



Department
for Work &
Pensions

The single-tier pension and derived entitlement to basic State Pension

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Contents

- Introduction..... 3

- Method 4
 - The Pensim2 model..... 4
 - Economic and policy assumptions 4
 - Notional losers from removal of derived entitlement..... 4
 - Voluntary National Insurance Contributions 4
 - Behavioural response..... 5
 - Migration and overseas pensioners..... 5
 - Reduced Rate Elections 5
 - Interaction with the minimum qualifying period..... 5
 - Divorced pensioners and Category A substitution 6
 - Relation to other estimates..... 6
 - Labelling, rounding and deflation..... 6

- Results 7
 - Proportion of single-tier pensioners affected 7
 - Numbers of single-tier pensioners affected 9
 - Interaction with Guarantee Credit..... 9
 - Whether affected while married or widowed..... 11
 - Actual and potential qualifying years 12
 - Average impact on retirement income 12

- Contact details..... 13

Introduction

The facility which enables, in the current pension system, one party to a marriage or civil partnership (or former marriage / civil partnership) to use the other's National Insurance record to gain entitlement to state pension originated in the 1940s. This facility will be removed under the single-tier pension, with qualification for a state pension being wholly on an individual basis for individuals reaching State Pension age after 6 April 2016. The Government has already published a detailed note which explains how the current system operates and how derived entitlement (and also the ability to inherit additional State Pension) will be withdrawn.¹

In summary, under the current system people with fewer than 18 qualifying years whose spouse or civil partner is still alive can access a "married person's pension",² which can increase their basic State Pension (bSP) entitlement up to £66 per week (approximately 60% of the full basic State Pension). People who are widowed and have fewer than 30 qualifying years, can access a "widow's pension",³ which can increase their basic State Pension entitlement up to the full basic State Pension amount (£110.15 in 2013/14).

Divorcees are able to access a Category A (substituted) pension which may give them a maximum of the full basic State Pension rate. The extent to which individuals may benefit is dependent on the National Insurance record of their spouse or civil partner (or former spouse or civil partner).

The removal of these provisions means that some individuals are projected to receive less state pension under the new system than they would have had the current system continued.

This publication builds on estimates already presented in the single-tier Impact Assessment and in answers to parliamentary questions to give a more detailed picture of the impact of the single-tier reforms on people who under the current system would have derived entitlement to all or part of a basic State Pension using their spouse or civil partner's National Insurance record.

The estimates presented here are the results of departmental modelling of state pension outcomes under different pension systems. They do not constitute official statistics.

¹ DWP (2013), *State Pension entitlement derived from a current or former spouse's or civil partner's National Insurance contributions*, available on gov.uk at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181235/derived-inherited-entitlement.pdf

² The technical name for this is the Category B(L) pension. Individuals who have some Category A pension (i.e. pension based on their own NI record) will be classified as receiving a Category AB(L) pension.

³ The technical name for this is the Category B pension. Individuals who have some Category A pension (i.e. pension based on their own NI record) will be classified as having a Category AB pension.

Method

The Pensim2 model

Pensim2 is a dynamic micro-simulation model that has been developed by DWP to inform analysis of likely future trends in retirement incomes. Pensim2 builds up a picture of the future pensioner population by modelling future life events and work histories for a representative sample of individuals.

The key points to bear in mind in the context of this analysis are that the version of the model used starts from base data representing the population of Great Britain in 2006/07, does not simulate migration or overseas pensioners and does not simulate any behavioural response to pension reforms.

Economic and policy assumptions

The model and assumptions used to produce these estimates are the same as those used for both the [updated Impact Assessment](#) published in October and the Office for Budget Responsibility's [2013 Fiscal Sustainability Report](#). These assumptions are set out in more detail in Annex A of the Impact Assessment.

Notional losers from removal of derived entitlement

The analysis looks at individuals who are modelled as receiving a Category B or BL basic pension under the current system, and compares their pension under the current and single-tier pension systems in each year of retirement. Anyone who at any point in retirement is modelled as getting less under single-tier is included in the analysis.

Where they are receiving a lower pension this will not always be solely due to the removal of derived entitlement. For example, they may also receive less inherited Additional Pension or may have accrued some State Second Pension after 2016 had the current system been retained. Conversely, the higher value of a basic State Pension qualifying year under the single-tier system may give a pension that is larger than the Category A element of their current system pension would have been. Their net income may also be affected by interactions with means-tested benefits or by the impact of the single-tier reforms on their partner's pension.

