Office for National Statistics

Compendium

Chapter 5: State Pensions, 2013 edition

This chapter looks at state pension provision in the UK through the Basic State Pension (BSP), the additional state pension, Pension Credit and related benefits. It starts by examining the state pension system that is expected to be in place until 2016. It then briefly reviews the 2013/14 Pensions Bill and the reforms that are proposed within it. It concludes with an examination of the cost of state pensions, and projections of state pension expenditure, based on proposed changes in the 2013/14 Pensions Bill. The Chancellor's 2013 Autumn Statement proposed further changes in state pension provision but, as not yet enacted, these are not included in the tables and figures in this chapter.

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Table of contents

1. Background
2. Mandatory pension provision
3. Contributory state pensions
4. Qualification for Basic State Pension (BSP)
5. Credits and Home Responsibilities Protection (HRP)
6. Basic State Pension and additional state pension
7. Non-contributory state pensions and benefits
8. 2013/14 Pensions Bill
9. The cost of state pensions
10. References
11. Background notes

1 . Background

A key theme of this chapter is change. Some of the recent changes to the state pension system are the result of legislation, while others do not require legislation but are announced by Government (for instance the methods used to increase or 'uprate' state pensions). Other changes are currently in the form of proposals for which there has not yet been any legislation or official policy announcement. Unless otherwise indicated, all of the data presented in the tables and charts in this chapter are based on changes that have already happened.

Most people who are currently working will retire under a state pension system which is different from the one that was in place before the 6 April 2010. People who retired on or after this date have been subject to increases in State Pension Age (SPA) for women, as a result of measures contained in the Pensions Act 1995, and to new criteria to qualify for state pensions under the Pensions Act 2007. If the proposals in the 2013/14 Pensions Bill are enacted, the system for future retirees will change further.

There are an estimated 5.0 million men and 7.3 million women over SPA in the UK in 2013 [1]. Most of these people retired before 6 April 2010 and will experience only part of the changes. It is of interest to understand how the past and current systems compare, and what the potential impact of any further changes in the state pension system may be in the next few decades.

Notes for Background

1. These figures are from the 2012-based population projections for 2013 (ONS). The projections take into account changes to SPA under existing legislation

2 . Mandatory pension provision

Pension systems are normally made up of two distinct components: a mandatory state component [1] and a voluntary private component, although in some countries there is also a mandatory private component.

In the UK, private pension saving is important to ensure adequate income in retirement (see Pension Trends Chapters 6 and 10). However, for many UK pensioners, state pensions and related benefits are an important component of income in retirement. According to the Pensioners' Income Series published by the Department for Work and Pensions (DWP), this is particularly the case for single women pensioners. In 2011/12, 63% of the average gross weekly income of single women pensioners came from state pensions and related benefits. The Pensioners' Income Series estimates that there were 3.3 million single women pensioners in 2011/12.

Notes for Mandatory pension provision

1. The previous edition of Pension Trends Chapter 5 (2011) contains data on gross replacement rates for an average earner from mandatory pension schemes in selected OECD countries. The replacement rate is a measure of how effectively pension systems are able to replace earnings from employment in retirement.

3 . Contributory state pensions

Currently in the UK, state pension provision is divided into 'contributory' and 'non-contributory' pensions. The contributory state pension is made up of two tiers: the Basic State Pension (BSP), which provides a flat-rate pension in retirement[1], and the additional state pension, under which employees (but not the self-employed) may add to the BSP by making extra contributions related to earnings in order to receive additional pension payments.

The additional state pension was first introduced as the state Graduated Retirement Benefit Scheme (GRAD) in 1961. It was replaced by the State Earnings-Related Pension Scheme (SERPS) in 1978 and by the State Second Pension (S2P) in 2002. S2P provides a more generous additional state pension for those on lower earnings than SERPS and extended coverage to people who care for others and those with a long-term illness or disability, provided that they had been in work for at least 10% of their working life (this last aspect was removed in 2010).

People are entitled to receive BSP on reaching State Pension Age (SPA), but they can defer receipt in return for higher weekly payments when they decide to draw their pension. The amount of BSP received depends on the number of qualifying years people have accrued (see the section **Qualification for Basic State Pension**). The amount of additional state pension that people receive, if any, depends on their earnings and contributions history.

The current contributory state pension system

In recent years, Parliament has enacted a number of pension reforms, including the Pensions Acts 1995, 2007, 2008 and 2011. Further changes which did not require legislation were announced by the Government in 2010. These changes have begun to transform the nature of state pension provision. This part of the chapter looks at the nature of these reforms and what they will mean for people retiring now and in future. The 2013/14 Pensions Bill, which includes a proposed single tier pension, received its second reading in the House of Lords in December 2013. The nature and potential impact of this bill is discussed at the end of the chapter (see the section **2013/14 Pensions Bill**).

The reforms which have already been enacted or announced cover a number of areas:

- equalising and raising State Pension Age (SPA);
- reducing the number of qualifying years for Basic State Pension (BSP);
- extending the system of carer credits for BSP and State Second Pension (S2P). This will be removed in 2016 if the 2013/14 Pensions Bill is enacted;
- changing the basis of uprating; and
- making S2P into a more flat-rate pension. This will also be removed in 2016 if the 2013/14 Pensions Bill is enacted.

The first key change is the equalisation and raising of SPA. The Pensions Act 1995 increased women's SPA from 60 to 65 between 2010 and 2020 so that, by 2020, women would be entitled to BSP and S2P from age 65 rather than 60. The Pensions Act 2007 provided for further changes, raising SPA for both men and women from 65 to 68 between 2024 and 2046. The Pensions Act 2011 accelerated the increases contained in the 1995 and 2007 Acts. Under the 2011 Act, women's SPA would rise to 65 by November 2018 and SPA for men and women would rise to 66 by October 2020[2]. The 2013/14 Pensions Bill and the Chancellor's 2013 Autumn Statement propose further increases in SPA and set out a framework within which SPA would be reviewed in future. They anticipate that an increase in SPA to 68, and, later, to 69, are likely to come forward as compared to estimates in previous legislation (see the section **2013/14 Pensions Bill**).

Measures affecting SPA have implications not only for receipt of state pensions, but also for benefits where entitlement is dependent on a person having attained SPA. The guarantee credit element of Pension Credit is linked to women's SPA, so as women's SPA rises the age at which both men and women can begin to claim guarantee credit is also rising.

