines the level of income that members will receive in retirement. Schemes use investment performance to calculate scheme funding position annually, and determine the adjustments that need to be made to future pension entitlements and current pensions in payment in order to rebalance the funding position. This means that, even after retirement, entitlements can be adjusted down as well as up.
How popular are these schemes?	DB schemes are losing popularity due to the risk placed on the employer; however, they are still provided to public sector employees. In 2022, 9% of DB schemes were open to new members and 50% were closed to all benefit accrual.[35]	Automatic enrolment into DC schemes has resulted in 88% of all eligible employees as active members of pension schemes by March 2021.[36]	CDC schemes are a new addition to the UK pensions landscape, introduced by the Pension Schemes Act 2021. The first scheme of this type, the Royal Mail Collective Pension Plan, was authorised in April 2023.
Can members opt out of any portion of the scheme?	DB schemes were able to contract-out of paying National Insurance contributions in respect of State Second Pension (S2P) up until April 2016. The Pensions Act 2007 abolished contracting-out in DC schemes from April 2012. Employees can also choose not to be automatically enrolled into a DB workplace pension.	Employees can choose not to be automatically enrolled into a workplace pension. This is called "opting out".	As with other types of pension scheme, employees are entitled to opt out of being automatically enrolled into a CDC scheme.

[34] Budget 2014
[35] TPR (2022) Annual report on UK defined benefit and hybrid schemes 2022
[36] DWP (2022) Workplace pension participation and savings trends of eligible employees: 2009 to 2021

Collective Defined Contribution schemes

Collective Defined Contribution (CDC) are a **new type of pension scheme** that was introduced by the Pension Schemes Act 2021, with the first scheme of this type, the Royal Mail Collective Pension Plan gaining authorisation in April 2023.

CDC schemes have two defining features:

- **Collective: Risks are shared collectively between the scheme's members rather than individually.**
- **Defined Contribution: Contribution rates (employer and employee) are defined in advance, with no ongoing liability to pay more in the future to cover benefits.**

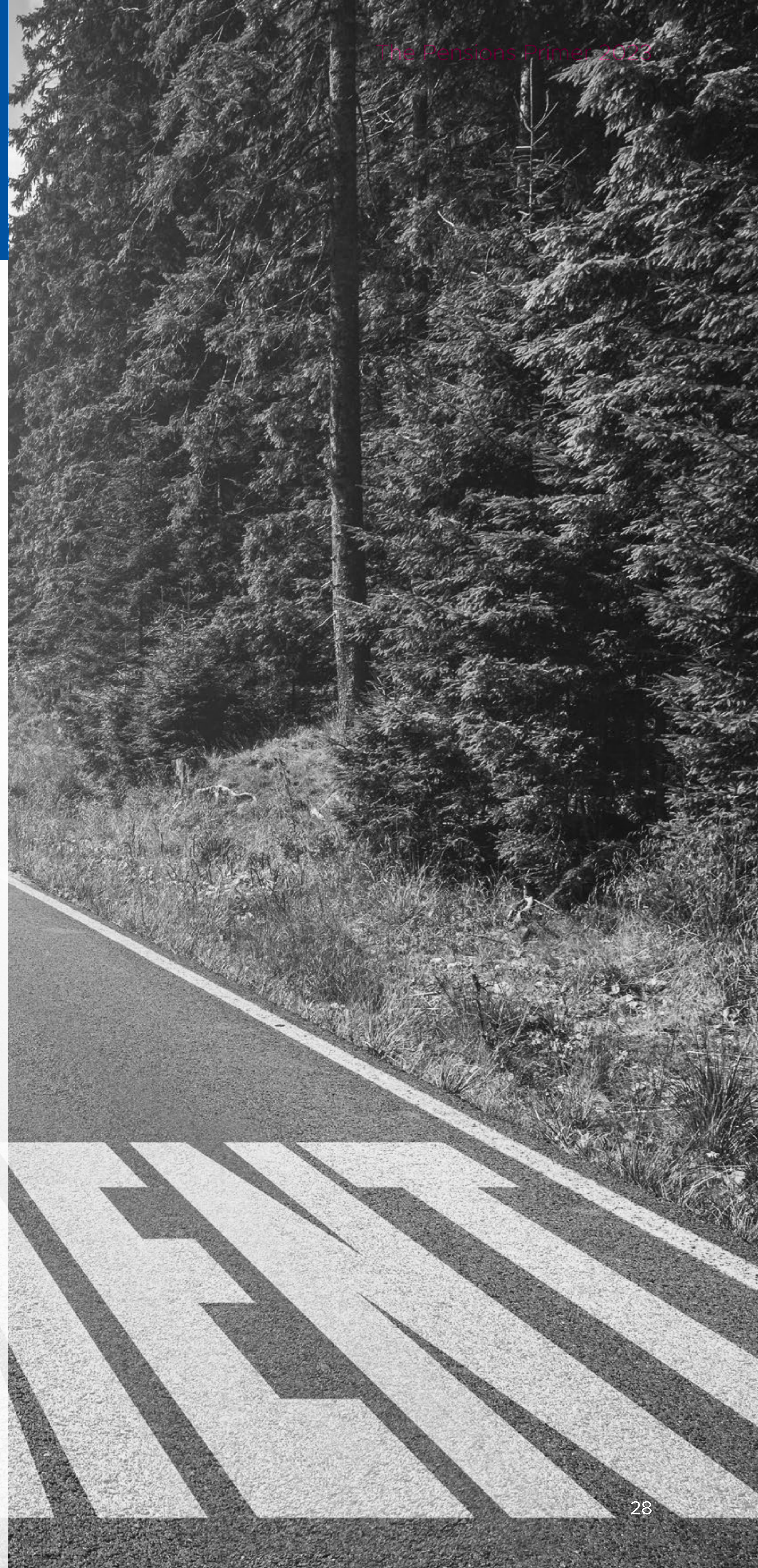
However, unlike individual DC schemes, CDC schemes generally provide members with an income for life, similar to that provided by a DB scheme, rather than a pension pot that can be accessed flexibly. Unlike DB incomes, however, CDC income levels are not guaranteed and can be subject to increases and decreases during both the accumulation phase and after retirement, depending on the scheme's funding position. Supporters of CDC argue that it could provide a middle ground between DC and DB, providing members with greater certainty about the retirement outcomes they will achieve than would be possible in an individual DC scheme - while also providing greater cost and liability certainty for employers than a DB scheme.

The first CDC regulations came into force in August 2022 and allow CDC schemes to apply for authorisation from The Pensions Regulator (TPR). So far, Royal Mail's is the first and only CDC scheme to be approved. While the current legislation allows only for single employer (or a group of connected employers) CDC schemes, there is further consultation ongoing around the possibility of multi-employer CDC schemes being developed in future.

Trust- and contract-based schemes

Private sector pension schemes can have either a trust- or contract-based governance structure. In a contract-based arrangement, the scheme is managed and governed by the contract provider, generally an insurance company. In a trust-based scheme, a board of trustees runs the scheme in the interests of its beneficiaries. Private sector DB and CDC schemes must be trust based, DC pensions could be either trust based or contract based.

In the public sector, pension schemes are statutory schemes, with their regulations set out in statutory instruments. They are run by pension boards who act in a similar way to trustees.



Workplace pension schemes

Pensions provided through the employer are called workplace pensions. Workplace pension schemes can be structured as DB, DC, or hybrid/risk-sharing schemes such as CDC.

Most private pension arrangements are employer-sponsored personal pensions, or multi-employer schemes. The employer usually contributes to these schemes, and, in the case of a scheme used for automatic enrolment requirements, the employer must contribute. More often than not, an employee contribution is also required.

The employer link may be very strong; for example, some employers set up, fund and administer their own trust-based pension scheme, or the link may be weak; for example, the employer may only give access to a scheme run and administered by a pension provider.
Many schemes are arranged through single employers, although multi-employer schemes are becoming increasingly popular in the private sector and there are a few industry-wide arrangements.

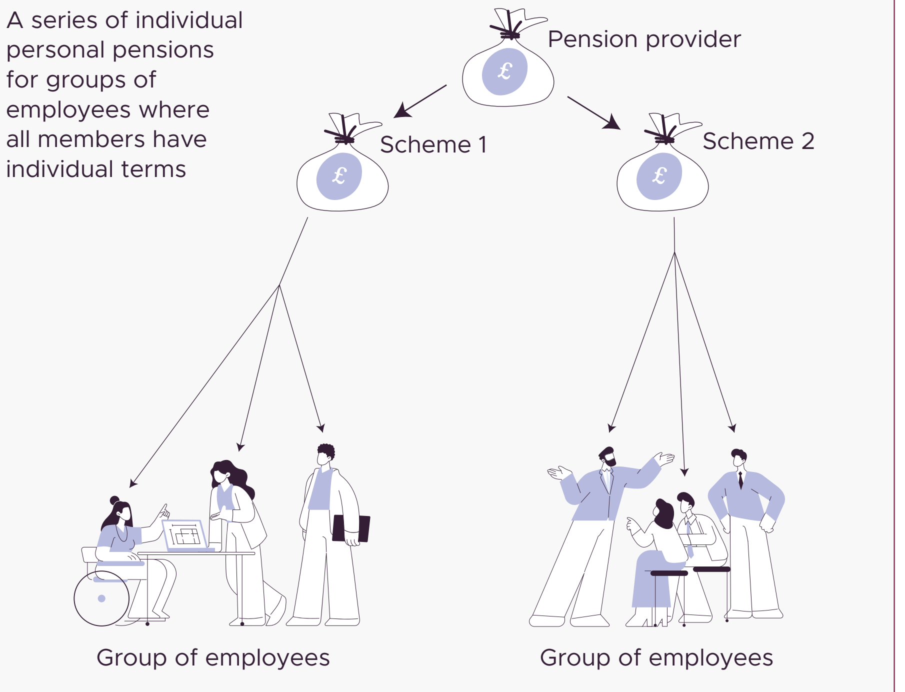
Group personal pensions and group stakeholder pensions (contract-based scheme)

Group Personal Pensions (GPP) and Group Stakeholder Pensions (GSP) are sponsored by the employer, but the legal contract is still between the individual and the pension provider (**Figure 7**). These two types of personal pensions are collective arrangements, made for the employees of a particular employer to participate on a group basis, and so typically obtain lower management fees than individual personal pension plans.The main advantage of a GPP compared to an individual arrangement is that charges are likely to be lower.

From April 2001, all employers with five or more employees were required to designate a stakeholder provider to which they would make payments deducted from an employee's pay if they requested. Employers were not required to contribute prior to their automatic enrolment staging dates (explained in a later section).

Figure 7

Group Personal Pensions and Group Stakeholder Pensions have individual terms for groups of employees



The main difference between these and other types of personal pensions at the time was that management charges in each year were limited by a maximum charge cap and providers were not permitted to charge exit penalties. For people who joined a stakeholder pension after 6 April 2005, the maximum fund management charge was 1.5% for the first 10 years, thereafter reducing to 1%. For stakeholder plans that were opened before this date, the previous maximum charge of 1% continued to apply. However, subsequent legislation has removed most of the differences between stakeholder pension schemes and other pension schemes used for automatic enrolment. Schemes used for automatic enrolment cannot, by law, charge more than 0.75% total Annual Management Charges (AMCs), excluding transaction costs, for members invested in the default fund, and, as of April 2023, some performance-related fees have also been removed from the charge cap.[37]

Though employers are no longer required to provide access to Stakeholder schemes, as they were under previous legislation, they are still available for use alongside other personal pensions.

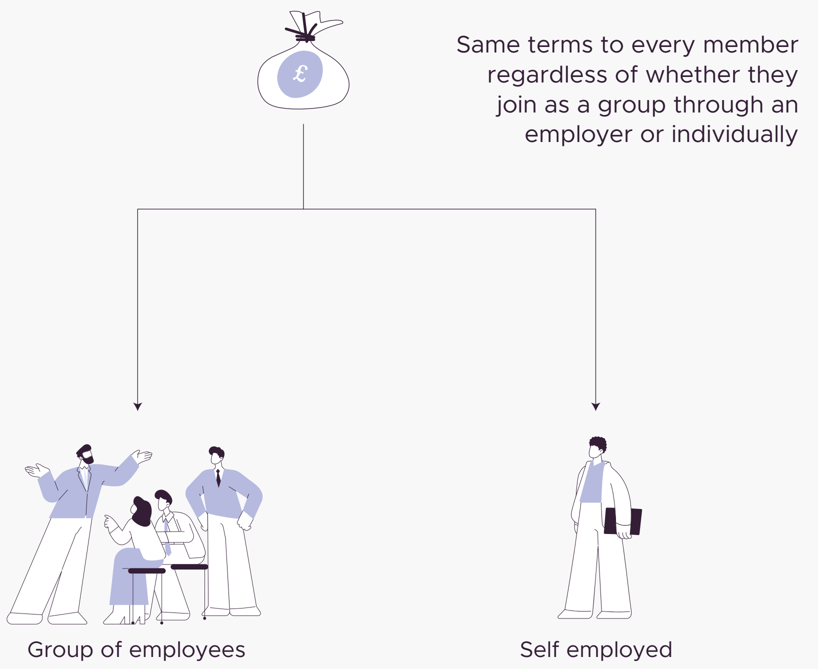
Multi-employer pension schemes

Multi-employer schemes allow an employer to offer a pension scheme without setting up a pension themself. Historically multi-employer schemes were industry specific, such as the Merchant Navy Officers Pension Fund, which provides a pension scheme for shipping companies. The introduction of automatic enrolment has heralded a significant rise in multi-employer schemes, some of which are master trusts.

