



Department
for Work &
Pensions

Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP

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Background

The Pensions Act 2014 legislated for reforms of the State Pension system, introducing a new flat rate pension system (now referred to as 'new State Pension') for people reaching State Pension age (SPa) from April 2016 onwards.

Further details of these reforms are available at

<https://www.gov.uk/government/publications/the-nSP-pension-a-simple-foundation-for-saving--2>.

During the passage of the Bill, the Department published several iterations of the Impact Assessment for these reforms, the latest editions of which are available at the following links:

<https://www.gov.uk/government/publications/pensions-act-2014-impact-assessments-may-2014>

<https://www.gov.uk/government/publications/nSP-pension-updated-impact-analysis-july-2014>.

This document updates the key pieces of analysis from the July 2014 Impact Assessment and includes new analysis, plus extended and updated analysis from other DWP publications. In doing so, it makes the analysis consistent with the recently announced new State Pension start rate of £155.65 per week, latest economics assumptions, and the 2014-based population projections published by the Office for National Statistics in October 2015.

The information presented in figures 1, 14a and 14b is an extension to the ad-hoc analysis released on 3rd December (see figures 2a, 2b and 2c at link below), which looked at pensioners with notionally higher and lower outcomes under the new State Pension system compared to the old system, over the first 15 years of nSP. This extended analysis looks at the period up to and including 2060:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/481728/impact-of-new-state-pension.pdf

Now that the 2016 nSP rate has been set at £155.65, this will be the final assessment of the impacts of the new State Pension that we will be releasing. We will however continue to monitor the impact of the reforms post-April 2016.

Methodology

Economic and demographic assumptions

Medium and long term economic and demographic assumptions are consistent with Autumn Statement 2015.

Population projections are based on the low migration variant of the 2014-based population projections published by ONS at:

<http://www.ons.gov.uk/ons/rel/npp/national-population-projections/2014-based-projections/stb-npp-2014-based-projections.html>

Pensim2-based impact analysis has mortality and longevity consistent with the latest ONS projections but does not account for migration, and does not include pensioners living overseas.

Policy assumptions

Policy assumptions are consistent with Autumn Statement 2015 over the medium term. Over the long term they are consistent with the latest Fiscal Sustainability Report, with one exception. No account is taken of potential further increases to State Pension age (SPa) associated with the Pensions Act 2014 review mechanism. This document uses the legislated State Pension age timetable¹ as the baseline for considering the impact of the introduction of new State Pension, as this maintains consistency with impact assessments previously published, and any further changes to State Pension age will be both legislated and implemented after the introduction of the new State Pension.

The figures and charts presented are based on a nSP start rate of £155.65 in April 2016. All analysis presented is **GB based** and with the exception of figure 1, which is based on population projections, **all analysis is from Pensim2**.

More information on Pensim2, including its limitations and how we use it to model the new State Pension, can be found in the impact assessment that accompanied the Pensions Act 2014:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/311316/pensions-act-ia-annex-a-single-tier-state-pension.pdf

¹ Equalisation in 2018, 66 by 2020, 67 by 2028 and 68 by 2046.

Summary of key results

Impact on individual State Pension outcomes: In the first 15 years of the new State Pension (nSP) system, around three-quarters of people who reach State Pension age under the new system will have a notionally higher State Pension than under the old system. This means that by 2030, over three million men, and over three million women will have benefitted from a notionally higher State Pension. This proportion then begins to gradually diminish over time, falling to around two-thirds by 2040 and just over half by 2050.

Because contributions under the current system will be recognised in the new State Pension system, subject to the minimum qualifying period, at the point of implementation nobody will have an amount that is lower than the pension they could have become entitled to based on their own pre-implementation contributions under the current system's rules.

All impacts discussed in this document are notional – no current pensioner will experience a change in the amount of state pension they currently receive as a result of the reforms.

Reduction of gender inequalities: Around 650,000 women reaching State Pension age in the first ten years will receive an average of £8pw (in 2015/16 earnings terms) more, due to the new State Pension valuation of their National Insurance record.

Over 75% of females and 70% of males stand to notionally gain from the nSP over the first 15 years.

End of contracting-out: Some people will pay higher National Insurance Contributions (NICs) due to the end of contracting-out, but will be able to build a larger State Pension. Of people paying more NICs in the first twenty cohorts of new pensioners from April 2016, around 90% will gain enough State Pension over and above what they would have received under the current system to offset the extra NICs and any adjustments to their workplace pension scheme.