Voluntary National Insurance Contributions

The Pensim2 simulation does not include the purchase of Class 3 credits through Voluntary National Insurance Contributions (VNICs). Where people purchase VNICs (whether in direct response to the reforms or as something they would have done anyway to get closer to a full basic State Pension under the current system) the reduction in their pension may be mitigated or wholly offset.

There is usually a six year time limit for people to fill gaps in their National Insurance record but people reaching State Pension age on or after the 6th of April 2016 will

have until the 5th of April 2023 to make voluntary contributions back to 2006/07. For further details [see the HMRC website](#).

Behavioural response

The modelling does not include any behavioural response to the single-tier reforms. In particular it does not include any additional years of work, creditable activities or voluntary contributions that people may undertake in order to make up for the removal of derived entitlement, to reach 35 qualifying years or to take advantage of the ability to build qualifying year towards the full single-tier pension on top of their 2016 foundation amount.

Migration and overseas pensioners

The estimates are based on a simulation, starting from base data representing Great Britain in 2006/07. The simulation does not model immigration or emigration.

This means that the estimates do not include people living overseas who may receive less pension due to the removal of derived entitlement or people in the UK who may have few qualifying years due to arriving in the UK only shortly before reaching State Pension age. The effect on people who arrived before 2006/07 but reach State Pension age under single-tier is captured. This will include some people who arrived too late in life to build up a full pension in the UK system, or who have spent a significant part of their working life abroad.

Reduced Rate Elections

The single-tier reforms include transitional protection for some women who paid National Insurance at a lower rate through a Reduced Rate Election. This is expected to protect around 10,000 women. The Pensim2 model does not include Reduced Rate Elections. This will introduce a slight upward bias into the estimates as some of the women modelled as having less pension under single-tier will actually have their pension protected through these transitional arrangements. For more details of this transitional protection see the relevant section of the White Paper.

Interaction with the minimum qualifying period

The single-tier reforms introduce a minimum qualifying period, currently assumed to be ten years⁴. People with fewer than the minimum number of qualifying years will not be able to receive any pension. Qualifying years that have been built up under the pension system of a country in the European Economic Area, or with which the UK has a bilateral agreement count towards meeting the minimum. For these estimates we assume that the small number of people who are modelled as reaching State Pension age with fewer than ten qualifying years in Great Britain will receive a pension. The single-tier Impact Assessment gives estimates of the number of people who will be affected by the introduction of the minimum qualifying period.

⁴ The Pensions Bill currently before parliament stipulates that it will be no higher than ten years.

Note that there is also likely to be significant overlap between people with very few qualifying years and women who have a longstanding Reduced Rate Election as discussed above. There is also a strong incentive for people who are short of the minimum qualifying period to achieve it through VNICs, work or activity which attracts a National Insurance credit.

Divorced pensioners and Category A substitution

Under the current system divorced pensioners can derive a pension from part of their former spouse or civil partner's record through 'Category A substitution' rather than through a Category B pension. The single-tier reforms will also remove this part of the current system.

The impact of this change is not captured in the Pensim2 model, and pensioners currently benefiting from Category A substitution cannot be readily identified using administrative data as it is not identified separately like a Category B pension.

Based on the simulated numbers of divorced pensioners with less than 30 qualifying years, it is estimated that the number of divorced pensioners who would receive less pension due to the removal of derived entitlement is around a quarter of the number of married or widowed pensioners involved.

Relation to other estimates

The single-tier Impact Assessment includes an estimate that in 2020 fewer than 30,000 women will be affected by the loss of derived entitlement to a basic State Pension, based upon the National Insurance record of their spouse or civil partner. This estimate was of the number of married or widowed women who receive less than under the current system in 2020.

The analysis in this document looks at whether people would be getting a smaller pension at any point in their retirement. This includes for example pensioners who are still married in 2020 and whose single-tier pension is between the 'married woman's pension' (currently £66 per week) and the 'widow's pension' (currently £110.15). While still married their state pension could be larger under the single-tier system, but once they are widowed their single-tier pension could be lower than the current system 'widow's pension'. In this case their total state pension over retirement would not necessarily be lower under the single-tier system.

This document also looks at the interaction with means testing, presenting estimates which exclude people who would have received Guarantee Credit under the current system so may not actually have a lower net retirement income.

Labelling, rounding and deflation

Years refer to the financial year starting in April.

Figures are generally presented rounded to the nearest 10,000 individuals, representing 10 simulated sample individuals.