Multi-employer schemes offer the same terms to every member regardless of whether they join the scheme as part of a group via their employer or singly as an employee or a self-employed person, though some multi-employer schemes do offer a variation in charges (**Figure 8**).

Figure 8

Multi employer pension schemes (e.g master trusts) have the same terms for every member



Some of these schemes are DC schemes run by an insurance company or pension provider. Others are master trusts, which are DC schemes governed by a board of trustees who owe a fiduciary duty to members. These schemes may be stand-alone (such as NEST) or have the backing of a pension provider or insurance company (such as People's Partnership and NOW: Pensions).

Pension Schemes Act 2017 and master trust regulation

The Pension Schemes Act 2017 was introduced on 27 April 2017. The Act introduced authorisation criteria that master trusts must satisfy. It is regulated by The Pensions Regulator (TPR). The Act increased TPR's powers in relation to ongoing supervision of schemes; TPR may now require that trustees of an authorised master trust submit a 'supervisory return' once in any 12-month period. The authorisation of master trusts saw a reduction in the number of such schemes, and, as of 2023, 37 master trusts are authorised to operate in the UK market.[38]

Additional Voluntary Contributions

Until April 2006, all occupational pension schemes offered the facility for employees to make Additional Voluntary Contributions (AVCs). These could either be used to purchase extra years of service – at retirement the total pension will be based on earnings and actual service plus any added years purchased – or could be invested and the resultant pension would depend on the accumulated fund and annuity rates applicable at retirement. Some companies may no longer offer AVCs following changes to pension rules in April 2006, as there are now more options for people to top up their company pension through other means.[39]

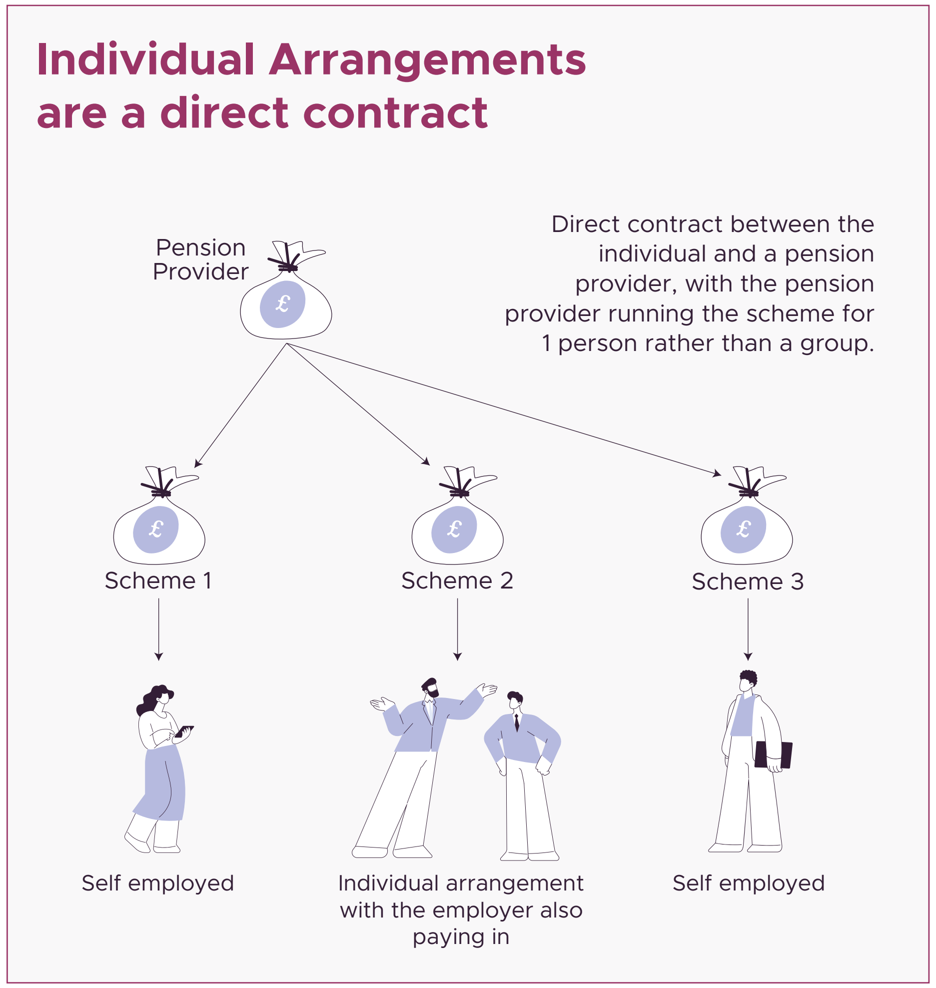
[37] DWP (2023) Value for Money: A framework on metrics, standards and disclosures
[38] The Pensions Regulator List of authorised master trusts
www.thepensionsregulator.gov.uk/en/master-trust-pension-schemes/list-of-authorised-master-trusts
[39] Between April 2001 and April 2006 members of an occupational pension scheme earning less than £30,000 a year had an alternative 'concurrency' option. This allowed them to contribute up to £3,600 a year into a stakeholder or personal pension. The £30,000 limit applied to each employment. So for example, it was possible for someone with more than one employment to have a concurrent pension even if his or her total earnings were above £30,000.

Individual Arrangements

Personal pension plans are individual arrangements (not made through an employer) based on a direct contract between the individual and a pension provider, and are contract based (**Figure 9**).

There are several types of these, including stakeholder pensions and a distinct product called a personal pension. These work with the same underlying money-purchase principle as workplace pensions, but individual pensions can have higher charges due to the provider running the scheme for one person rather than a group of employers.

Figure 9



Until April 2001, individual personal pensions were only available to individuals while they were self-employed, or were not members of an occupational pension scheme. Legislation introducing stakeholder pensions widened access further and, from April 2006, individual pension arrangements became open to everyone under age 75.

The majority of individual pension arrangements now operate under the charge cap, which limits the total annual cost to members whose funds are invested in the default fund to 0.75% of funds under management.

Individual contributions to private pension schemes obtain tax relief at least at an individual's highest marginal rate (within limits). The pension fund is accumulated in a tax-favoured environment. Employers can still contribute to a personal pension, and any contributions an employer makes are tax deductible and so reduce its corporation tax liability. The company also benefits from a reduction in the amount of National Insurance (NI) owed.

Automatic enrolment into pension schemes from 2012

Previous Governments acted on the recommendations of the Pensions Commission[40] and legislated in the Pensions Act 2008 for the introduction of automatic enrolment into private pensions. Automatic enrolment (AE) began in October 2012 in a staged process. In the first stage, larger employers were required to automatically enrol their employees, with medium, then smaller employers following in the second and third stages. Finally, new companies set up during the staging process had to enrol employees in the fourth stage, which ended on 1 February 2018. Since that date any new company must automatically enrol their employees immediately.

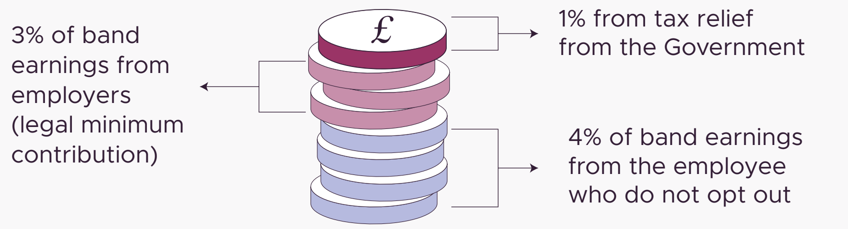
Employees between age 22 and State Pension age (SPa) are eligible for automatic enrolment into a scheme chosen by their employer, with employees having the right to opt out. The amount of annual earnings above which every employee should be automatically enrolled is £10,000 in 2023/24. Contributions become payable on band earnings over £6,240 and up to a limit of £50,270 (2023/24).[41]

Employees have the choice to opt out of being enrolled into a pension scheme. Every three years, employers must repeat the automatic enrolment process so that employees who chose to opt out, or leave subsequent to the opt out period, can revisit their decision.[42] This is known as re-enrolment.

The required level of contributions that employers and employees must make into a pension scheme (if employees remain opted in) is 8% minimum total contributions of band earnings.[43] This 8% is made up of a minimum 3% from the employer and the remainder from the employee and the Government (through tax relief)[44] (**Figure 10**). If the employer decides to contribute the legal minimum of 3% of band earnings, then employees who do not opt out will have to contribute 4% and the Government will contribute 1% through tax relief.[45] However, it will be up to employers to decide whether they want to contribute more. If they contribute more than 3%, that could reduce the amount that employees are required to contribute.

Figure 10

Level of contributions that employers and employees must make into a pension scheme to reach 8% minimum total contributions from 2020



[40] Pensions Commission (2005) A New Pension Settlement for the Twenty-First Century.
[41] https://www.gov.uk/government/publications/automatic-enrolment-review-of-the-earnings-trigger-and-qualifying-earnings-band-for-202324/review-of-the-automatic-enrolment-earnings-trigger-and-qualifying-earnings-band-for-202324-supporting-analysis
[42] TPR (2015) Automatic enrolment: Commentary and analysis: April 2014 – March 2015.
[43] DWP (2012) Revised implementation proposals for workplace pension reform July 2012, para 7
[44] The tax relief may be higher for those people who pay higher-rate tax
[45] The tax relief may be higher for those people who pay higher-rate tax

Review of automatic enrolment

The Automatic Enrolment Review panel published a report in December 2017. Based on the recommendations made in the report, the Government remains committed to implement from the mid-2020s:

- Removing the lower limit on the salary for contributions, so that salary is counted for contributions from the first pound.
- Reducing the minimum age for eligibility to automatic enrolment from 22 to 18.
- Testing ways to improve pension saving participation and retirement incomes for self-employed people.

In March 2023, the Department of Work and Pensions supported MP Jonathan Gullis' Private Member's Bill, which aims to expand automatic enrolment by enacting the proposals from the AE 2017 Review. The Bill seeks to abolish the Lower Earning Level (LEL) for contributions and lower the age limit to 18. However, the provisions of the Bill are not expected to result in immediate change. Instead, it grants the Secretary of State the power to consult and report on the outcomes of the proposed changes before implementing them. The Bill also sets out a roadmap for the reforms, including time for employers and workers to adapt to the transition.

This Bill is currently in the Committee Stage following its second reading.

Automatic enrolment test

With the introduction of automatic enrolment in 2012, the Government set an exemption test for deciding whether an employer-based pension scheme is of a high enough standard to allow the employer to be exempt from automatically enrolling eligible employees into an alternative scheme. In order to qualify as an automatic enrolment scheme, a pension scheme must:

- Allow contributions to be made by the employer.
- Be "registered", which means the type of scheme that receives tax advantages under the Finance Act 2004.
- Defined Contribution schemes must have employer contributions of at least 3%, and total contributions of at least 8%, of qualifying (band) earnings.
- Defined Benefit schemes must satisfy the Test Scheme standard or an alternative DB requirement (e.g., Costs of accruals test, money purchase quality requirement) for all active members.[46]
- Hybrid schemes must satisfy either the money purchase requirement or the Defined Benefit requirement, as appropriate, according to rules set out by the Secretary of State.

Charge Cap

The default strategy is the investment strategy that members will automatically have their contributions invested in, unless they make an active choice to invest in a "self-select" strategy.