The second key change, under the Pensions Act 2007, is the reduction in the number of qualifying years for BSP (see the section **Qualification for Basic State Pension (BSP)**). People reaching SPA from 6 April 2010 needed only 30 qualifying years to receive full BSP, and they no longer needed to have at least one quarter of the total to get any BSP (see the section **Basic State Pension and additional state pension**). The 2013/14 Pensions Bill proposes to increase the number of qualifying years to 35.

The third change, also from 6 April 2010, is to the mechanisms by which people who are not working but are caring for others can build up BSP. Home Responsibilities Protection (HRP) has been replaced with a new system of weekly 'carer credits' for parents, foster parents and people caring for severely disabled people, and people in these categories are able to build up entitlement to S2P through the same system of credits as for BSP. HRP built up under the old system (up to a maximum of 22 years) has been converted into credits under the new system.

Some of these changes make it easier for people with broken work histories to build up state pension entitlement. The rule that at least one year of the qualifying years must come from paying National Insurance (NI) contributions through working has also been abolished, so people who have never worked will be able to qualify. These changes mean that more people will qualify for a full BSP and, while it still exists, for S2P.

The fourth key change is that from April 2011 the link between BSP and earnings has been restored (see the section Basic State Pension and additional state pension). The 'triple lock' policy of the current Government now guarantees that BSP will be increased each year by average earnings growth, Consumer Price Index (CPI) inflation or 2.5%, whichever is highest. However, the additional state pension will continue to be uprated by prices, using the CPI instead of the Retail Price Index (RPI) from April 2011.

The final key change is the reform of the payments which people will receive though S2P. The Pensions Act 2007 provided for the earnings-related element of the additional state pension to be gradually withdrawn and replaced by a flat-rate accrual for each year of contributions and/or credits. This would be uprated by the general level of earnings growth during working life and by prices from pension age. This is not an entirely new measure. The change to a more flat-rate approach began with SERPS in the 1990s, and has been applied to S2P since 2002. The Pensions Act 2007 increased the pace of change and introduced a fixed flat-rate amount (the transition to the fixed flat rate amount would be complete by the 2030s).

However, this is likely to change as a result of the 2013/14 Pensions Bill, which proposes a single tier, flat-rate state pension set just above the standard guarantee credit level for Pension Credit, at £144 per week in 2012/13 prices. It would be accompanied by the ending of contracting out for defined benefit private pension schemes (see Pension Trends Glossary (198.9 Kb Pdf)). Contracting out has already ended for defined contribution private pensions from April 2012 (see the section **Basic State Pension and additional state pension**).

Notes for Contributory state pensions

1. Although the BSP is mainly contributory, there are two non-contributory elements: Category C and Category D. Category C is payable to people over State Pension Age (SPA) on 5 July 1948 and their widows. Category D is paid to people who reach age 80, satisfy certain residency conditions, and failed to qualify for a pension through their own or their spouse's National Insurance (NI) contributions, or receive less than the non-contributory rate of BSP.

2. Originally the Pensions Bill 2011 proposed to increase SPA to 66 by April 2020. In October 2011, the Government announced that the increase would be delayed by six months, to October 2020.

4 . Qualification for Basic State Pension (BSP)

From April 2010 onwards, to receive full BSP, people need 30 qualifying years (see section **The current contributory state pension system**). A qualifying year is one in which enough National Insurance (NI) contributions have been paid, normally though work. However, qualifying years may also be built up through credits (see the section **Credits and Home Responsibilities Protection (HRP)**). Where entitlement to contributory state pensions is based on payment of NI contributions, the following contribution categories apply:

- Class 1 contributions are mandatory for all employees, and are paid by both the employee and the employer as a percentage of a band of earnings. There is a partial rebate for members of certain Defined Benefit private pension schemes which are contracted out of the additional state pension. However, the Government abolished contracting out on a defined contribution basis from 6 April 2012. Contracting out for defined benefit schemes would also end with the planned introduction of the single tier pension;

- Class 2 contributions are payable by the self-employed and are flat rate. Self-employed people also pay Class 4 (profit-related) contributions; and

- Class 3 contributions are voluntary, and are often paid in cases where people have not built up a full contributory state pension entitlement through work.

Figure 5.1 shows that most men build up entitlement to contributory state pensions by paying Class 1 NI contributions. There were an estimated 12.0 million men paying ‘Class 1 only’ contributions in 2011/12, down from 12.9 million in 2007/08 and 13.5 million in 1978/79. However, this is higher than during the mid 1990s when there were under 11 million men paying only class 1 contributions. The number of men with NI credits has fallen over the recent years, from 3.4 million in 2009/10 to 2.4 million in 2011/12. This fall is partly explained by the removal of automatic credits being given to men and women for years containing their 16th, 17th and 18th birthdays, from April 2010.

The number with credits rose in the recession and industrial restructuring of the early 1980s, from 1.4 million in 1978/79 to 3.2 million in 1984/85.

Figure 5.1: Number of men accruing a contributing year: by type and contribution, 1978/79 to 2011/12

United Kingdom, millions

Source: Source: Department for Work and Pensions

Notes:

1. The figures for 2010/11 and 2011/12 are provisional. They may change as further information becomes available

2. Contributing year eligibility depends on currently enacted legislation. Therefore, historic figures in previous versions of this chart may be different than presented here