Cash amounts are expressed in 2013/14 earnings terms.

Results

Proportion of single-tier pensioners affected

Figure 1 below shows the estimated proportion of pensioners who at some point in their retirement⁵ would have received Category B or BL basic State Pension under the current system and would get less at that point under the single-tier system. The results are presented in cohorts covering five years. Note that the first cohort contains relatively fewer women than men due to the equalisation of State Pension age⁶.

Figure 1: People projected to receive less state pension due to the withdrawal of derived entitlement, as a proportion of people reaching State Pension age

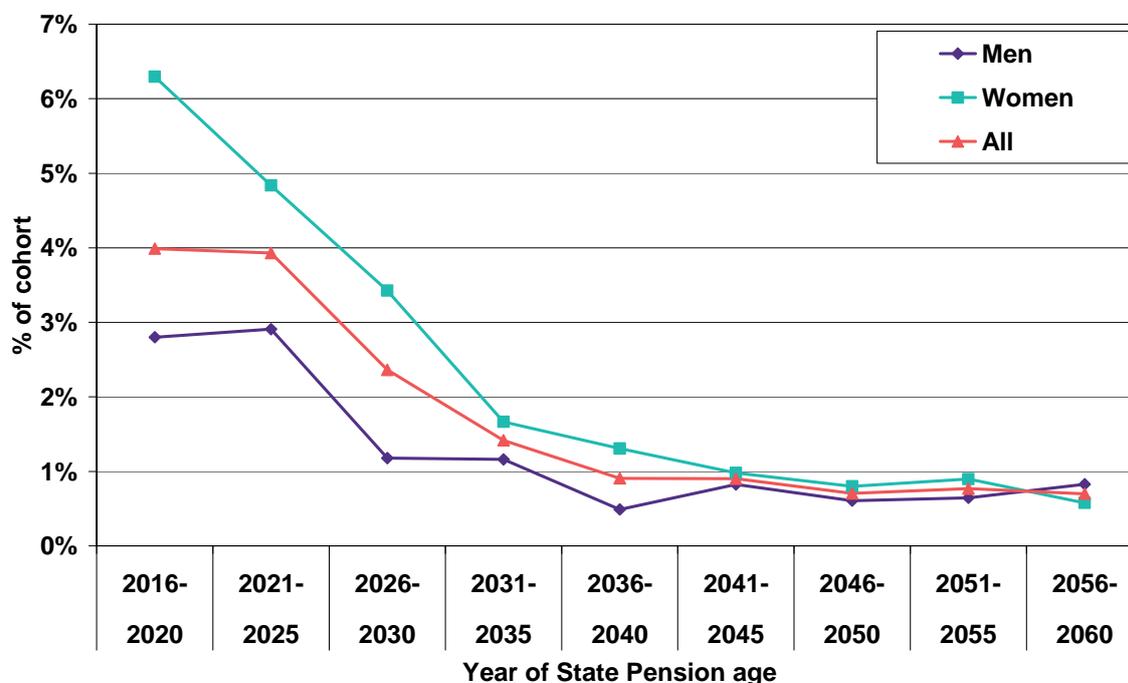


Figure 1a: Same results as chart above in table form

Year of SPa	2016-2020	2021-2025	2026-2030	2031-2035	2036-2040	2041-2045	2046-2050	2051-2055	2056-2060
Men	3%	3%	1%	1%	0%	1%	1%	1%	1%
Women	6%	5%	3%	2%	1%	1%	1%	1%	1%
All	4%	4%	2%	1%	1%	1%	1%	1%	1%

⁵ For example, in these figures we would include someone who reaches State Pension age in 2018 and receives more under single-tier than they would have in the current system while still married, but less once they are widowed.

⁶ Women born between 6th April 1953 and 5th December 1953 will be affected by both the single-tier pension reforms and the equalisation of State Pension age.

The proportion of each cohort that is affected falls over the first couple of decades. This reflects greater labour market participation for successive cohorts of women and that the earlier cohorts in the model will include some people who arrived in the UK relatively recently, whereas the later cohorts do not as migration is not simulated. From the 2030s onwards only around 1% of new pensioners are affected in this way.

As discussed in the previous section the modelling only covers people who were already in the country at the start of the simulation (2006/07) and does not include the purchase of Class 3 National Insurance through voluntary contributions or any behavioural response to the single-tier reforms.