The Occupational Pension Schemes (Charges and Governance) Regulations 2015 introduced a cap on the charges of default strategies used for automatic enrolment. This cap limits the total annual cost to members whose funds are invested in the default to 0.75% of funds under management. The cap applies to all scheme and investment administration charges.[47] Transaction costs (third-party costs generated when investments are sold and bought on the market) and some performance fees for investment managers are excluded from the charge cap.[48]

[46] Test Scheme is a scheme that provides a pension from age 65 of 1/120 x average qualifying service over the last 3 tax years before retirement for each year of qualifying service.
[47] Department for Work and Pensions (2016) *The charge cap: guidance for trustees and managers of occupational schemes* https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/557888/charge-cap-guidance.pdf
[48] https://www.gov.uk/government/news/pensions-charge-cap-changes-outlined Accessed 27.04.2022

Environmental, Social and Governance investment regulations

The financial implications of Environmental, Social and Governance (ESG) factors are becoming increasingly important considerations in pension schemes' investment decisions as these issues become more pressing, both in terms of being more widely recognised as material risks and as a result of external regulatory and societal pressures.

In September 2018, the Government introduced regulations to strengthen the obligation of occupational pension scheme trustees to consider ESG factors in investment decisions and illustrate how they have done so in their Statement of Investment Principles (SIP). From 1 October 2020, these regulations increased further, with trustees of DC schemes with 100 or more members now required to produce an implementation statement explaining how they have followed and acted upon the stated investment policies set out in their SIP.

This includes reporting on the way in which the scheme monitors its asset managers who undertake investment and engagement activities on its behalf, and on whether these managers have acted in accordance with the trustees' stated policies.

In December 2019, the FCA introduced similar reporting requirements for contract-based schemes, extending the remit of Independent Governance Committees (IGCs) to include a new duty of considering and reporting on their provider's policies on ESG issues, member concerns and stewardship, for the products overseen by the IGC.

Since October 2020, DB schemes are also required to publish their SIP alongside a narrower implementation statement covering their engagement and voting behaviour.

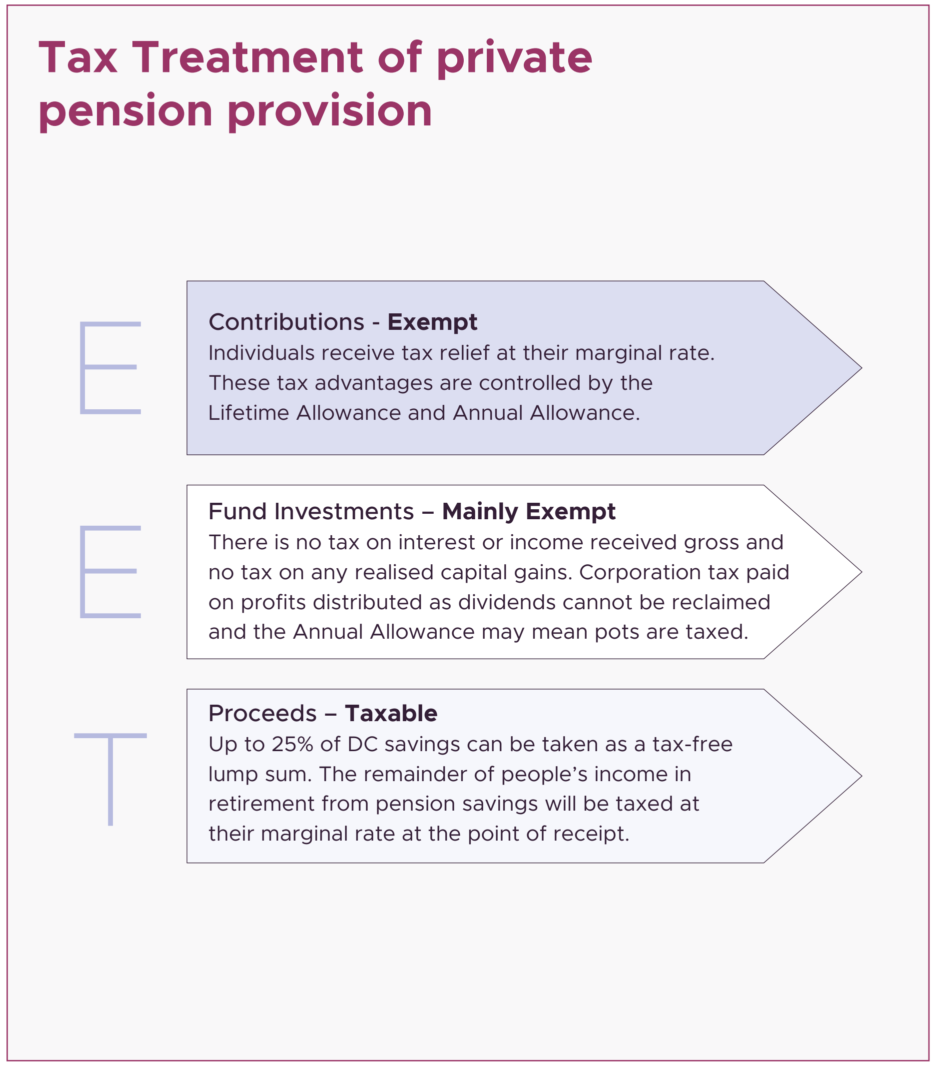
Regulation relating to pension schemes' ESG investment strategies continue to grow. Following recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), the Pension Schemes Act 2021 introduced legislation to enable regulations to be made requiring trustees to consider, in depth, how climate change will affect their pension scheme and its investments, funding and liabilities. Since October 2022, trustees of all schemes with total assets of £1bn have had to publish information relating to the effects of climate change on the scheme within seven months of each scheme year.[49]

[49] https://www.thepensionsregulator.gov.uk/en/document-library/consultations/climate-change-guidance

Tax treatment of private pension provision

The tax treatment of private pension provision is generally expressed as EET – Exempt, Exempt, Taxed (**Figure 11**). Contributions into a pension fund are exempt from tax, the accumulation of the fund is mainly exempt from tax and the majority of the proceeds are taxable.

Figure 11



As a portion of the fund sum can be taken tax free after minimum pension age, the 'T' is only partial. The accumulation stage is also not fully 'E', as it is not fully exempt from tax. The extent of taxation on the fund accumulation depends on the mix of investments within the pension fund. The roll up of funds invested directly in bonds, property or cash is completely tax-free. However, since 1997, dividend income from equities has been taxed at a Corporation Tax rate, although capital gains remain tax free.

Prior to April 2006, contributions to and benefits from pension schemes qualified for tax relief according to limits which were closely related to how much an individual earned.[50] There were eight different regimes, depending on the type of pension scheme in operation.

The Finance Act 2004, which took effect from 6 April 2006, included a number of amendments designed to simplify the taxation of the UK private pension regime, effectively capturing all pensions under a single set of rules.[51]

[50] For contributions of more than £3,600 a year
[51] Inland Revenue (IR) (2003) Simplifying the taxation of pension: the Government's Proposals and Her Majesty's Treasury (HMT) (2004) Prudence for a purpose: A Britain of stability and strength, Budget report https://webarchive.nationalarchives.gov.uk/20040723205159/http://www.hm-treasury.gov.uk/budget/budget_04/budget_report/bud_bud04_repindex.cfm?textonly=false&
[52] Although exemptions to the Lifetime Allowance are available to protect existing rights
[53] For defined contribution schemes the contributions made by the employer and employee are compared to the amount of the Annual Allowance, in the case of defined benefit schemes it is slightly more complicated, the change in value of accrued benefits (after allowing for growth in inflation) is compared to the Annual Allowance. This means that for final salary DB schemes, a promotional pay increase could lead to a change in pension value that breaches the Annual Allowance, as it is an increase in value that affects all previously accrued benefit.
[54] HM Treasury (2023) Spring Budget 2023 https://www.gov.uk/government/publications/spring-budget-2023/spring-budget-2023-html
[55] In the 2017 Scottish budget, the Scottish Government implemented Scotland-specific income tax rates which are reflected in the tax relief on the pension contributions that can be claimed in Scotland. More information can be found here: https://www.gov.uk/government/publications/pension-schemes-relief-at-source-for-scottish-income-tax-newsletter-february-2018/pension-schemes-relief-at-source-for-scottish-income-tax-newsletter-february-2018

Contributions – 'Exempt'

Employer contributions are paid gross and, if they are treated by HM Revenue and Customs (HMRC) as an eligible expense, the employer will get full relief against Corporation Tax. Making pension contributions on behalf of employees has an additional tax advantage for the employer, as employers' pension contributions are not liable for National Insurance contributions.

The amount by which an individual can benefit from tax advantages was controlled by two 'allowances': Annual and Lifetime. These allowances applied to each individual and across all registered pension schemes that the individual uses for providing benefits, regardless of the time of joining.[52]

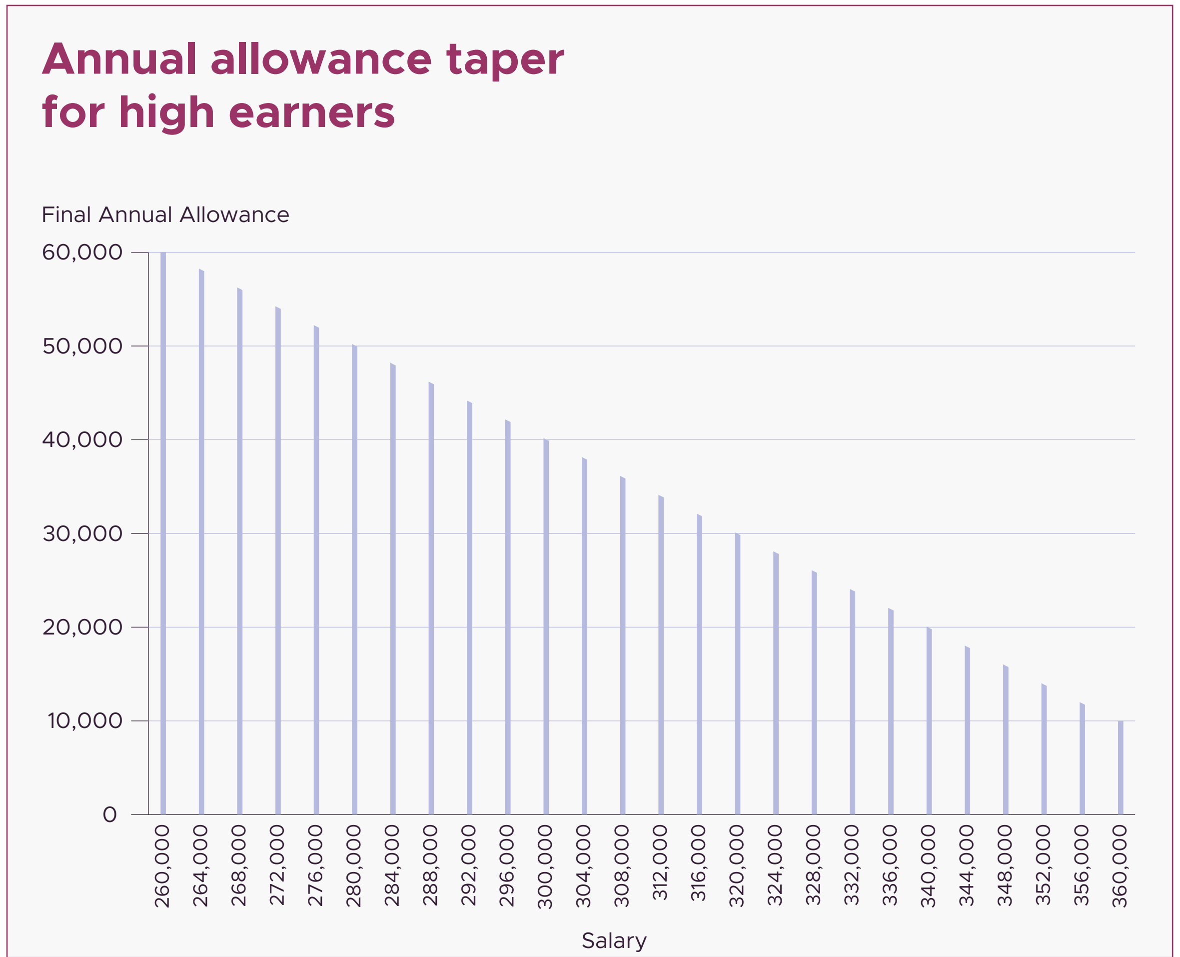
An individual can make contributions to any number of private pension schemes and receive tax relief on the amount saved in that year up to the Annual Allowance (AA).[53] In the March 2023 Budget, the Chancellor announced an increase in the AA from £40,000 in 2022/23, to £60,000 for 2023/24.[54] Contributions above the AA are taxed at an individual's marginal tax rate.