Means testing: Currently almost one in three of all pensioner households are estimated to be eligible for Pension Credit. Due to the structure of the new system, by 2020 eligibility for Pension Credit amongst those who have reached SPa since 2016 is reduced from 12% to 8%, with eligibility ultimately falling to around 3% under nSP by 2060.

Over the longer term, the number of pensioner benefit units eligible for means-tested benefits is reduced by around 300,000 compared to the current system.

The transition

Box 1: a clearer way forward

The current State Pension system is hugely complex. This is primarily because, in addition to the basic State Pension (bSP), there have been a number of earnings related additional State Pension schemes and other pension components such as the ability to derive entitlement and to 'contract-out' of some of the additional State Pension

Under the new system people who only start to build a National Insurance record from 6 April onwards will receive the full new State Pension if they have a 35 year National Insurance record when they reach State Pension age, and are not affected by past complexities.

However, those who already have a National Insurance record in the current system and who reach State Pension age from 6 April 2016 will have their existing record to 2016 taken into account.

The complexity resulting from the impact of the earnings related additional State Pension schemes (State Second Pension, State Earnings Related Pension Scheme and Graduated Retirement Benefit) together with the effect of contracting-out from these schemes, means that people might receive a notionally higher or lower outcome from the new State Pension system compared to the current system for a number of sometimes complex reasons. In Box 2, we outline some of the impacts of the reforms on State Pension outcomes.

Box 2: reasons why people might receive a notionally higher or lower outcome under the new State Pension than if the current pensions system had continued

Factors that could lead to higher outcomes:

- **The nSP Starting Amount calculation in 2016:** everyone will have their NI record as it stands in 2016 valued under the current pension system rules and the new State Pension system rules. They are given the higher of these two amounts to carry forward into the new, simpler system. People who have low amounts of additional pension on their NI record are likely to benefit from the nSP valuation. This group will be made up of low earners, people (usually women) who took time out of the labour market before 2002 to care for children and the self-employed.
- **Increased Up-rating:** under the current system basic State Pension is uprated by the triple lock (higher of 2.5% or growth in CPI or earnings) and additional pension is uprated by growth in CPI. So up to £119.30 of pension is uprated by the triple lock. nSP will be uprated by the triple lock, which means that the first £155.65, an extra £36.35 per week, will be uprated by the triple lock.
- **Continuing ability to build up nSP years:** anyone with less than the full nSP in 2016, and who is below State Pension age in 2017, can build up extra years before they reach State Pension age. So anyone with less than the full nSP but more than 30 years can build entitlement under nSP, at around £4.45 per week for each qualifying year, when they would not have accrued any bSP. This will benefit people who have been contracted-out under the current system or have built up low amounts of additional pension in the past (the low earners, people who looked after children and self-employed).
- **Increased value of a nSP year:** people who would not have built up additional pension after 2016 under the current system (mostly contracted-out or self-employed people) would build up around £4.45 per week rather than less than £4 per week which is the value of a bSP year. Note that due to the current availability of S2P top-up, those who are contracted-out with below median average earnings (i.e. below £27,000) may accrue more than the difference between a BSP and nSP year (i.e. more than 45p per week).

Factors that could lead to lower outcomes:

- **Minimum qualifying period:** under nSP, people with fewer than 10 qualifying years will not receive any State Pension. Under the current system there is no minimum qualifying period.
- **End of ability to derive entitlement:** under the current State Pension system people with low numbers of qualifying years can derive entitlement to bSP. People can also inherit additional pension. Under nSP these provisions will be more limited and transitional in nature.
- **Revaluation of protected payments:** protected payments (paid where people have more than the full nSP based on the current value of their NI record) will be revalued between 2016 and SPa by growth in CPI. Under the current system this part of the pension would be revalued by earnings growth, which tends to be higher than growth in CPI.

Some people with Guaranteed Minimum Pensions (GMPs) might also be impacted due to the end of the complicated interactions between additional pension and contracting-out uprating. This is explained in more detail later in the document.

- **End of ability to accrue Additional Pension:** people will not be able to build up more nSP once they reach the full amount. Under the current system, people can build up additional pension every year until SPa. So in the long-term the maximum amount of State Pension that can be built up will be lower.

Also, under the current system people paying the full rate of National Insurance with fewer than 30 qualifying years are building up bSP at just under £4 per week for each qualifying year and additional pension of at least £1.80 per week for each qualifying year. Under nSP the value of a nSP is around £4.45 per week for each qualifying year.