Under the illustrative single-tier start rate of £144 per week in 2012, 27 qualifying years would be needed to match the value of a 'widow's pension'⁷. Anyone reaching State Pension age from 2030/31 onwards would, in principle, be able to reach 27 qualifying years through voluntary contributions to fill any gaps from 2006/07 to 2015/16 plus full credits or contributions for 2016/17 through to State Pension age⁸. Subsequent analysis concentrates on people reaching State Pension age up to 2030/31.

⁷ Twenty seven thirty fifths of £144 gives £111, which is higher than the £107.45 rate of full basic State Pension in 2012/13.

⁸ 10 years from 2006/07 to 2015/16 potentially covered by Voluntary Contributions, plus 14 years full contributions or credits from 2016/17 to 2029/30, plus 3 years Starter Credits.

Numbers of single-tier pensioners affected

Note that while in the first chart the proportion of people affected was higher in the earlier cohorts, the number of people involved is smaller due to the effects of changes to State Pension age. A similar effect can be seen in the drop in numbers in the mid-2020s, when State Pension age rises to 67⁹.

Figure 2: People projected to receive less state pension due to the withdrawal of derived entitlement, by sex and year of reaching State Pension age

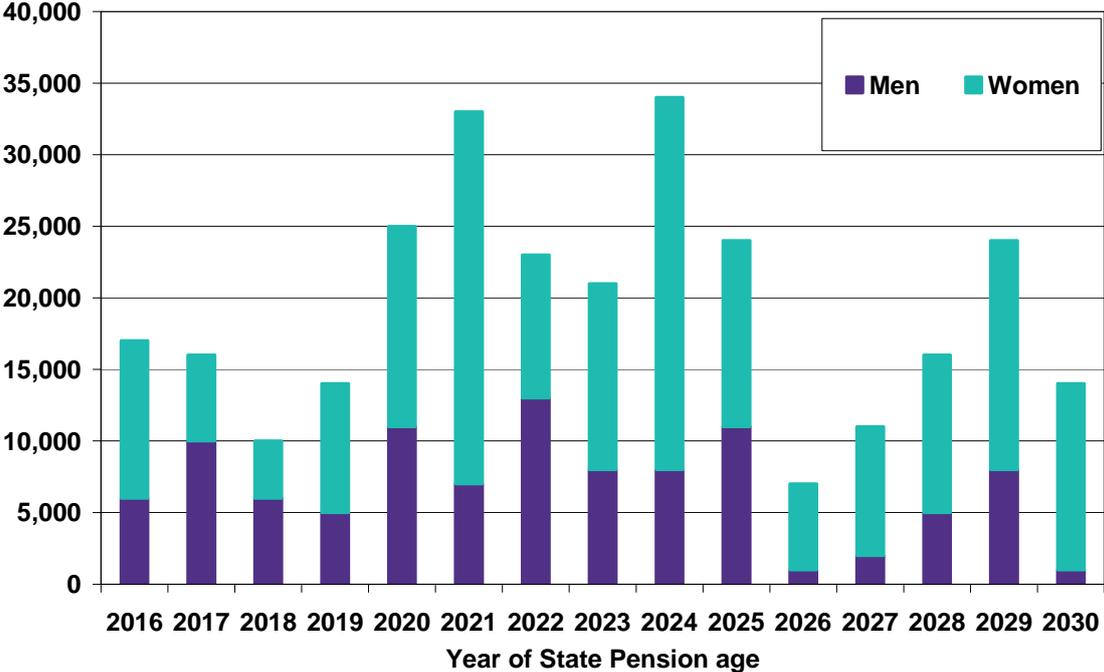


Figure 2a: Same results as chart above, in five year cohorts

Year of State Pension age	2016-2020	2021-2025	2026-2030	Total to 2030
Men	40,000	50,000	20,000	100,000
Women	40,000	90,000	60,000	190,000
All	80,000	140,000	70,000	290,000
% women	55%	65%	75%	65%

Interaction with Guarantee Credit

Some of these individuals would have received Guarantee Credit under the current system, particularly those who would have been receiving a widow’s pension with little or no other pension provision. They will still have their income topped up to the level of the Standard Minimum Guarantee (or higher if they are entitled to an

⁹ The increase to 67 is part of the Pensions Bill currently before parliament.

additional amount) and the reduction in their state pension relative to what they would have received under the current system will not have reduced their net income¹⁰. Removing people modelled as receiving Guarantee Credit under the current system reduces the number of people involved by around 40%.

Figures 3 and 3a show the numbers involved once these people are removed. The remainder represents around 2% of the people reaching State Pension age between 2016/17 and 2030/31.