In 2023/24, employee contributions up to the lower of 100% of earnings, or the £60,000 AA value can be offset against income tax, where individuals receive tax relief at their highest marginal rate. In some cases, full relief is available immediately, whereas in other cases basic rate relief is given immediately and higher rate relief is reclaimed through the end-of-year tax return.[55]

From April 2016, the Government introduced a taper to the AA. The income threshold is £260,000. For every £2 over an individual's adjusted income of £260,000 to £360,000, £1 is deducted from their AA (**Figure 12**). This means an individual earning £360,000 or over can receive tax relief on contributions up to £10,000 and is then taxed at their marginal rate.[56]

Upon accessing benefits in retirement, an individual's total pension savings is tested against a Lifetime Allowance (LTA), whose purpose was to regulate the amount of tax relief individuals get over their working life. If the value of the pension saving were to be above the LTA (£1,073,100 in 2022/23), an additional tax would be payable of 25% if the benefits are taken as a pension, or 55% if they are taken as a lump sum.[57] In the 2023 Spring Budget, the Chancellor announced that, for the tax year 2023/24, the LTA additional tax charge would be set to zero, before abolishing the LTA from April 2024. The Chancellor announced that a maximum level of Tax Free Lump Sum would be set at £268,275 (which is 25% of the Lifetime Allowance level) and frozen at that level in future years.

Figure 12



Fund Accumulation – mainly 'Exempt'

The pension fund accumulates in a tax-favoured environment – there is no tax on interest or income received gross, and no tax on any realised capital gains. However, since 1997 pension funds have not been able to reclaim Advance Corporation Tax (ACT) on UK dividends.[58]

From April 2006, an individual can build up their pension funds tax-free until the total exceeds the AA in any given year, or the LTA. With the announced abolition of the Lifetime Allowance, the Annual Allowance is the only limit to the individual on the amount of fund that can be built up in a pension.

Proceeds – mainly 'Taxable'

Upon retiring, up to 25% of DC pension savings can be taken as a tax-free lump sum. The remainder of the fund can be withdrawn flexibly or some or all of it can be used to purchase a retirement income product, such as a lifetime, fixed or flexible annuity, an income drawdown product, or another product that offers income, savings and/or insurance. As the market continues to develop, new products may emerge. People's income in retirement from pension savings is taxed at their marginal rate at the point of receipt.

People with DB pension savings may also take a tax-free lump sum from the scheme. This is usually achieved by giving up some of their income in exchange for a lump sum, or they may have been accruing a lump sum in parallel to their pension accrual. In either case they are similarly limited to taking a quarter of the value of their pension tax-free as a lump sum. The remaining income is taxed at the individual's marginal rate of tax.

Death prior to retirement

If an individual dies before converting their pension savings into an income, the accumulated fund, plus any insured lump sum death benefit, can be paid out tax-free. Inherited pension savings (with the exception of lifetime annuities without capital guarantees) are tax-free if the fund-holder dies under the age of 75 with uncrystallised funds or funds in a drawdown account. Inherited pension savings are taxed at marginal rate if the fund-holder dies over the age of 75 with uncrystallised funds, or funds in a drawdown account. Inherited pensions are taxed at 45% if the fund-holder dies over the age of 75 and the beneficiary takes it as a lump sum (those taking a lump sum in these circumstances are taxed at their marginal rate).[59]

With both State Pension and DB pension schemes, there is some degree of certainty about the level of income an individual will receive once pension payments commence.

[56] HM Treasury (2023) Spring Budget 2023 https://www.gov.uk/government/publications/spring-budget-2023/spring-budget-2023-html

[57] HMRC (2023) Budget 2023: Overview of Tax Legislation and Rates; Annex A https://www.gov.uk/government/publications/spring-budget-2023-overview-of-tax-legislation-and-rates-ootlar/annex-a-rates-and-allowances

[58] PPI (2005) Briefing Note Number 22 Is £5 billion being taken from pension funds each year? www.pensionspolicyinstitute.org.uk/default.asp?p=124&publication=0193

[59] www.gov.uk/tax-on-pension-death-benefits

Withdrawing retirement income

In comparison, the actual level of income from a DC scheme cannot be predicted in advance, even when the level of the pot at retirement is known. The level of pension provided will depend on the method of access, on market conditions and, in some cases, may not constitute a "pension", but rather a series of flexible withdrawals as and when desired by the fund holder.

Withdrawal of pension savings has had various policy changes over the years.
Please refer to **Appendix 11**, which discusses these changes in more detail.

People can now access DC pension savings flexibly from age 55

Prior to 2015, most individuals accessing DC pensions were required to annuitise their savings (after taking an optional 25% tax-free lump sum).[60] There were exceptions for those with savings below the trivial commutation amount (£18,000), who could take the total as a lump sum, and those who could provide themselves with a guaranteed lifetime income of £20,000 per year from other sources, who could access the remainder of their savings flexibly via drawdown. Those with pots of more than £18,000 but without a guaranteed minimum income of £20,000 per year were required to use their DC savings to secure a retirement income, either by purchasing an annuity or through the use of a capped drawdown product (which limited income withdrawals to 150% of an equivalent annuity).

In the 2014 Budget, the Government announced that, from April 2015, individuals would be able to flexibly access their DC pension savings with no requirement to secure a guaranteed retirement income, with the objective of giving savers more freedom and choice over how they access their DC savings and provide a retirement income for themselves.

The options open to people with DC savings are limited only by the products available and the amount of savings people have. They are also governed by taxation.
People with DC savings may, from age 55 (age 57 from 2028), do one or a combination of the following, (though this list is not exhaustive as the retirement income market is still evolving in light of the new policy):

> Those with DB pension savings may not use flexible access unless they transfer their DB entitlement into a DC scheme first. Some DB schemes in the public sector do not allow transfers.

- Withdraw the total fund (25% tax-free up to the limit of £268,275, the remainder taxed).
- Leave their pension fund invested and withdraw unlimited amounts, taxed at an individual's marginal rate, with 25% of each withdrawal tax free. This is known as an uncrystallised funds pension lump sum (UFPLS) because the member does not "crystallise" their pension by buying a retirement product.
- Purchase a product such as longevity insurance.
- Purchase an annuity. A lifetime annuity is a retirement income product that pays an income from the date of purchase until the date of death. There are many different types of annuity, which are explained in **Appendix 11**.
- Purchase an income drawdown product. An income drawdown means that the pension fund remains invested and benefits from investment growth, but an individual can withdraw an income from it until the fund is depleted.

[60] For more information on pre-Freedom and Choice arrangements, see Historical Annex

THE PENSIONS PRIMER:

A GUIDE TO THE UK PENSIONS SYSTEM APPENDICES

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Appendix 1:
Eligibility for State Pension

The State Pension is based on an individual's National Insurance contribution (NIC) record (Chart A1.1). Any tax year in which an individual makes, or is credited with making, sufficient NICs is known as a qualifying year.

Employees make Class 1 contributions when their weekly earnings exceed the 'Primary Threshold' (PT) of £242 a week.[1] If they earn less than the PT but more than the 'Lower Earnings Limit' (LEL) of £123 a week,[2] then they do not make Class 1 contributions but are credited for the State Pension.[3] The self-employed make flat rate Class 2 contributions of £3.45 a week.[4] Class 3 voluntary contributions, of £17.45 a week,[5] are paid by those who wish to protect their entitlement and have not paid enough Class 1 or Class 2 contributions. Class 3 payments must generally be made within six years of the end of the tax year for which payment is being made.[6]

Chart A1.1 - How National Insurance contributions work

NIc class	Who pays this class of NIcs	What this entitles people to
Class 1	Paid by employers at a rate of 13.8% and employees aged between 16 and SPa who earn over the Primary Threshold (PT) at a rate of 12% and at a rate of 2% for earnings over the Upper Earnings Limit (UEL). People who earn at or above the Lower Earnings Limit (LEL) (£123 per week) but below the PT (£242 per week) are not required to pay but are treated as having paid NIcs.	Each qualifying year counts towards an individual's pension entitlement and is used to calculate how much State Pension they will receive. People who earn below the LEL do not accrue entitlement to State Pension.
Class 2	Paid by people who are self-employed and have profits of more than the Lower Profits Limit (£12,570 a year) pay NI at a fixed rate of £3.45 a week. People with profits between the Small Profits Threshold (£6,725 a year) and the Lower Profits Limit are credited with Class 2 contributions.	Each Class 2 contribution is treated as one week of earnings at the LEL.
Class 3	Voluntary contributions of £17.45 a week that people can pay to fill gaps in their contribution record.	Can fill in gaps of full or partial years in order to make those years qualifying years for State Pension entitlement.
Class 4	Additional contributions paid by self-employed people (as well as Class 2 NIcs) at a rate of 9% on profits between the Lower Profits Limit (£12,570 a year) and Upper Profits Limit (£50,270 a year) and 2% on profits above the Upper Profits Limit.	Does not count towards qualifying years.

[1] HM Treasury (2022) Autumn Statement 2022
https://www.gov.uk/government/publications/autumn-statement-2022-documents/autumn-statement-2022-html
[2] HM Treasury (2022) Autumn Statement 2022
https://www.gov.uk/government/publications/autumn-statement-2022-documents/autumn-statement-2022-html
[3] From April 2011
[4] HM Treasury (2022) Autumn Statement 2022
https://www.gov.uk/government/publications/autumn-statement-2022-documents/autumn-statement-2022-html
Special Class 2 rates apply for fishermen and volunteer development workers. The self-employed also make class 4 contributions, which are earnings-related but do not affect bSP entitlement.
[5] HM Treasury (2022) Autumn Statement 2022
https://www.gov.uk/government/publications/autumn-statement-2022-documents/autumn-statement-2022-html
[6] People were permitted to make back payments for more than 6 years if the payments were for the tax years 1996/1997 through to 2001/2002, and these payments were made by April 2009 or April 2010 depending on when people reach SPa. For detailed explanation www.hmrc.gov.uk/ni/volcontr/whentop-up.htm

There are many activities that can credit someone into the new State Pension (nSP) without their having to pay contributions. Credit will be given if, for instance, an individual is entitled to:

- Statutory Sick Pay
- Statutory Maternity, Paternity or Adoption Pay
- Child Benefit
- Jobseekers Allowance
- Employment and Support Allowance
- Unemployability Supplement or Allowance
- Carer's Allowance
- Universal Credit

Credits are also given for men aged between women's State Pension age (SPa) and age 65 with incomes below a certain level, as well as for individuals who have been wrongly imprisoned and for time spent doing Jury Service.

Home Responsibilities Protection (HRP) was introduced in 1978 and, for people reaching SPa before April 2010, reduced the number of years of contributions required to secure a full State Pension. Protection was given for those complete tax years where an individual was caring for children or an older or a disabled person. HRP was replaced by National Insurance (NI) credits from 6 April 2010, however people may still apply for HRP if they were caring for a sick or disabled person, or were a foster carer before April 2010.

There were some changes in the Pensions Act 2007 that affected people who reach SPa between 6 April 2010 and April 2016. These people:

- were able to earn positive credits towards the basic State Pension (bSP) rather than HRP reductions. The outcome for individuals under a credit system is more generous and simplifies the way entitlement is calculated;
- only needed 30 qualifying years to be eligible for the full bSP, while people who reached SPa before 6 April 2010 still need to have contributed for 39 years (for women) or 44 years (for men) to qualify for a full bSP;
- receive a proportion of the full bSP for every contributing year, as the 25% minimum contribution limit was abolished.

Carers now receive weekly Carer's Credits for any week in which they are:

- awarded child benefit; or
- a foster parent for a child under the age of 12; or
- engaged in caring within the meaning given in regulations (people caring for one sick or severely disabled person for 20 hours or more a week, subject to an appropriate validation process).

This change means that in any year, individuals can combine Carer's Credits with NICs to build up a qualifying year. Credits for people who are caring for children are awarded until the youngest child reaches 12 years.

Grandparents of working age who care for grandchildren for 20 hours or more a week are also eligible to receive Carer's Credits that count towards their State Pension entitlement.

People reaching SPa before 2010

For men who reached SPa before 6 April 2010, the full bSP of £156.20 a week is payable with at least 44 qualifying years of NICs. For women born prior to 6 April 1950, the full bSP is payable with at least 39 qualifying years.[7]

A proportionate benefit is payable if the number of qualifying years is less than that needed for the maximum. For example, a woman who retired before 6 April 2010 with a 30-year contribution record currently receives a bSP of £120.15 a week (30/39) multiplied by £156.20).[8] However, if the number of qualifying years at retirement was less than 25% of the amount required for a maximum bSP, then no bSP benefit is payable for a person who reached SPa before 6 April 2010.