3. The 'Mixed' category represents combinations of credits and classes of National Insurance contributions

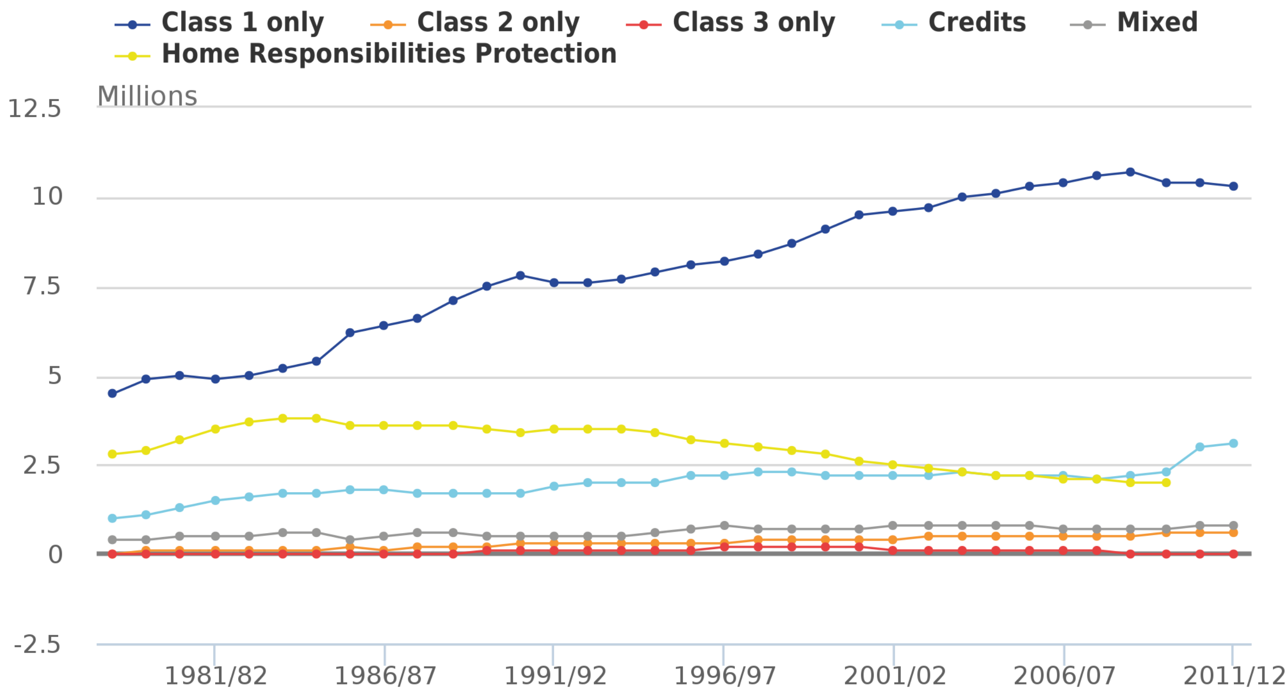
4. The data comes from DWP's Lifetime Labour Market Database 1% sample of the National Insurance Recording System

5. Home Responsibilities Protection (HRP) was replaced with weekly carer credits as of April 2010 (See Credits and Home Responsibilities Protection section)

For women (Figure 5.2), the main change over the last three decades has been a steady increase in numbers building up entitlement to contributory state pensions through Class 1 NI contributions, as women's participation in employment has increased and fewer women have been paying the 'married women's stamp' (see the section **Basic State Pension and additional state pension**). In 2008/09, there were an estimated 10.7 million women with 'Class 1 only' contributions, compared with 4.5 million in 1978/79. However, this has fallen away in recent years, to 10.3 million in 2011/12. Meanwhile, the number of women contributing via HRP has fallen over the past decade, from 2.9 million in 1998/99 to 2.0 million in 2008/09. HRP was replaced with weekly carer credits in April 2010. The increase in the number of women accruing a contributory year through credits, from 2.3 million in 2009/10 to 3.1 million in 2011/12 may be partly explained by this.

Figure 5.2: Number of women accruing a contributing year: by type of contribution, 1978/79 to 2011/12

United Kingdom, millions



Source: Department for Work and Pensions

Notes:

1. The figures for 2010/11 and 2011/12 are provisional. They may change as further information becomes available

2. Contributing year eligibility depends on currently enacted legislation. Therefore, historic figures in previous versions of this chart may be different than presented here

3. The 'Mixed' category represents combinations of credits and classes of National Insurance contributions

4. The data comes from DWP's Lifetime Labour Market Database 1% sample of the National Insurance Recording System

5. Home Responsibilities Protection (HRP) was replaced with weekly carer credits as of April 2010 (See Credits and Home Responsibilities Protection section)

5 . Credits and Home Responsibilities Protection (HRP)

In April 2010, a new system of weekly ‘carer credits’ for the Basic State Pension (BSP) and the State Second Pension (S2P) was introduced for parents receiving Child Benefit for children up to age 12, foster parents and people caring for one or more severely disabled person for at least 20 hours a week. Grandparents caring for grandchildren up to age 12 were included from April 2011.

Credits for BSP are awarded to people who cannot work because of sickness or disability, people receiving Carer’ s Allowance, Working Tax Credit, Statutory Maternity or Adoption Pay. They are also awarded to people who are unemployed and available for and actively seeking work, people on jury service, prisoners whose convictions have been quashed and people on an Approved Training Course.

The **Non-contributory state pensions and benefits** section gives details on further developments with Pension Credit, and how it will be affected by Universal Credit. Proposed reforms to Pension Credit are also outlined in the **2013/14 Pensions Bill** section.