Figure 3: People projected to receive less state pension due to the withdrawal of derived entitlement, by sex and year of State Pension age, excluding those who receive Guarantee Credit under the current system

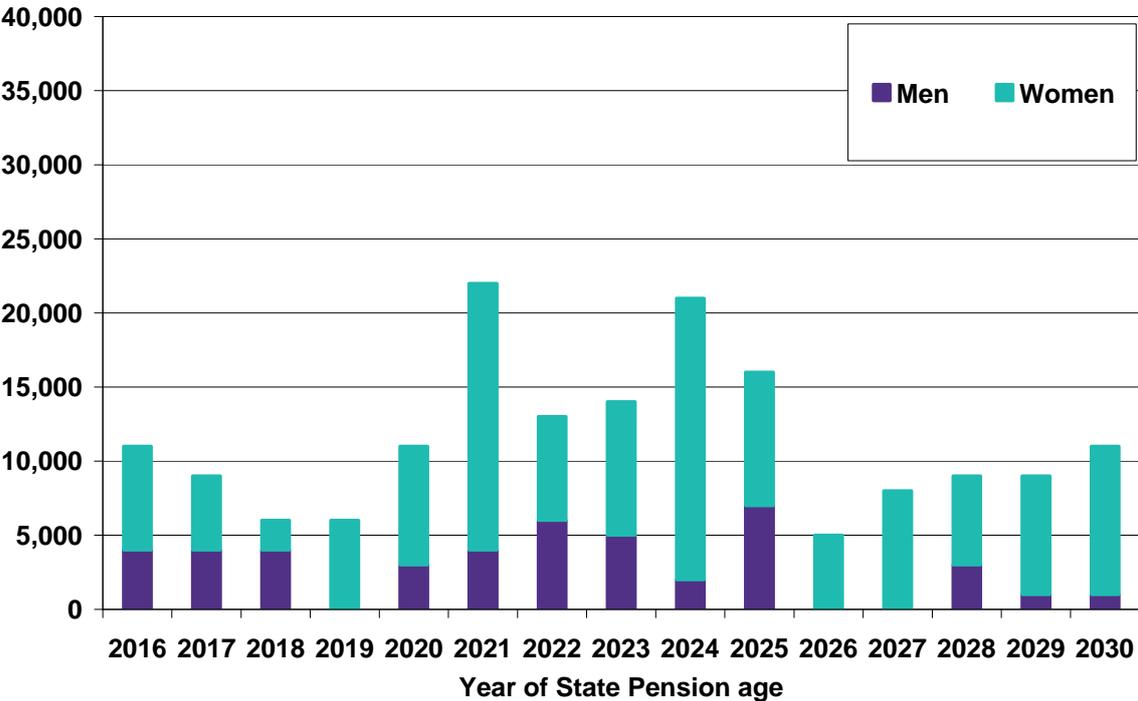


Figure 3a: Same results as chart above, in five year cohorts

Year of State Pension age	2016-2020	2021-2025	2026-2030	Total to 2030
Men	20,000	20,000	10,000	40,000
Women	30,000	60,000	40,000	130,000
All	40,000	90,000	40,000	170,000
% women	65%	70%	90%	75%
Total as % of cohort	2%	3%	1%	2%

¹⁰ Note that they may still have a notionally total lower net income if they would also have received the Savings Credit element of Pension Credit under the current system, in which case the difference would not be directly associated with the removal of derived entitlement.

Whether affected while married or widowed

Figure 4 below presents the same estimates as in figure 3 above, but splits future pensioners by whether they are modelled as receiving less pension under single-tier while still married. Over half are not in the position of getting less than under the current system until they are widowed, at which point (assuming their partner had sufficient qualifying years) their current system basic State Pension would have risen from the £66 “married woman’s pension” to the £110.15 “widow’s pension”.