If a person[9] cared for a child until the child reached age 16, the requirement for a maximum bSP would reduce from 39 qualifying years to 24. HRP did not give complete protection, as it did not reduce the number of qualifying years required for a full bSP below 20 years.

Class 3A voluntary National Insurance contributions

Class 3A National Insurance contributions[10] were designed to help those people who have not been able to build up much additional State Pension, but reach SPa before the introduction of the nSP on 5 April 2016.

People were able to make Class 3A contributions during an 18-month period, starting in October 2015.

Each Class 3A contribution acquired a unit of extra pension which increased the individual's additional State Pension by £1 a week, up to a cap of £25 a week.

The price was set at an 'actuarially fair' rate and was therefore lower for older pensioners than younger pensioners.

[7] https://www.gov.uk/state-pension/eligibility
[8] Assuming no Home Responsibilities Protection is awarded
[9] Although most recipients are women, HRP is unisex - it is available to the person to whom child benefit is payable
[10] Department for Work and Pensions (2013) Class 3A Voluntary National Insurance www.gov.uk/government/uploads/system/uploads/attachment_data/file/265390/v2_mw__20131211_policy_brief_formatted_FINAL.pdf

Appendix 2: State Pension age

Table A2.1 compares the effects of increases in State Pension age (SPa) for women under the Pensions Act 2011 provisions, compared to previous legislation, according to birth date.

Table A2.1: Comparing the effects of Pensions Act 1995 and Pensions Act 2011 provisions on women's SPa[11]

	Pensions Act 1995		Pensions Act 2011	
Date of Birth	State Pension date	State Pension age	State Pension date	State Pension age
6 Jan 1954 - 5 Feb 1954	6 Nov 2017	63 yrs 10 mths - 63 yrs 9 mths	6 May 2019	65 yrs 4 mths - 65 yrs 3 mths
6 Feb 1954 - 5 Mar 1954	6 Jan 2018	63 yrs 11 mths - 63 yrs 10 mths	6 Jul 2019	65 yrs 5 mths - 65 yrs 4 mths
6 Mar 1954 - 5 Apr 1954	6 Mar 2018	64 yrs 0 mths - 63 yrs 11 mths	6 Sep 2019	65 yrs 6 mths - 65 yrs 5 mths
6 Apr 1954 - 5 May 1954	6 May 2018	64 yrs 1 mths - 64 yrs 0 mths	6 Nov 2019	65 yrs 7 mths - 65 yrs 6 mths
6 May 1954 - 5 Jun 1954	6 Jul 2018	64 yrs 2 mths - 64 yrs 1 mths	6 Jan 2020	65 yrs 8 mths - 65 yrs 7 mths
6 Jun 1954 - 5 Jul 1954	6 Sep 2018	64 yrs 3 mths - 64 yrs 2 mths	6 Mar 2020	65 yrs 9 mths - 65 yrs 8 mths
6 Jul 1954 - 5 Aug 1954	6 Nov 2018	64 yrs 4 mths - 64 yrs 3 mths	6 May 2020	65 yrs 10 mths - 65 yrs 9 mths
6 Aug 1954 - 5 Sep 1954	6 Jan 2019	64 yrs 5 mths - 64 yrs 4 mths	6 Jul 2020	65 yrs 11 mths - 65 yrs 10 mths
6 Sep 1954 - 5 Oct 1954	6 Mar 2019	64 yrs 6 mths - 64 yrs 5 mths	6 Sep 2020	66 yrs 0 mths - 65 yrs 11 mths
6 Oct 1954 - 5 Nov 1954	6 May 2019	64 yrs 7 mths - 64 yrs 6 mths	66th birthday	66 yrs

For those born between November 1954 and April 1960, SPa is 66 years old. Following the State Pension Age Review in 2023 it was announced that the timetable for increasing the SPa to 67 would follow the existing timetable (set out in table A2.2) and that for the time being no changes were made to the timetable for the increase to 68.[12]

Table A2.2: The increase in SPa from age 66 to 67 for both men and women

Pension Act 2014	
Date of Birth	State Pension age
6 April 1960 – 5 May 1960	66 years and 1 month
6 May 1960 – 5 June 1960	66 years and 2 months
6 June 1960 – 5 July 1960	66 years and 3 months
6 July 1960 – 5 August 1960	66 years and 4 months
6 August 1960 – 5 September 1960	66 years and 5 months
6 September 1960 – 5 October 1960	66 years and 6 months
6 October 1960 – 5 November 1960	66 years and 7 months
6 November 1960 – 5 December 1960	66 years and 8 months
6 December 1960 – 5 January 1961	66 years and 9 months
6 January 1961 – 5 February 1961	66 years and 10 months
6 February 1961 – 5 March 1961	66 years and 11 months
6 March 1961 – 5 April 1977	67

Table A2.3: The increase in SPa from 67 to 68 for both men and women

Pension Act 2014	
Date of Birth	Date SPa reached
6 April 1977 – 5 May 1977	6 May 2044
6 May 1977 – 5 June 1977	6 July 2044
6 June 1977 – 5 July 1977	6 September 2044
6 July 1977 – 5 August 1977	6 November 2044
6 August 1977 – 5 September 1977	6 January 2045
6 September 1977 – 5 October 1977	6 March 2045
6 October 1977 – 5 November 1977	6 May 2045
6 November 1977 – 5 December 1977	6 July 2045
6 December 1977 – 5 January 1978	6 September 2045
6 January 1978 – 5 February 1978	6 November 2045
6 February 1978 – 5 March 1978	6 January 2046
6 March 1978 – 5 April 1978	6 March 2046
6 April 1978 onwards	68th birthday

[11] For more information on changes to SPa that have already occurred, see Historical Annex
[12] DWP State Pension Age Review 2023 (2023) https://www.gov.uk/government/publications/state-pension-age-review-2023-government-report

Appendix 3: Impact of indexation of the State Pension

Table A3.1: Historical Uprating of the basic State Pension (bSP) in relation to average earnings

	bSP – Weekly Amount	Adjusted to April 2023 prices[13]	Full-time average earnings[14] (bSP as a percentage)	Average Weekly Earnings total pay[15] (bSP as a percentage)
Oct-72	£6.75	£87.86	£32.00 (21.1%)	
Jul-74	£10.00	£104.41	£41.70 (24.0%)	
Nov-77	£17.50	£106.94	£70.20 (24.9%)	
Nov-79	£23.30	£112.15	£89.60 (26.0%)	
Nov-82	£32.85	£115.29	£136.50 (24.1%)	
Apr-87	£39.50	£112.62	£198.90 (19.9%)	
Apr-92	£54.15	£116.80	£304.60 (17.8%)	
Apr-00	£67.50	£125.74	£425.10 (15.9%)	£312.30 (21.6%)
Apr-01	£72.50	£133.58	£449.70 (16.1%)	£328.60 (22.1%)
Apr-02	£75.50	£137.24	£472.10 (16.0%)	£341.00 (22.1%)
Apr-03	£77.45	£138.73	£487.10 (15.9%)	£350.20 (22.1%)
Apr-04	£79.60	£140.91	£498.20 (16.0%)	£365.60 (21.8%)
Apr-05	£82.05	£142.63	£516.40 (15.9%)	£382.00 (21.5%)
Apr-06	£84.25	£143.50	£534.90 (15.8%)	£400.50 (21.0%)
Apr-07	£87.30	£144.69	£550.30 (15.9%)	£418.30 (20.9%)
Apr-08	£90.70	£146.03	£575.60 (15.8%)	£433.00 (20.9%)
Apr-09	£95.25	£149.79	£587.20 (16.2%)	£435.80 (21.9%)
Apr-10	£97.65	£148.05	£598.60 (16.3%)	£443.70 (22.0%)
Apr-11	£102.15	£148.23	£602.90 (16.9%)	£455.50 (22.4%)
Apr-12	£107.45	£151.37	£607.80 (17.7%)	£461.80 (23.3%)
Apr-13	£110.15	£151.55	£620.20 (17.8%)	£467.00 (23.6%)
Apr-14	£113.10	£152.81	£620.80 (18.2%)	£469.10 (24.1%)
Apr-15	£115.95	£156.97	£627.00 (18.5%)	£482.20 (24.0%)
Apr-16	£119.30	£161.02	£644.90 (18.5%)	£494.00 (24.1%)
Apr-17	£122.30	£160.74	£661.10 (18.5%)	£504.80 (24.2%)
Apr-18	£125.95	£161.61	£685.20 (18.4%)	£517.80 (24.3%)
Apr-19	£129.20	£162.39	£703.40 (18.4%)	£537.80 (24.0%)
Apr-20	£134.25	£167.34	£708.10 (19.0%)	£532.60 (25.2%)
Apr-21	£137.60	£169.02	£726.60 (18.9%)	£578.50 (23.8%)
Apr-22	£141.85	£159.87	£755.60 (18.8%)	£610.30 (23.2%)
Apr-23	£156.20	£156.20	£799.20 (19.5%)	£645.60 (24.2%)

[13] Inflation index measured as CPI at April of year. For April 2023 CPI is projected using OBR short term assumptions. Pre 1988 CPI is backfilled using RPI as a proxy for CPI.
[14] Mean weekly pay of a full-time employee from the Annual Survey of Hours and Earnings. For 2023 mean weekly pay is projected using OBR short term assumptions.
[15] Average weekly total pay from May to July in the whole economy including full time and part time earners. Data averaged over three months from Average Weekly Earnings series (ONS data series KAB9). When applied, earnings uprating figures are based on the annual change on these figures (ONS data series KAC3). For 2023 AWE is projected using OBR short term assumptions.

Table A3.2
Historical Uprating of the new State Pension (nSP) in relation to average earnings

	nSP – Weekly Amount	Adjusted to April 2023 prices[16]	Full-time average earnings[17] (nSP as a percentage)	Average Weekly Earnings total pay[18] (nSP as a percentage)
Apr-16	£155.65	£202.67	£644.90 (24.1%)	£494.00 (31.5%)
Apr-17	£159.55	£202.51	£661.10 (24.1%)	£504.80 (31.6%)
Apr-18	£164.35	£204.06	£685.20 (24.0%)	£517.80 (31.7%)
Apr-19	£168.60	£205.25	£703.40 (24.0%)	£537.80 (31.3%)
Apr-20	£175.20	£211.32	£708.10 (24.7%)	£532.60 (32.9%)
Apr-21	£179.60	£213.09	£726.60 (24.7%)	£578.50 (31.0%)
Apr-22	£185.15	£203.80	£755.60 (24.5%)	£610.30 (30.3%)
Apr-23	£203.85	£203.85	£799.20 (25.6%)	£645.60 (31.7%)

Table A3.3
Projected level of new State Pension (nSP) compared to average earnings[19]

Tax Year	nSP - Weekly Amount (Projected)	Weekly full-time average earnings (Projected)	Projected nSP as a percentage of full-time average earnings
2023	£203.85	£799	25.5%
2025	£221.90	£846	26.2%
2030	£259.61	£967	26.8%
2035	£318.59	£1,161	27.5%
2040	£392.85	£1,399	28.1%
2045	£485.00	£1,689	28.7%
2050	£598.77	£2,038	29.4%

Table A3.4
Projected uprating of bSP under the triple locked system

Tax Year	bSP - Weekly Amount (Projected)	Weekly full-time average earnings (Projected)	Projected nSP as a percentage of full-time average earnings
2023	£156.20	£799	19.5%
2025	£170.03	£846	20.1%
2030	£198.93	£967	20.6%
2035	£244.12	£1,161	21.0%
2040	£301.02	£1,399	21.5%
2045	£371.63	£1,689	22.0%
2050	£458.81	£2,038	22.5%

[16] Inflation index measured as CPI at April of year. For April 2023 CPI is projected using OBR short term assumptions. Pre 1988 CPI is backfilled using RPI as a proxy for CPI.
[17] Mean weekly pay of a full-time employee from the Annual Survey of Hours and Earnings. For 2023 mean weekly pay is projected using OBR short term assumptions.
[18] Average weekly total pay from May to July in the whole economy including full time and part time earners. Data averaged over three months from Average Weekly Earnings series (ONS data series KAB9). When applied, earnings uprating figures are based on the annual change on these figures (ONS data series KAC3). For 2023 AWE is projected using OBR short term assumptions.
[19] PPI modelling, assumes triple lock remains in place beyond the current parliament.

Appendix 4:
Categories of basic State Pension

For those who reached State Pension age (SPa) prior to April 2016 and the introduction of the new State Pension (nSP), there are five categories the basic State Pension (bSP) provides:

- **Category A** was based on the individual's contributions.
- **Category B** was based on a spouse's or civil partner's qualifying years.
- **Category C** was non-contributory, and was payable to widows of men who were over age 65 on 5 July 1948.
- **Category D** was non-contributory and was payable to people over age 80 who satisfied certain residency conditions, and failed to qualify for a category A or B pension, or received less than the non-contributory rate.
- **Age Addition** was non-contributory and was payable to all recipients of State Pensions aged 80 or above.