6 . Basic State Pension and additional state pension

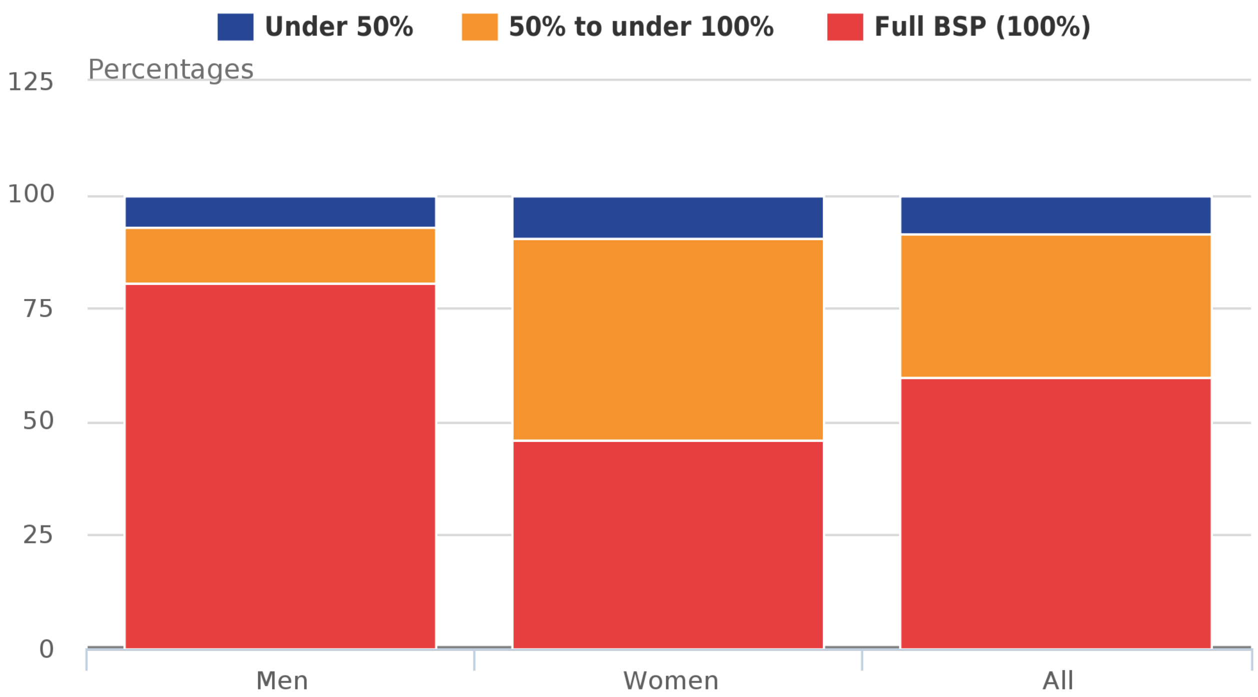
Full Basic State Pension (BSP) is worth £110.15 per week for a single man or woman in 2013/14. In order to qualify for the full amount of BSP, people reaching SPA from 6 April 2010 need to have 30 qualifying years (see sections **The current contributory state pension system and 2013/14 Pensions Bill**). If people have fewer qualifying years than is necessary to receive the full amount of BSP, they receive a partial payment of BSP in proportion to the number of qualifying years they have built up.

Until 6 April 2010, a man needed 44 qualifying years and a woman needed 39 qualifying years to receive full BSP, both men and women needed at least one-quarter of the full number of qualifying years to receive any BSP, and at least one year had to come from paid contributions rather than credits; but this is no longer the case. The changes from 6 April 2010 make it easier for most UK residents to build up full BSP entitlement. The statistics on state pensions thus reflect a system in transition, where many of the current outcomes relate to pensioners who retired under the old system.

Figure 5.3 shows that a larger proportion of women than of men received less than the full BSP in September 2012: only 46% of female pensioners received full BSP compared with 80% of male pensioners. Moreover, 10% of female pensioners received less than half of full BSP, compared with 7% of male pensioners. A higher percentage of women (44%) than men (12%) received more than half but less than the full amount of BSP. These proportions have changed little compared to the previous year. The difference between men and women is because many women in the current generation of pensioners failed to build up a full or near full BSP entitlement under the old system because of broken work histories and part-time work patterns [1]. In addition, some women claim BSP through their husbands rather than in their own right. In such circumstances, women receive approximately 60% of the husband's BSP (£66.60 if their husband receives full BSP in 2013/14) and no additional state pension. This group of women includes women who opted to pay the 'married women's stamp' (reduced rate National Insurance (NI) contributions) when in employment rather than building up their own entitlements. This may partly explain the higher proportion of women compared to men that received 50% to under 100% of BSP.

Figure 5.3: Proportion of pensioners on different percentages of Basic State Pension, September 2012

United Kingdom, percentages



Source: Department for Work and Pensions

Notes:

1. Includes overseas cases

2. The data comes from DWP's Work and Pensions Longitudinal Study (WPLS), 5% sample

Women have been unable to opt to pay the married women's stamp since April 1977, although they could continue to pay it if they had already chosen this option[2]. Until 6 April 2010, BSP payments to women who claimed through their husbands were conditional on the husband claiming his BSP first. This caused problems in cases of separation or divorce. As a result of the Pensions Act 2007, the condition was removed.

Table 5.4 shows that although 6.3 million women were receiving additional state pension in September 2012 compared with 4.6 million men, the mean amount received per week by women was £23 compared with £41 for men. Moreover, the median amount received by women was only £15, indicating that 50% of women received £15 or less per week in additional state pension. This is partly because, when the additional state pension was first introduced, it was assumed that it would be accrued mainly by men, and women would receive a share of the entitlement after their husband's death. Women who have reached SPA more recently, more of whom have built up entitlement to additional state pension in their own right through employment, have higher levels of entitlement than previous cohorts of women.

The amounts of additional state pension shown in Table 5.4 are on a 'net' basis, representing payments received directly from the state. Where people have belonged to private pensions which are contracted out (see [Pension Trends Glossary (198.9 Kb Pdf)](#)) of the additional state pension, they forego their direct entitlement to the additional state pension, but generally increase their private pension entitlement.

From April 2012, there should be an increase in the number of employees building up entitlement to the additional state pension because the option to contract out of the additional state pension on a defined contribution basis was abolished. Contracting out for defined benefit schemes would also end with the planned introduction of the single tier pension.

Table 5.4: Additional state pension: numbers receiving and average amounts, September 2012

Great Britain

	Men	Women	All
Numbers receiving (millions)	4.6	6.3	10.9
Mean amount (£ per week, net)	41	23	30
Median amount (£ per week, net)	32	15	22

Source: Department for Work and Pensions

Notes:

1. Additional state pension includes GRAD, SERPS and S2P

2. Numbers receiving excludes overseas cases (around 1 million)

3. Net amounts represent only those amounts paid directly by the state. They exclude amounts equivalent to the additional state pension paid from contracted out private pension schemes