Figure 4: Numbers of derived entitlement notional losers by year of State Pension age and whether they receive less pension while still married, excluding those who receive Guarantee Credit under the current system

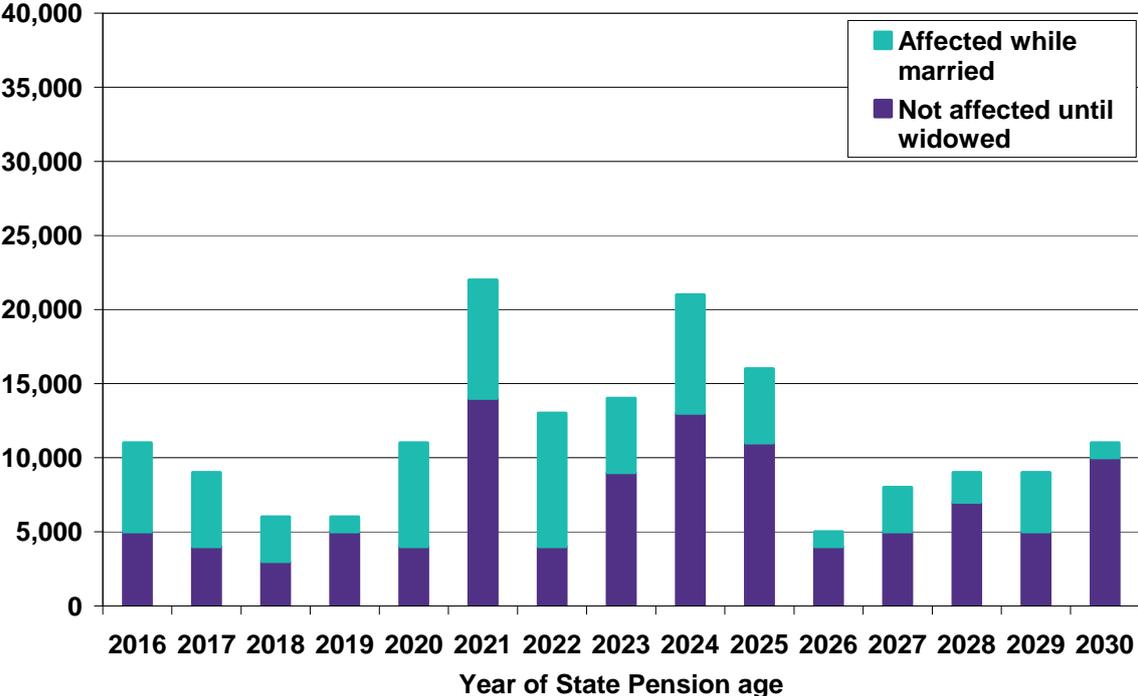


Figure 4a: Same results as chart above, in five year cohorts

Year of State Pension age	2016-2020	2021-2025	2026-2030	Total to 2030
Not affected until widowed	20,000	50,000	30,000	100,000
Affected while still married	20,000	40,000	10,000	70,000
All	40,000	90,000	40,000	170,000
% affected while married	50%	40%	25%	40%

Actual and potential qualifying years

Figure 5 below firstly shows the estimated distribution of the number of qualifying years that the potential losers shown in figure 2 will have at State Pension age. The bottom half shows the estimated distribution of the potential number of qualifying years that they could achieve with full contributions or credits for the period from 2006/07 through to State Pension age and gives an estimate of the proportion who could achieve 27 qualifying years through building up a full record for 2006/07 through to State Pension age.

Figure 5: Estimated number of qualifying years and potential qualifying years for people projected to receive less state pension as shown in figure 2

Qualifying years by year of SPa		2016-2020	2021-2025	2026-2030	All to 2030
Qualifying years at State Pension age	Lower quartile	10	12	15	12
	Median	15	17	21	17
	Upper quartile	22	25	26	25
Potential qualifying years	Lower quartile	14	20	26	20
	Median	20	24	32	25
	Upper quartile	27	31	41	32
% with potential to reach 27 years		25%	40%	70%	45%

Average impact on retirement income

Figure 6 below gives estimates of the average impact of the single-tier reforms on weekly income over retirement for the pensioners identified in figure 2 as having a lower state pension due to the removal of derived entitlement.

Figure 6: Measures of difference in average weekly income over retirement

	Year of State Pension age	2016-2020	2021-2025	2026-2030	All to 2030
	Difference in weekly income averaged over retirement, (2013/14 earnings terms)				
Mean change in weekly income	State pension	-£21	-£23	-£20	-£22
	Net household income, including means-testing	-£10	-£10	-£7	-£9
Median change in weekly income	State pension	-£11	-£17	-£14	-£14
	Net household income, including means-testing	-£6	-£8	-£6	-£7

Contact details

Contact points for further information:

Press enquiries should be directed to the Department for Work and Pensions press office:

Media Enquiries: 0203 267 5129

Out of hours: 0203 267 5144

Website: www.gov.uk/government/publications/the-single-tier-pension-a-simple-foundation-for-saving--2

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