Category A pension

Category A pension was contributory and based on the individual's contribution history. Where an individual had an incomplete contribution record, and reached SPa before April 2016, then the qualifying years of a spouse or former spouse (separated through either bereavement or divorce) could be substituted to provide a higher bSP.

Changes in eligibility criteria for Category A pension[20]

For people reaching SPa before 6 April 2010 and for those claiming bereavement benefits, past contribution conditions continued to apply.

For those reaching SPa between 6 April 2010 and 6 April 2016, the number of years needed to qualify for a full Category A pension was reduced from 44 years for a man and 39 years for a woman, to 30 qualifying years for men and women alike. A person who had less than 30 qualifying years was entitled to a proportion of the full bSP for each qualifying year they had built up.

Parents and carers were also allowed to build up entitlement to a Category A pension through credits. Parents or guardians (awarded child benefit for a child aged under 12), a registered foster parent, or a carer providing care (for one or more severely disabled persons or caring for a child under 12) reaching SPa from 6 April 2010 until 6 April 2016 were able to build up credits towards a Category A pension.

For those reaching SPa from 6 April 2010 to 5 April 2016, each complete year (subject to a limit) of Home Responsibilities Protection awarded under the existing rules of the scheme were converted into a qualifying year for bSP.

From 2011, grandparents of working age who cared for grandchildren for 20 hours or more a week were also eligible to build up entitlement to a Category A pension through credits.[21]

[20] The changes described in this section result from legislation in the Pensions Act 2007 and announcements in Budget 2009.
[21] Budget 2009 report, https://webarchive.nationalarchives.gov.uk/20090903154537/http://www.hm-treasury.gov.uk/bud_bud09_repindex.htm

Category B pension

Category B pension was contributory and based solely on a spouse's or civil partner's qualifying years and earnings. Previously it was only payable to married women, widows and widowers, but from 6 April 2010 both men and women were able to claim bSP based on their spouse's or partner's National Insurance (NI) record if this was better than their own.

Changes to eligibility for Category B pension[22]

From 6 April 2010 to 5 April 2016, people could claim a Category B pension even if their spouse had deferred their own Category A claim. Changes also allowed the spouse or partner of a carer to build up entitlement to an associated Category B pension.

Married couples

If both husband and wife had a full National Insurance contribution (NIC) record, then they each received a full bSP when they reached SPa. However, if the wife was entitled to less than 60% of the full bSP, and she was over SPa, she may have been able to claim a composite Category A and Category B pension based on her husband's contribution record, which could increase her pension to 60% of the full rate.

Abolition of Adult Dependency Increases

Adult Dependency Increases (ADI), whereby a sole breadwinner could claim up to an extra £70 for a dependant spouse or partner were abolished for new claimants from 6 April 2010.[23] All ADI payments ceased on April 6, 2020.

Category C pension

Category C pensions are now obsolete and are being gradually phased out (there were around five women in receipt of Category C pension in August 2020).[24] These are payable at the rate of 60% of the full bSP to men aged over 65 on 5 July 1948, or to widows of men who were aged over 65 in July 1948.

Category D pension

A non-contributory pension, equivalent to the dependent adult's addition, is awarded to those who:

- are aged 80 or above;
- have been a resident in the UK for at least 10 of the previous 20 years; and
- receive either no bSP or less than the dependent adult's addition.

This is sometimes called the 'Over 80 Pension' and it amounts to £93.60 a week in 2023/24[25] If the person is on a reduced pension, they will receive the difference between £93.60 and the reduced bSP.[26]

Age addition

An age addition of 25p a week is payable to all recipients of bSP aged 80 or over. When it was introduced in 1971, the full bSP was £6.00 and therefore effectively a 4.2% enhancement. Subsequently, the age addition has not been increased, and so is now only a 0.1% enhancement.

[22] Legislated in the Pensions Act 2007
[23] Legislated in the Pensions Act 2007
[24] DWP Stat Xplore – state pension sourced: 19.04.2021
Dataset: State Pension – Data from August 2020, Category of Pension by Quarter and Gender
[25] Department for Work and Pensions (DWP) (2022) Benefit and pension rates 20223to 2024, https://www.gov.uk/government/publications/benefit-and-pension-rates-2023-to-2024/benefit-and-pension-rates-2023-to-2024
[26] www.gov.uk/over-80-pension/overview

Appendix 5: Pension Credit

Pension Credit replaced the Minimum Income Guarantee (MIG) in October 2003. Pension Credit consists of two parts – Guarantee Credit which is similar to the MIG, and Savings Credit (SC). **Since 6 April 2016, individuals can no longer receive SC**. For a transitional period of five years (until April 2021), support was retained for those people who may have been eligible for SC under the old system.

Guarantee Credit

Guarantee Credit (GC) replaced the Minimum Income Guarantee in October 2003. Guarantee Credit is the name used for the means-tested income support benefit for people over the women's State Pension age (SPa). It is payable from just under age 66 in 2022 as a tax-free, means-tested benefit, but it is only paid to those with low incomes and low savings.[27]

An individual or couple is eligible for GC if they:[28]

- have an age equal to SPa (currently age 66) or higher.
- are on a weekly income below the GC level of £201.05 a week for single pensioner and a minimum of £306.85 a week for couples (2023/24 rates), and
- are working fewer than 16 hours a week (and any partner working fewer than 24 hours a week).

Changes to eligibility for Pension Credit

The Welfare Reform Act 2012 stipulates that an individual over the SPa is not entitled to Pension Credit if they have a partner[29] under the SPa.[30] Since May 2019, the younger partner may be able to claim Universal Credit for both people in the couple until they also reach the qualifying age for GC (currently 66). However, Universal Credit is paid at a lower rate than Pension Credit.

GC can be higher where:

- an individual (or an individual within a couple) is disabled and living either on their own or with another disabled person, or
- an individual (or an individual within a couple) is a carer getting Carer's Allowance, or
- where there are housing costs not fully covered by Housing Benefit.

Lower levels of benefit are paid if pensioners have savings of more than £10,000.[31] The assessed savings include savings and investments, and any properties that are not the beneficiary's main home. GC is currently reduced by £1.00 a week for each £500 (or part thereof) in excess of £10,000. This is more generous than under the MIG.[32]

Savings Credit

Savings Credit (SC), which is now only available to those who reached SPa prior to April 2016, attempts to encourage saving and ensure that anyone who has made some private saving for retirement will be better off than those who have not saved.

SC pays a tax-free allowance of 60p for each £1 of income between the SC threshold and the GC threshold. This includes some income from ongoing employment, additional State Pension, employer-sponsored pension schemes, personal pensions and notional income from savings. The maximum SC that can be received in 2023/24 is £15.94 for single pensioners and £17.84 for couples.

For 2023/24, the SC threshold for single pensioners is set at £174.49 a week and £277.12 a week for couples.

In 2023/24, the income above which people are no longer eligible to receive SC is around £241 for single pensioners and around £351.[33] for couples.

Table A5.1 below shows the impact of various levels of accrued savings for a single person receiving only the 2023/24 basic State Pension (bSP) of £156.20. In this table savings above £10,000 are considered when calculating assumed savings income.

[27] Savings consist of liquid assets, such as cash, building society and bank accounts, national savings, unit trusts and shares. It does not include the value of the home.
[28] Married, Civil Partners, or living together as husband and wife or as civil partners
[29] A partner would include a legal spouse, a civil partner, or a live-in partner. See UK Parliament (2012) Welfare Reform Act, Part 1, Chapter 3, 39, p. 26. www.legislation.gov.uk/ukpga/2012/5/pdfs/ukpga_20120005_280218_en.pdf
[30] See UK Parliament (2012) Welfare Reform Act, Sch 2, 64 (1A) p.124.
[31] https://www.gov.uk/pension-credit/eligibility
[32] Under the previous legislation the MIG was reduced by £1.00 a week for each £250 in excess of £6,000.
[33] Income limits for single and pensioner couples could be higher if they qualify for a higher level of GC through severe disability, caring or housing costs.

Table A5.1:
Interaction of accrued savings with Pension Credit

Savings	Assumed Savings Income	GC Benefit	Total Weekly bSP + GC
£0	£0.00	£44.85	£201.05
£10,000	£0.00	£44.85	£201.05
£12,000	£4.00	£40.85	£197.05
£14,000	£8.00	£36.85	£193.05
£16,000	£12.00	£32.85	£189.05
£18,000	£16.00	£28.85	£185.05
£20,000	£20.00	£24.85	£181.05
£22,000	£24.00	£20.85	£177.05
£24,000	£28.00	£16.85	£173.05

Table A5.2 shows the interaction of GC with SC for various levels of assessed income for single pensioners and pensioner couples. The incomes given represent the total income considered for Pension Credit purposes. It may include, for example, bSP, additional State Pension, private pension income, and savings converted into notional income calculated for the Pension Credit calculation. SC can be up to £15.94 a week (for a single pensioner), when income is £201.05 a week, and then begins to tail off for higher levels of income.
Table A5.2 shows in **bold** the weekly income value at which GC and SC become zero because of hitting the assessed income limit.

Table A5.2:
Interaction of income with GC and SC in the 2023/24 Tax Year

Single Pensioner				Pensioner Couple			
Weekly Income	GC	SC	Total Income	Weekly Income	GC	SC	Total Income
£90.00	£111.05	£0.00	£201.05	£190.00	£116.85	£0.00	£306.85
£100.00	£101.05	£0.00	£201.05	£200.00	£106.85	£0.00	£306.85
£110.00	£91.05	£0.00	£201.05	£210.00	£96.85	£0.00	£306.85
£120.00	£81.05	£0.00	£201.05	£220.00	£86.85	£0.00	£306.85
£130.00	£71.05	£0.00	£201.05	£230.00	£76.85	£0.00	£306.85
£140.00	£61.05	£0.00	£201.05	£240.00	£66.85	£0.00	£306.85
£150.00	£51.05	£0.00	£201.05	£250.00	£56.85	£0.00	£306.85
£160.00	£41.05	£0.00	£201.05	£260.00	£46.85	£0.00	£306.85
£170.00	£31.05	£0.00	£201.05	£270.00	£36.85	£0.00	£306.85
£180.00	£21.05	£3.31	£204.36	£280.00	£26.85	£1.73	£308.58
£190.00	£11.05	£9.31	£210.36	£290.00	£16.85	£7.73	£314.58
£200.00	£1.05	£15.31	£216.36	£300.00	£6.85	£13.73	£320.58
£201.05	**£0.00**	**£15.94**	**£216.99**	**£306.85**	**£0.00**	**£17.84**	**£324.69**
£210.00	£0.00	£12.36	£222.36	£310.00	£0.00	£16.58	£326.58
£220.00	£0.00	£8.36	£228.36	£320.00	£0.00	£12.58	£332.58
£230.00	£0.00	£4.36	£234.36	£330.00	£0.00	£8.58	£338.58
£240.00	£0.00	£0.36	£240.36	£340.00	£0.00	£4.58	£344.58
£240.89	**£0.00**	**£0.00**	**£240.89**	£350.00	£0.00	£0.58	£350.58
£250.00	£0.00	£0.00	£250.00	**£351.45**	**£0.00**	**£0.00**	**£351.45**

Appendix 6: Housing Benefit

Housing Benefit is a means-tested benefit that is designed to help individuals in rented accommodation to pay for their rent. There is no set amount of Housing Benefit, as it is paid to single people or couples based on their income. This includes some income from employment, state and private pensions, notional income from capital and Pension Credit.

The maximum amount of benefit available is an amount equal to a person's (or couple's) share of the household's rent and is paid if claimants are also eligible for Guarantee Credit (GC). In practice, the amount of rent that can be taken into account in the calculation of Housing Benefit will be restricted if the amount of rent paid by the household is considered to be excessive.[34]

The amount of rent that is actually taken into account in the calculation of Housing Benefit, after these restrictions have been applied, is called 'eligible rent'.

Housing Benefit is reduced once income reaches a personal allowance of £217.00 a week for singles and £324.70 for couples, where one or both partners are aged over State Pension age (SPa) (from April 2023).[35] This is intentionally set to broadly equal the GC level (currently £201.05 a week from April 2023) plus the maximum amount of Savings Credit (SC), which is £15.94 a week from April 2023. As SC is taken into account for Housing Benefit, this means that Housing Benefit is withdrawn once an individual is no longer eligible for the GC.