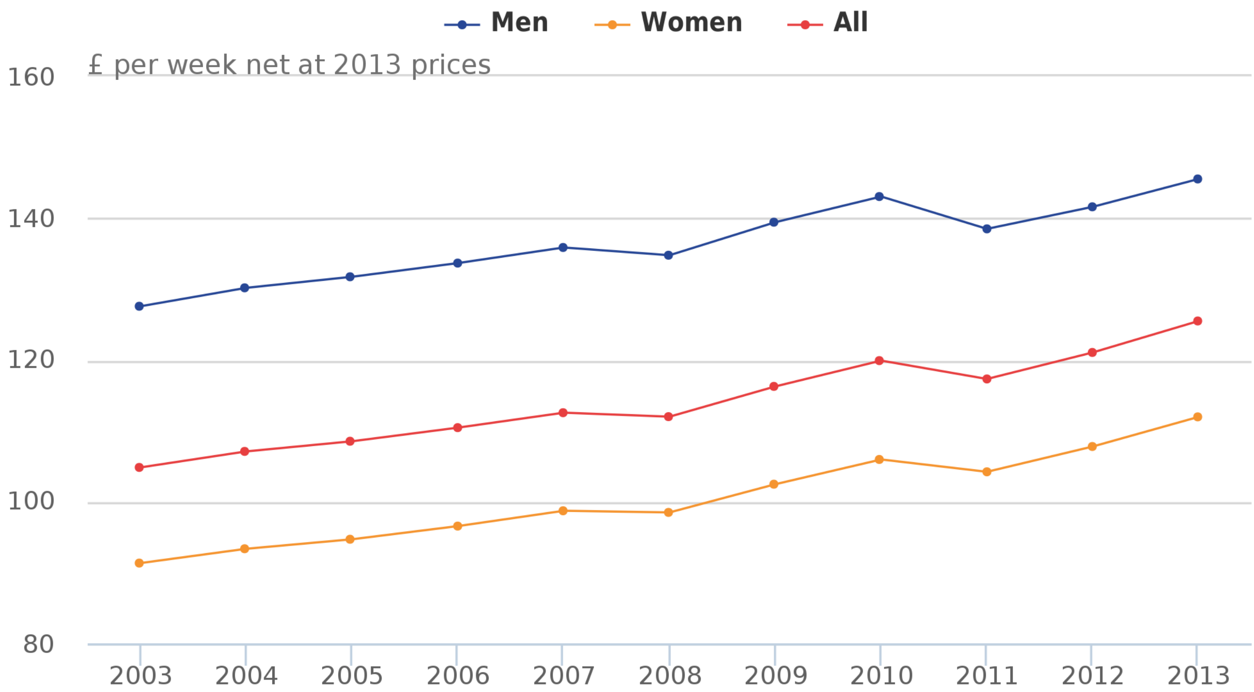
4. The data comes from DWP, Information Directorate

Figure 5.5 shows the average income received from state pension (basic state pension and the additional state pension) from 2003 to 2013. In 2013, men in Great Britain received a higher level of pension payments from the state compared to women. On average, in 2013, state pension payments to men were £145.52 per week and to women £111.95 per week (not including payments made to pensioners that were contracted out of the additional state pension).

The figure, in constant 2013 prices, shows that average net income received from state pension has increased over the period from 2003 to 2013 at a faster rate than Consumer Price Index (CPI) inflation. This real increase is calculated by deflating the nominal increase by the CPI. Average net income received from the state pension increased by an estimated 14% for men and 23% for women in real terms over this period.

Figure 5.5: Mean income from state pensions, 2003 to 2013

Great Britain, £ per week net at 2013 prices



Source: Department for Work and Pensions

Notes:

1. State pensions comprise Basic State Pension and additional state pension, which includes GRAD, SERPS and S2P.

2. Net amounts represent only those amounts paid directly by the state. They exclude amounts equivalent to the additional state pension paid from contracted out private pension schemes

3. Great Britain only, excludes overseas cases

4. The 2013 constant price series is calculated using the Consumer Price Index (CPI)

5. This data is also available in cash or earnings (annual earnings growth) terms within the download accompanying this figure

6. The data comes from DWP's Work and Pensions Longitudinal Study, February of each year

In recent years, a key area of debate in relation to state pensions has been whether they should be increased each year in line with prices or in line with earnings. From the early 1980s until 2011/12, the BSP was uprated in line with prices using the Retail Prices Index (RPI). Although this protected it from inflation, the income that pensioners received from BSP fell behind that of working age people, as the earnings of working age people tended to increase faster than inflation. However, inflation in the UK has exceeded the growth in average earnings in recent years.

The Pensions Act 2007 reintroduced the link between BSP and earnings, to be implemented by 2015 at the latest. In 2010 the Government introduced the 'triple lock' policy guaranteeing that BSP will be increased each year by average earnings growth, inflation or 2.5%, whichever is higher. From 2012/13, for any increases based on inflation, the Consumer Prices Index (CPI) would be used instead of RPI. As both inflation and earnings growth were below 2.5% for the year to September 2012, the 2013/14 BSP increase will be 2.5%. The 2012/13 BSP increase was 5.2%, in line with September 2011 CPI inflation. CPI is also used from 2012/13 instead of RPI to adjust the additional state pension, where uprating remains based on prices.

Although recent changes have somewhat simplified the system of entitlement to state pensions, the two tier approach – involving a combination of BSP and additional state pension – remains difficult for most people to understand. As a result, the 2013/14 Pensions Bill proposes the introduction of a single tier, flat-rate state pension to provide a firm foundation for individuals to plan for their own retirement (see sections **The current contributory state pension system and 2013/14 Pensions Bill**).

Notes for Basic State Pension and additional state pension

1. First Report of the Pensions Commission (2004)

2. In 2011/12, the latest year for which figures are available from DWP, around 3,000 women were paying reduced rate contributions. This figure is not a National Statistic.

7 . Non-contributory state pensions and benefits

The non-contributory Pension Credit[1] was introduced in October 2003 to replace the Minimum Income Guarantee (MIG) for those aged 60 and over, which had been in place since April 1999. Pension Credit is currently made up of two elements: a guarantee credit element which is designed to provide a minimum level of income for pensioners, and a savings credit element, intended to provide an additional amount for pensioners with low or modest incomes to reward private saving. The age for starting to receive guarantee credit is linked to women's State Pension Age (SPA), which was age 60 until 5 April 2010 but is now rising (see section **The current contributory state pension system**). Savings credit is for those aged 65 and over[2]. In the 2013/14 Pensions Bill, the savings credit element of State Pension Credit is abolished for those who reach pensionable age on or after the introduction of the single tier pension.

In 2013/14, the standard guarantee credit level was £145.40 per week for a single person and £222.05 per week for a couple (two people living together). These amounts are known as the standard minimum guarantee because they aim to ensure that all pensioners have access to at least this minimum level of income. In addition to the standard minimum guarantee, a carer may get an extra £33.30 per week and a disabled person may get an extra £59.50 per week added to increase the guarantee credit level. Help with mortgage interest payments or other housing costs not covered by Housing Benefit, may also be provided. The standard minimum guarantee is uprated in line with earnings, The additional amounts for caring and disability are uprated in line with prices [3].

Pension Credit is a tax free income related benefit for those people who are over the qualifying age and live in Great Britain. It is non-contributory: to claim it, there is no requirement that a person must have made National Insurance (NI) contributions (or earned credits). However, the guarantee credit element is means tested, in order to qualify, the pensioner's income is assessed and guarantee credit is paid if income is below a certain level. This may provide a disincentive to low earners to build up private pensions or other savings for their retirement because, if they are assessed for guarantee credit when they retire, income from such savings may count against them. The Pension Credit system attempts to offset this disincentive effect by including the savings credit element, which rewards people over 65 for their savings with payments of up to £18.06 per week for a single person and £22.89 per week for a couple (2013/14). Savings credit accrues on income above a certain level and changes to this level are normally approved by Parliament on a year-to-year basis.

Figure 5.6 shows numbers of Pension Credit beneficiaries in Great Britain in February 2013, by type of claim: guarantee credit only, both guarantee and savings credit, and savings credit only. Single women were the largest group of pensioners receiving guarantee credit, with a total of 1.1 million recipients: 0.6 million on guarantee credit only, and 0.5 million on both guarantee credit and savings credit.

Figure 5.6: Pension Credit beneficiaries: by type of claim, February 2013

Great Britain, thousands

Source: Department for Work and Pensions

Notes:

1. Beneficiaries may include people under 60 years old. Under present legislation, Pension Credit may be claimed provided at least one partner is over Pension Credit qualifying age

2. In the 2011 edition of Pension Trends Chapter 5: State pensions, this figure was presented based on the number of claimants rather than the number of beneficiaries. This affects the section of the chart labelled "Couples". On a claimants basis, "Couples" would refer to the total number of couples only. On a beneficiaries basis, "Couples" refers to the total number of people, male or female, with partners. The figure is available presented on either a claimant or beneficiary basis in the download accompanying this figure

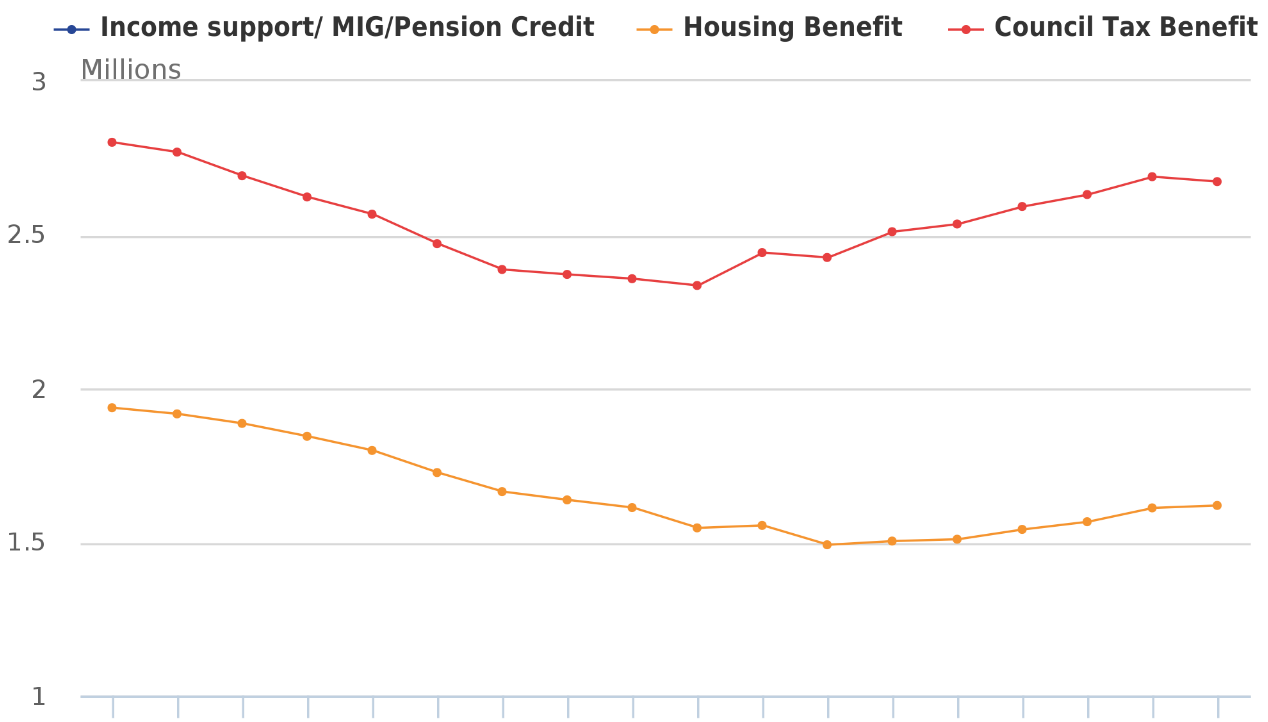
In addition to Pension Credit, there are two other important non-contributory (income-related) benefits for pensioners: Housing Benefit and a new localised Council Tax support system. These are designed to cover rental and council tax costs, which often represent a large part of the budget of pensioners on low incomes (see Pension Trends Chapter 11).Those pensioners who are in receipt of the guarantee credit element of Pension Credit are entitled to receive maximum Housing Benefit; those not in receipt of guarantee credit may still get help depending on their income and capital. Council Tax Benefit was abolished in April 2013 and replaced with local, and in the case of Wales and Scotland, national, reduction schemes, subject to the criteria set by the relevant local authority. Across Great Britain pensioners have been protected from any changes and remain subject to the previous national rules[4].

However, the introduction of the Universal Credit system, which is being gradually introduced from April 2013 will lead to a number of changes in the structure of Pension Credit. Eligibility for Pension Credit will, in future, be changed so that couples will only be able to make a new claim for Pension Credit if both partners are over the Pension Credit qualifying age. For those couples where one is under the qualifying age they will only be able to claim Universal Credit. However, if people in this situation are already receiving Pension Credit when the change is introduced, then receipt of Pension Credit may continue unless they cease to be eligible for Pension Credit. They would not be able to reapply unless both members had reached the Pension Credit qualifying age. The guarantee credit is also due to change to introduce a new additional amount for dependent children, to mirror provisions available through Universal Credit. At this stage an implementation date for both these changes has not been set. Housing Benefit for those over Pension Credit qualifying age will continue for the time being until at least 2017.