If the claimant's income is above the personal allowance level, then the amount of Housing Benefit is reduced at the rate of 65p for every £1 of additional income. No benefit is payable if claimants have capital of more than £16,000, unless they are also eligible for GC.[36] Higher personal allowances can apply for individuals who are eligible for premiums for Pension Credit.

The Welfare Reform Act 2007 legislated for the roll-out of Local Housing Allowance (LHA) across the private rented sector from 7 April 2008. LHA is a way of working out how the amount of benefit is determined and how the benefit is delivered.

The maximum amount of Housing Benefit payable is the amount of rent that a particular person (or couple) pays, subject to a series of restrictions. LHA gives a claimant an allowance, based on the 30th percentile of market rents in the particular locality and on housing needs. The highest rents across the country are excluded from the calculation of the LHA in each area. Individuals can decide to live in more expensive accommodation than the allowance covers, if they can cover the difference.

The previous Coalition Government made changes to Housing Benefit from April 2011 with the following results:[37]

- The LHA is restricted to a maximum of four bedrooms for new and existing claimants.
- Weekly LHA rates vary between local authorities and the number of bedrooms in each property. The maximum rate of Housing Benefit is limited to the rate for a four-bedroom property. There is no cap for people living in social rented or supported housing.
- LHA rates are based on the thirtieth percentile of rents of the local area, rather than the median.
- From April 2013, LHA is uprated by the Consumer Prices Index (CPI).

The Welfare Reform Act 2012 introduced a restriction to Housing Benefit to allow for one bedroom for each person or couple living as part of the household, with some exceptions. Pensioners are currently exempt from this; however, as the SPa increases the age at which people are subject to this will also rise. Claimants will forego a fixed percentage of the Housing Benefit eligible rent; 14% of eligible rent for one bedroom and 25% for two or more extra bedrooms.

[34] For example, if the contractual rent is significantly above the market level. The size of the accommodation relative to the needs of the tenant may also be considered and rents will also be compared to 'local reference rates', which are calculated as the midpoint of a range of rents for properties of the same size in the locality.
[35] Department for Work and Pensions (DWP) (2022) Benefit and pension rates 20223to 2024, https://www.gov.uk/government/publications/benefit-and-pension-rates-2023-to-2024/benefit-and-pension-rates-2023-to-2024
[36] https://www.gov.uk/housing-benefit
[37] See UK Parliament (2012) Welfare Reform Act, p. 124.: www.legislation.gov.uk/ukpga/2012/5/pdfs/ukpga_20120005_en.pdf

Deductions may be made if there is another adult living in the claimant's home, or if the claimant is single, under 35, with no dependents and renting from a private landlord.

Housing Benefit assessed under the LHA is paid directly to the claimant. There are some exceptions to this:

- If the claimant's landlord is the Local Authority, they will be responsible for paying Housing Benefit, which will be given in the form of a reduction in rent due, known as rent rebate.
- If the claimant is in eight weeks or more of rent arrears, some of the Housing Benefit must be paid directly to the landlord until the amount of arrears reduces to below eight weeks' worth of rent, unless the claimant can show that it is not in their best interests to make direct payments.
- If the claimant may have difficulty managing financial affairs or is thought unlikely to pay their rent, payments may be made directly to the landlord for up to eight weeks while the situation is assessed.
- Payments may be made directly to the landlord if direct payments would help to keep or secure accommodation for the claimant.
- Claimants can apply for payments to be made directly to the landlord.

Under Universal Credit, which is being phased in at the moment, the housing element will be paid directly to the claimant even in the case of council tenants.

Casestudy

Susan is a 70-year-old single woman who does not own her own home. She rents a flat costing her £100 a week.

Her income from state and private pensions is £195 a week, which would entitle her to £18.36 a week from Pension Credit (made up of £6.05 from the Guarantee Credit and £12.31 from Savings Credit).

If Susan had no additional savings, she would be entitled to have her whole rent paid by Housing Benefit.

On the other hand, if Susan had savings of £15,000 the first £10,000 of savings is disregarded, leaving Susan £5,000 to be considered.
This is converted into a 'tariff income' for calculation purposes at £1 for every £500 of savings, giving Susan £10 of tariff income.

This makes her income for Pension Credit calculations £205 (£195 + £10). She would not receive income from the Guarantee Credit but her income from Savings Credit would be £14.36 a week.

Her deemed income in the calculation for her Housing Benefit entitlement would be £219.36 a week.

£219.36 = £14.36 (income from Savings Credit) + £195.00 (income from state and private pensions) + £10 (deemed income from savings). This is the same as the deemed income for Pension Credit because the calculation of tariff income from savings for housing benefit has the same savings disregard of £10,000.

This is £2.36 above the personal allowance for Housing Benefit (£217 a week in 2023/24 for a single person who reached SPa before April 2021), which would reduce her income from Housing Benefit by £1.53 a week (£2.36 multiplied by 0.65).

This means Susan would receive Housing Benefit worth £98.47 a week towards the cost of her rent.

If her savings were £16,000 or above, Susan would not be eligible to receive any Housing Benefit (since her savings would be above the £16,000 limit).

Appendix 7: Council Tax Reduction

Until April 2013, pensioners were able to access Council Tax Benefit, a means-tested benefit designed to help individuals pay their council tax. Like Housing Benefit, it was paid to singles or couples based on their income from employment, state and private pensions, as well as notional income from capital and Savings Credit.

From April 2013, the Government has required Councils in England to design their own Council Tax Reduction (CTR) schemes. In this way, CTR is no longer a national entitlement. However, the Government has stated that pensioners should not be worse off under this arrangement. For the purpose of CTR, a pensioner is someone who has reached the State Pension age (SPa), the qualifying age for Pension Credit. Therefore, the thresholds and maximums described below continue to apply.

The maximum amount of CTR payable is an amount equal to the person's (or couple's) liability to pay Council Tax, subject to certain restrictions. This amount is paid if the individual is eligible for Guarantee Credit (GC).

CTR is reduced once income reaches a personal allowance that depends on the time at which a person retired. A single person who retired before April 2021 has an allowance of £217.00, with a couple having £324.70. For those who retired after April 2021, a single allowance is £201.00 and a couple's is £306.85 in 2023/24. If the claimant's income is above the personal allowance level, then the amount of CTR is reduced at the rate of 20p for every £1 of additional income. No benefit is payable if claimants have capital of more than £16,000, unless they are also eligible for GC.

There was a 'Band E restriction' under the national Council Tax Benefit scheme. The effect of this restriction was that claimants whose property fell into Bands F, G or H were awarded CTR as if their property was in Band E. Some councils restrict CTR awards up to the value of a certain Council Tax band.

In addition, there was a one-off CTR of £150 for households in Bands A-D during 2022 to help with rising energy costs. This scheme ended in November of 2022.

Second Adult Rebate (SAR) is a means-tested benefit, but it is not assessed on the income and capital of the person liable to claim it. It aims to compensate people who pay Council Tax but who were not able to claim a single person discount because there was a second adult present in their household.

A single person discount can reduce a person's liability to Council Tax by 25%, if they are the only adult living in the property. If a second adult is present, SAR can reduce up to 25% of the council tax paid by the claimant. A 25% rebate is paid if the second adult is in receipt of Income Support, Income-based Jobseeker's Allowance or Pension Credit, however this amount is reduced if the second adult has higher levels of income. If the second adult's gross weekly income is less than £222, the rebate is 15%, but if it is between £222 and £287.99, the rebate is 7.5%. No rebate is awarded if their income is £288 or above.[38]

Whenever someone claims main Council Tax Reduction, SAR is also calculated. The claimant is then awarded whichever benefit (main CTR or SAR) is most advantageous to them. In practice, there are very few awards of SAR.[39]

[38] https://www.citizensadvice.org.uk/benefits/help-if-on-a-low-income/help-with-your-council-tax-council-tax-reduction/council-tax-reduction-and-second-adult-rebate/
[39] The DWP is unable to confirm exact figures of how many people claim SAR, and has removed estimates from their publications

Casestudy

Stuart and Robert are a married couple who reached SPa before 2016. Their Council Tax liability is £13.00 a week. Their combined income from State Pensions is £315 a week, which would entitle them to £14.58 a week from Pension Credit (made up entirely of Savings Credit).

Even if they had no additional savings, Stuart and Robert would still not be entitled to a Council Tax rebate of 100% of their liability, because their deemed income of £329.58 a week (£315 + £14.58) is above the personal allowance for couples of £324.70 a week in 2023/24. But they would be eligible to partial Council Tax Reduction.

Their deemed income is therefore £4.88 above the personal allowance, which would reduce their income from Council Tax Reduction by £0.98 a week (£4.88 multiplied by 0.2). So, Stuart and Robert would receive a Council Tax rebate worth £12.02 a week.

If Stuart and Robert did have savings above the £16,000 limit, they would not be eligible to receive any Council Tax Reduction.

Appendix 8:
Other first tier benefits

Individually Assessed Benefits
Disability-related benefits, such as Attendance Allowance, are payable if individuals satisfy the qualifying criteria. For instance:

- **Attendance Allowance - lower rate** of £68.10 from April 2023 – payable if the individual needs personal care either during the day or night. Attendance Allowance can only be claimed after State Pension age (SPa).[40]
- **Attendance Allowance - higher rate** of £101.75 from April 2023 – payable if the individual needs personal care during both the day and the night.[41]
- **Disability Living Allowance (DLA)** – consists of two elements: a care component of between £26.90 and £101.75 a week from April 2023 for personal care, and a mobility component of between £26.90 and £71.00 a week from April 2023. DLA can only be newly claimed before age 16, although payment for continuous claims can continue after age 65. Prior to April 2013, individuals over 16 could apply for DLA.
- **Personal Independence Payment (PIP)** - Since April 2013, DLA has been gradually replaced by PIP. Those who were already aged over 65 and in receipt of DLA in April 2016 can continue to receive payments without transitioning to PIP, while PIP is replacing DLA for those people aged 16 to SPa. There is a staged timetable for this development; in 2013 PIP was introduced for new claimants. From 2013, the Department for Work and Pensions started to contact people aged 16 to 65 in receipt of DLA about transferring to PIP.[42] From April 2023, PIP pays between £68.10 to £101.75 for the daily living component and between £26.90 and £71.00 for the mobility component.[43]
- **Carer's Allowance** of £76.75 a week from April 2023 is payable to those spending at least 35 hours a week looking after someone receiving certain disability benefits, including Attendance Allowance, DLA and PIP.[44]

Attendance Allowance, DLA and PIP are tax free, not means-tested and do not count as income for the purposes of assessing eligibility for other benefits (such as Pension Credit, Housing Benefit and Council Tax Reduction).

Carer's Allowance is not payable to those who earn more than £139[45] a week (after tax and certain expenses), and eligibility may be affected if the individual is in receipt of some other benefits equal to or higher than the level of Carer's Allowance. These are known as 'overlapping benefits'.[46] The amount received can also be reduced if individuals receive other state benefits.
Carer's Allowance is taken into account as income for the purposes of assessing eligibility for means-tested benefits, although an individual in receipt of Carer's Allowance may qualify for a carer premium in Pension Credit.

[40] https://www.gov.uk/attendance-allowance
[41] https://www.gov.uk/attendance-allowance
[42] www.gov.uk/government/policies/simplifying-the-welfare-system-and-making-sure-work-pays/supporting-pages/introducing-personal-independence-payment
[43] https://www.gov.uk/government/publications/benefit-and-pension-rates-2023-to-2024/benefit-and-pension-rates-2023-to-2024
[44] https://www.gov.uk/government/publications/benefit-and-pension-rates-2023-to-2024/benefit-and-pension-rates-2023-to-2024
[45] https://www.gov.uk/government/publications/benefit-and-pension-rates-2023-to-2024/benefit-and-pension-rates-2023-to-2024#earnings-rules
[46] https://www.gov.uk/carers-allowance/effect-on-other-benefits

Near Universal Benefits
Near Universal Benefits are paid irrespective of income or assets, and includes the following:

- **Christmas Bonus** - £10 for each recipient of State Pension - paid annually before Christmas.
- **Winter Fuel Payment** - £200 per household where at least one person is aged at the SPa or over, and £300 per household where at least one person is aged 80 or over - paid annually in December.[47] The qualifying age for this benefit increases in line with SPa.
- **Free NHS prescriptions** and eye tests for those over 60.
- **Free TV Licences** for those over 75 and in receipt of Pension Credit.
- **Free central heating** installed for people receiving Pension Credit and discounts for other pensioners.
- **Free off-peak nationwide bus travel** for those aged over SPa. In London, people over 60 can travel free on buses, tubes and other transport.