Figure 5.7 shows that when the Minimum Income Guarantee (MIG) was replaced with Pension Credit in 2003, there was a sharp increase in people aged 60 and over in Great Britain receiving this type of benefit. However, the number of people receiving Pension Credit has slightly decreased recently, from 3.3 million in 2009/10 to 3.2 million in 2011/12. There was an increase in the numbers claiming Council Tax Benefit from 2.3 million in 2003/04 to 2.7 million in 2011/12, although this represents a fall in the numbers since the early 1990s. By contrast, the numbers of people aged 60 and over in receipt of Housing Benefit declined steadily from 1.9 million in 1994/95 to 1.5 million in 2005/06. Since then, the numbers have increased slightly, to 1.6 million in 2011/12.

Figure 5.7: Beneficiaries of income-related benefits aged 60 and over, 1994/95 to 2011/12

Great Britain



Source: Department for Work and Pensions.

Notes:

1. Pension Credit was introduced in October 2003. Before this, the main income-related benefits for people over 60 were income support and the Minimum Income Guarantee (MIG).

2. Numbers cannot be added together to produce totals, as many individuals receive more than one benefit.

3. Housing Benefit figures for 2007/08 and 2008/09 are estimated.

4. Financial year totals are calculated as the average of the monthly or quarterly totals published by DWP relating to that financial year.

5. Beneficiaries may include some people under 60 years old. Income-related benefits may be claimed as a couple. Where either partner of a couple is aged 60 or over, both partners have been included within the totals shown.

Notes for non-contributory state pensions and benefits

1. The Department for Work and Pensions (DWP) classifies Pension Credit as an Income Related Benefit for pensioners. This is different to a non-contributory pension, such as a Category D State Pension (see the section **Contributory state pensions**).

2. At least one member of a couple must have reached, or be above, the Pension Credit qualifying age (linked to women's SPA) for them to be able to claim guarantee credit. At least one member of the couple must be 65 or over for them to be eligible for savings credit.

3. When introduced in 2003, uprating of the standard minimum guarantee was discretionary but a commitment was given to uprate it in line with earnings. The Pensions Act 2007 introduced a statutory requirement that the standard minimum guarantee would be uprated at least in line with earnings from 2008. In April 2013, it was increased at a rate of 1.9%, which was higher than the relevant earnings rate of 1.6%. This was to ensure that the poorest pensioners (those in receipt of guarantee credit only) benefited from the same cash increase as the Basic State Pension, paying for this by reducing the value of the savings credit.

4. The amount of Housing Benefit/Council Tax Benefit which is awarded may not cover the full rent/council tax liability. This can be for a variety of reasons, for example where the amount of the rent which the legislation says can be covered by Housing Benefit is not the same as the full rent charge. Also, eligible rent can be reduced to reflect the presence of non-dependent adults in the household, who are expected to make a contribution towards household costs.

8 . 2013/14 Pensions Bill

The 2013/14 Pensions Bill[1], which received its second reading in the House of Lords on 3 December 2013, builds upon reforms in previous Pensions Acts, and covers two key areas:

- replacement of the current two tier state pension with a single tier state pension; and
- bringing forward previously proposed increases in State Pension Age (SPA).

The first key change is the proposal to replace the two tier state pension system – Basic State Pension (BSP) plus additional state pension – with a single tier, flat-rate state pension with effect from 6 April 2016. The proposed rate of the single tier pension would be set just above the current standard guarantee credit level for Pension Credit at £144 per week for a single pensioner in 2012/13 terms and would be uprated each year at least in line with earnings.

This change to a single tier pension would apply only to people reaching SPA from 6 April 2016. Current pensioners and those reaching SPA before the introduction date would not be affected and would continue to receive their State Pension based on existing rules. In order to receive the full amount of single tier pension, 35 qualifying years of National Insurance (NI) contributions, or equivalent credits, would be required. People would need to have contributed a minimum of 10 qualifying years to receive any single tier state pension. Those with fewer than 35 qualifying years, but more than the minimum, would receive an amount proportional to the amount of qualifying years they had contributed. The single tier pension would be based on individual qualification, without the facility to inherit entitlement from a spouse or civil partner. A number of transitional protection arrangements would be put in place with accrued rights to the state pension built up under the old system continuing to be recognised under the new single tier system.

The second key change is the proposal to bring forward the date of increase in SPA to 67. Under the 2013/14 Pensions Bill, SPA would gradually rise from 66 to 67 between 2026 and 2028, eight years sooner than under the currently effective legislation of the Pensions Act 2007. The Chancellor’s 2013 Autumn Statement proposes that SPA will be reviewed on a five yearly basis, with the next review of SPA taking place before May 2017. The guiding principles of such reviews are that people should spend less than a third of their lives in retirement and that, on average, all people should spend a similar proportion of their lives receiving State Pension. Future increases in SPA would be based on life expectancy figures at the time of the reviews. The Chancellor's 2013 Autumn Statement anticipates that an increase in SPA to 68, and, later, to 69, are likely to come forward as compared to estimates in previous legislation.

Other 2013/14 Pensions Bill proposals relating to state pension include a change to Pension Credit. The means-tested savings credit element of Pension Credit would close to pensioners who reached SPA after the single tier pension was introduced. The guarantee credit element of Pension Credit would be unaffected by this Bill.

Notes for 2013/14 Pensions Bill

1. For further information, see:

- Department for Work and Pensions, A state pension for the 21st century, April 2011 (Green Paper on state pension reform).
- Department for Work and Pensions, The single tier pension: A simple foundation for saving, January 2013 (White Paper on state pension reform).
- Pensions Bill 2013-14.
- Department for Work and Pensions, Enabling and encouraging saving: The evidence around pension reform and saving, February 2013.

9 . The cost of state pensions

The final part of this chapter looks at expenditure on state pensions. Table 5.8 projects public expenditure on state pensions and other pensioner related benefits on the basis of current policy and the measures contained in the Pensions Act 2011. It also includes a row containing the flat-rate, single tier pension which is outlined in the 2013/14 Pension Bill. Table 5.8 shows that total expenditure is projected to rise from 7.1% of Gross Domestic Product (GDP) in 2012/13 to 9.4% in 2062/63. These estimates were produced prior to the Chancellor’s 2013 Autumn Statement.

Table 5.8 also shows the projected expenditure on the Basic State Pension (BSP), State Earnings Related Pension Scheme (SERPS) and State Second Pension (S2P) diminishing as the proposed single tier pension is introduced. By 2062/63, the expenditure on these components is projected to decrease to £1 billion from £79 billion in 2012/13 if the reforms are enacted. The single tier pension element, with a proposed start in 2016, is projected to increase from £4 billion to £421 billion (0.3% to 8.1% of GDP) between 2017/18 and 2062/63. Table 5.8 uses the Office for Budget Responsibility (OBR)'s preferred assumption which is that disability benefits and Winter Fuel Payments will be uprated in line with growth in earnings.

Expenditure on Housing Benefit and Disability Living Allowance, Personal Independence and Attendance Allowance as a whole is projected to rise from £17 billion in 2012/13 to £54 billion in 2062/63. However, as a percentage of GDP, these total projected benefits change little over the same period, staying at around 1%.

Table 5.8: Projected expenditure on state pensions and related benefits, 2012/13 to 2062/63

	2012 /13	2017 /18	2022 /23	2032 /33	2042 /43	2052 /53	2062 /63
£ billion, 2013/14 prices							
Basic State Pension	63	67	63	45	21	4	1
SERPS and State Second Pension	16	19	16	11	5	1	0
Single Tier Pension	0	4	26	104	208	298	421
Other elements of State Pension	3	3	2	1	0	0	0
Pension Credit	8	6	5	4	3	2	3
Other pension benefits	3	3	3	5	7	10	13
Total state pensions	94	102	116	170	245	315	438
Housing Benefit	6	6	6	8	11	11	13
Disability Living Allowance, Personal Independence Payments and Attendance Allowance	11	10	12	17	24	31	41
Total state pensions and pensioner benefits	110	118	134	194	280	358	491
As % of GDP							
Basic State Pension	4.1	3.8	3.1	1.8	0.7	0.1	0.0
SERPS and State Second Pension	1.0	1.1	0.8	0.4	0.1	0.0	0.0
Single Tier Pension	0.0	0.3	1.3	4.1	6.4	7.2	8.1
Other elements of State Pension	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Pension Credit	0.5	0.4	0.2	0.1	0.1	0.1	0.1
Other pension benefits	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total state pensions	6.0	5.8	5.8	6.6	7.5	7.6	8.4
Housing Benefit	0.4	0.3	0.3	0.3	0.3	0.3	0.2
Disability Living Allowance, Personal Independence Payments and Attendance Allowance	0.7	0.6	0.6	0.7	0.7	0.8	0.8
Total state pensions and pensioner benefits	7.1	6.8	6.7	7.6	8.6	8.7	9.4

Source: Department for Work and Pensions

Notes:

1. Figures cover expenditure in the United Kingdom and overseas, unlike medium-term forecasts on the DWP website, which exclude Northern Ireland

2. Projections are based on the Office for Budget Responsibility's (OBR) Fiscal Sustainability Report. Tables are presented using two alternative assumptions for uprating of disability benefits and Winter Fuel Payments. This table uses the OBR's preferred assumption which is that these payments will be uprated in line with growth in earnings

3. Basic State Pension and Single Tier Pension are uprated using the 'triple lock' (highest of average earnings increases, CPI inflation or 2.5%)

4. Additional Pension is uprated in line with CPI in payment

5. Figures to 2017/18 are consistent with Budget 2013 forecasts

6. Long-term economic assumptions are as determined by the Office for Budget Responsibility, and detailed in their Fiscal Sustainability Report 2013. In the medium-term these are the same as for Budget 2013 forecasts

7. Totals may not sum, due to rounding

8. Figures include impacts of a Single Tier State Pension from April 2016

9. State Pension Age is assumed equalise at 65 by November 2018, with the Pension Credit and Winter Fuel Payment qualifying ages rising in line. State Pension age reaches 66 by October 2020, 67 between 2026 and 2028, and 68 between 2044 and 2046; qualifying ages for Pension Credit, Winter Fuel Payments, Disability Living Allowance and Attendance Allowance rise in line

10. These estimates were produced prior to the Chancellor's 2013 Autumn Statement

10. References

1. Antolín P, and Whitehouse, E.R. (2009) 'Filling the Pension Gap: Coverage and Value of Voluntary Retirement Savings', OECD Social Employment and Migration Working Papers, No.69, OECD publishing .

2. Department for Work and Pensions Tabulation Tool.

3. Department for Work and Pensions: Pensioners' Income Series 2011/12 .

4. Department for Work and Pensions (2007): Pensions Bill Regulatory Impact Assessment

5. Department for Work and Pensions (2009), Saving for retirement: Implications of pensions reforms on financial incentives to save for retirement. Research Report No 558. HMSO, London. ISBN 978 1 84712 485 2.

6. Department for Work and Pensions (2013), Enabling and encouraging saving: The evidence around pension reform and saving.

7. Department for Work and Pensions (2011) A state pension for the 21st century, April 2011 (Green Paper on state pension reform).

8. Department for Work and Pensions (2013) The single tier pension: A simple foundation for saving, January 2013 (White Paper on state pension reform).

9. Office for Budget Responsibility (2013): Fiscal sustainability report, July 2013 .

10. ONS 2012-based population projections, table A1-1 (314 Kb Excel sheet) .

11. OECD (2011), Pensions at a Glance 2011: Retirement-Income Systems in OECD and G20 Countries, Paris .

12. OECD (2013), Pensions at a Glance 2013: OECD and G20 indicators, Paris .

13. Pensions Acts: 1995, 2007, 2008, 2011.

14. Pensions Bill 2013/14.

15. Pension Trends Chapters 6 and 10 .

16. Pensions Commission (2004) Pensions: Challenges and Choices, The First Report of the Pensions Commission. The Stationery Office: London.

17. Pensions Commission (2005) A New Pension Settlement for the Twenty-First Century, The Second Report of the Pensions Commission. The Stationery Office: London .

18. Pensions Policy Institute (2006): An evaluation of the White Paper state pension reform proposals, July 2006.

19. Pensions Policy Institute (2011): An assessment of the Government's options for state pension reform - A Discussion Paper by Daniela Silcock, Niki Cleal, Chris Curry, Daniel Redwood and John Adams, June 2011 .

20. Pensions Policy Institute (2013): The impact of the government's single tier state pension reform, June 2013.

11. Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

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