Tax Allowances

- The personal allowance is the amount of income receivable before income tax becomes payable. From 2017/18, all individuals regardless of date of birth have the same personal allowance. The personal allowance in 2023/24 is £12,570. This allowance is subject to the £100,000 income limit and is reduced by £1 for every £2 above the limit. The level of the personal allowance (and other tax allowances) was fixed until April 2028 in the Autumn Statement in November 2022.
- Prior to April 2016, the personal allowance was £10,660 for people born before 6 April 1938, with less than £27,700 in earnings.[48] Those born between 6 April 1938 and 5 April 1948 had an increased personal allowance up until 2014/15, but this has now been phased out.[49]
- The Government removed the increased personal allowance for people born before 6 April 1938. The personal allowance for such people was frozen at £10,660 until it met the personal allowance level for those born after 5 April 1938, which occurred in April 2016.[50]
- The married couple's allowance provides 10% tax relief for couples where one was born before 6 April 1935. This allowance has a minimum of £364.00 and a maximum of £941.50.[51] Where income exceeds £31,400, any married couple's allowance is reduced at the rate of £1 for every £2 of 'excess' income, to the minimum of £364.[52] There is no married couple's allowance for those born after 6 April 1935.

[47] www.gov.uk/winter-fuel-payment
[48] For people with incomes over £27,700 their personal allowance is reduced by £1 for every £2 over the £27,700 limit until it reaches the personal allowance for those born after 6 April 1948.
[49] www.gov.uk/income-tax-rates
[50] As announced in Budget 2012
[51] HMRC (2023) Overview of Tax Legislation and Rates https://www.gov.uk/government/publications/spring-budget-2023-overview-of-tax-legislation-and-rates-ootlar/annex-a-rates-and-allowances
[52] This is the notional value of the married couple's allowance to those aged under 65, which was abolished with effect from the 2000/01 tax year

Appendix 9: The Pension Protection Fund

A key feature of Defined Benefit (DB) schemes is that the employer is assumed to pay sufficient contributions to ensure that the promised benefits are paid. However, in some cases employers are not able to pay the promised benefits if, for example, their scheme becomes underfunded or the employer becomes insolvent.

The Pensions Act 2004 established a **Financial Assistance Scheme (FAS)** to offer help to members who have lost benefits through Occupational Pension schemes that are underfunded when they begin to wind up and/or where the employer is insolvent or no longer exists.[53] Members from underfunded pension schemes that started winding up between 1 January 1997 and 5 April 2005 are potentially eligible for help from the FAS.[54]

The Pension Protection Fund (PPF) became operational in April 2005 and has been designed to protect members of certain eligible DB occupational schemes and the DB parts of hybrid schemes. The PPF aims to pay some of the pension to members of schemes who lose out when the employer running their scheme becomes insolvent and the pension fund is underfunded.

The PPF is managed by an independent Board who pay compensation, calculate annual levies and oversee the investment of the fund assets.

The PPF pays out 100% of the current level of pensions already in payment, and 90% of the pension owed for people not yet receiving a pension. Pensions in payment are increased each year in line with the rise in the Consumer Prices Index (CPI), capped at 2.5%. Compensation payments were previously subject to an overall cap, however these were ruled to be unlawful on the grounds of age discrimination, so it is no longer applied.[55]
These factors may mean that pensions received from the PPF are smaller than some members had expected to receive from their original scheme.

Compensation payments are partly funded by compulsory annual levies contributed by eligible schemes. Since 2006/7, the annual levy comprises an administration levy and a pension protection levy. The administration levy is set in statute and covers the PPF's initial start-up and running costs. The pension protection levy is set by the PPF Board based on scheme- and risk-based factors. Scheme-based factors take into account the level of liability owed to the scheme's members. The risk-based element relates to a scheme's funding level and the risk of becoming insolvent. When the PPF takes responsibility for a scheme, it will also acquire the remaining assets of that scheme to help pay for members' compensation.

[53] DWP Pension Reform – Financial Assistance Scheme www.dwp.gov.uk/lifeevent/penret/penreform/fas/
[54] Extensions to FAS were announced in December 2007. The Pensions Act 2007 provides part of those extensions and the rest will be brought forward in regulations. The changes raise the rate of assistance to 90% of accrued pension at the date of commencement of wind up, revalued to their retirement date. This will be subject to a cap of £26,000 a year. Assistance will be paid from the scheme's normal retirement age (but not before age 60). To be eligible to get payments from FAS a person needs to be or have been a member of a qualifying pension scheme (or the survivor of such a member). The extensions to FAS remove the age criterion for eligibility. Members of qualifying schemes no longer need to have been within 15 years of their normal retirement age on or before 14 May 2004 to qualify for assistance; the new, more generous level of assistance will be received by all qualifying members, regardless of age. Schemes belonging to solvent employers may now also be eligible. Thurley, D (2010) Financial Assistance Scheme http://researchbriefings.files.parliament.uk/documents/SN03085/SN03085.pdf
[55] https://www.ppf.co.uk/trustees-advisers/valuation-guidance/compensation-cap-factors

Appendix 10: Pension fund regulatory framework

The Pensions Act 2004 introduced a number of changes to the regulation of occupational pension schemes.[56]

This included the introduction of The Pensions Regulator (TPR), who replaced the Occupational Pensions Regulatory Authority in April 2005. This independent body aims to protect members of work-based private pension schemes, to promote good scheme administration practices and to reduce the likelihood of members having to claim compensation from the Pension Protection Fund (PPF).[57]

TPR has new powers to tackle underfunding, and will focus its investigative powers on schemes that are at risk from fraud, or poor management and administration.

A second aim of TPR is to reduce the burden of regulation compliance on well-run schemes, in order to allow them more flexibility.

Most occupational pension schemes are established as trusts, so the pension scheme's assets are managed separately from the sponsoring employer's control. A trustee is a person or company who is responsible for running the pension scheme properly and securing members' benefits.

The role and duties of trustees are set by various laws and acts of Parliament, supported by guidance from TPR.[58]

In addition, the Pensions Act 2004 introduced new regulations on the management and governance of pension schemes.

There are two main requirements:

- At least a third of trustees in every scheme are to be nominated and selected by members.
- Trustees are obliged to have knowledge of scheme documentation, pensions and trust law, and principles of investing and funding.

One of the responsibilities of trustees is to ensure that their schemes are adequately funded. The Pensions Act 2004 replaced the minimum funding requirement (MFR) with more scheme specific requirements. Additional legislation includes:

- Trustees to publish a **Statement of Funding Principles**, setting out funding strategies and strategies to tackle funding deficits.
- Better information for scheme members regarding funding.
- Powers for TPR to resolve disputes between trustees and sponsoring employers.

Provisions under the Pensions Act 2004 have given trustees more flexibility in how they run their schemes, enabling them to adapt their scheme to changing circumstances. Schemes are now able to modify the benefits that members have already accrued, as long as they have consulted with the members or are replacing benefits with an actuarially equivalent value.

[56] Outlined in DWP (2003) Simplicity, security and choice: Working and saving for retirement action on occupational pensions
[57] www.thepensionsregulator.gov.uk
[58] Trustees and the Pensions Regulator www.thepensionsregulator.gov.uk/trustees/

Greater protection for scheme members has also been factored in. Sponsoring employers are now obliged to consult scheme members before making certain changes to scheme rules. TPR is responsible for enforcing this, with the power to issue fines for non-compliance. Changes to future pension arrangements which would require consultation include closing the scheme to new employees and changes in employer contributions.

The Occupational Pension Schemes (Charges and Governance) Regulations 2015 introduced **new minimum governance standards** for relevant occupational pension schemes to apply from April 2015. Trustees and managers are responsible for ensuring these are maintained. The governance standards involve requirements for trustees to ensure that default arrangements are designed in members' best interests; financial transactions are prompt and accurate; and charges and costs are assessed for value for members.[59]

The Pensions Act 2014 provided for the introduction, from April 2015, of **Independent Governance Committees (IGCs)** for pension schemes which are not governed by a board of trustees (otherwise known as contract-based schemes). These IGCs are intended to act, to some extent, as trustees on behalf of members and assess the value for money of the services offered to members. If the schemes do not sufficiently address problems highlighted by the IGC, it then has the power to escalate concerns to the Financial Conduct Authority.[60]

[59] www.legislation.gov.uk/ukdsi/2015/9780111128329/pdfs/ukdsiem_9780111128329_en.pdf
[60] Department of Work and Pensions (2014) Better workplace pensions: Further measures for savers www.gov.uk/government/uploads/system/uploads/attachment_data/file/298436/better-workplace-pensions-march-2014.pdf; http://www.legislation.gov.uk/ukpga/2014/19/part/6

Appendix 11: Withdrawing retirement income

Prior to April 2006, upon reaching retirement age individuals could take a 25% tax-free lump sum while leaving the rest invested in an income drawdown account, within limits. By age 75, any remaining pension pot balance had to be annuitised. Individuals with a pension pot below the trivial commutation limit were allowed to take the whole fund as a lump sum.

Between 2006 and 2010, if a person had private pension savings above the trivial commutation limit and had not opted for an annuity by the time they reached age 75, they were required to begin withdrawing their pension benefits, either by purchasing an annuity or by the additional option of an Alternatively Secured Pension (ASP) drawdown account. ASPs were primarily designed for those who had a principled religious objection to buying an annuity, but were used by some people as a way to avoid purchasing an annuity over age 75.

From April 2011, the requirement to purchase an annuity by age 75 was removed. **Between April 2011 and 6 April 2015**, people over the age of 55 could choose one or a combination of following options:

- Taking a 25% tax-free cash lump sum (provided the scheme rules allowed it). If an individual's entire pension fund was less than the trivial commutation limit (set at £30,000 from 27 March 2014),[61] it was possible to 'trivially commute' and take the whole fund as a lump sum, with 25% being tax-free and the remainder taxed at their marginal rate.
- Investing some or all of their fund in an income drawdown account for some part or all of their retirement, while taking an income from the funds, capped at a fixed percentage of an equivalent annuity.
- Purchasing an annuity. An insurance product that pays an income from the date of purchase until the date of death.[62]
- Withdrawing their fund in unlimited amounts, provided that individuals can demonstrate a secured guaranteed lifetime pension income of at least £20,000 a year.[63]

Annuities

Many people who retired with Defined Contribution (DC) pension savings prior to April 2015 purchased an annuity and therefore they still constitute a significant proportion of income for current pensioners. Most annuities purchased prior to April 2015 were level; meaning that once the annuity is purchased, the level of income an individual receives from it is then set for the remainder of the individual's life.

The cost of an annuity depends on the following factors:

- Long-term interest rates prevalent in the market at that time.
- The age and gender of the individual.
- The health and lifestyle of the individual. For example, those in poor health may be able to get a higher income from their fund.
- The type of benefits chosen. For example, those increasing in line with the Retail Prices Index (RPI), or incorporating a spouse's pension are more expensive.
- Expenses of the provider, including any profit margins.

[61] The trivial commutation has previously been set at 1% of the Lifetime Allowance (currently £1.8m) however it has been decoupled from the Lifetime Allowance from 2012 HMT (2010) *Restricting pensions tax relief through existing allowances: a summary of the discussion document responses*, p. 26.
[62] An annuity insures against an individual's money running out because he or she lives longer than expected
[63] HMT (2011). Removing the Effective Requirement to Annuitise by Age 75, p.2.
https://webarchive.nationalarchives.gov.uk/20130104073810/http://www.hm-treasury.gov.uk/d/pensions_annuitisation.pdf

While people are no longer compelled to purchase an annuity in order to access their DC savings, there are still many annuities on the market.

- **Lifetime annuity**
  - **Level:** an annuity that provides a set level of income for the remainder of an individual's life.
  - **Escalating annuity:** annuities with income that escalates in line with prices.
  - **Impaired life/enhanced annuity:** an annuity that pays out a higher rate for people who have a lower life expectancy due to health or lifestyle factors.
  - **Joint life annuity:** Annuitants with dependents can ensure that their dependant continues to receive an income after the annuitant's death by purchasing a joint life annuity; however joint life annuities pay out a lower rate in return for the guarantee.
- **Fixed-term annuity:** an annuity for a fixed period.
- **Deferred annuity:** an annuity that does not start to pay out income until a later date.

Acknowledgements and contact details

Pensions Policy Institute
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This document is intended to provide a description of the UK pensions system for the purpose of considering pensions policy. It should not be used to make individual pensions decisions.

Every effort has been made to avoid error, but in such a complicated field unintentional errors and omissions may remain. Please contact the Pensions Policy Institute (PPI) if any data appears to be out of date, or to suggest additional subjects for the appendices.

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