Individual people are likely to be affected by more than one of the factors outlined above. For example, people with protected payments might have a notionally lower State Pension because of how we revalue them after 2016, but will benefit from the triple lock applying to a higher amount of their pension.

Outcomes for individuals under the current system would remain uncertain until the point they reach State Pension age (for example due to the impact of their unknown future earnings on their entitlement to additional State Pension) and often beyond in the case of derived entitlement. Although we can model this relatively robustly at an aggregate level, the impact on specific individuals is harder to ascertain with certainty due to complexities in the current system.

Impact on individuals

Notional impact of nSP reforms

Figure 1 shows that within a few years of implementation, nSP reform leads to most new system pensioners having a notionally higher State Pension than under the baseline of the current system. The chart presents the information by showing proportions of total pensioners at each time point, with changed notional State Pension outcomes under nSP. More than 70% of pensioners have a notionally higher outcome up until 2030, at which point this number begins to decline.

In 2016, the first year of reform, the majority of people receive the same level of State Pension income as they would have done had the current system continued, as shown in Figure 1. However, around 20% of males and 40% of females (figures 14a and 14b - Annex) will have a notionally higher outcome as a result of the nSP transition valuation.

Between 2017 and 2030 approximately three-quarters of individuals will have a notionally higher outcome; over 75% of females and over 70% of males. This proportion then begins to gradually diminish over time, falling to around two-thirds by 2040 and just over half by 2050.

Figures 14a and 14b in the Annex show the same information as figure 1, broken down by gender.

Figure 1: Proportion of all pensioners from 2016 at each time point with changed notional State Pension outcomes under nSP; median weekly amounts (2015/16 earnings terms)

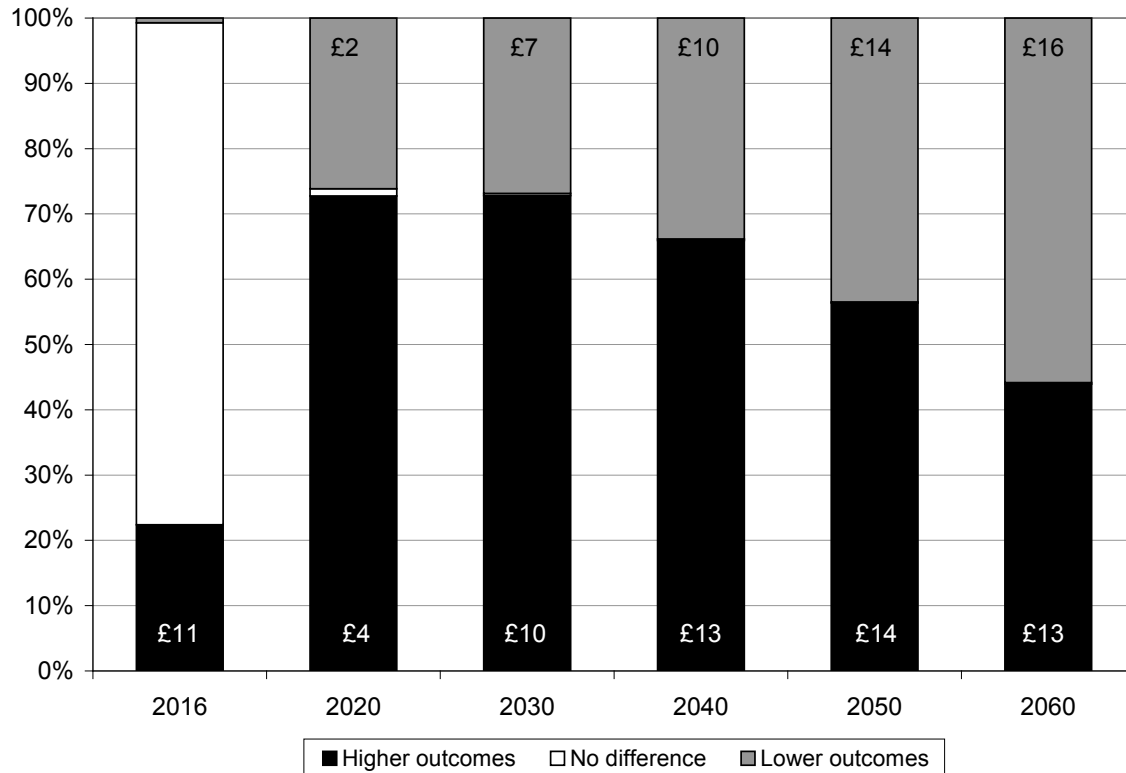
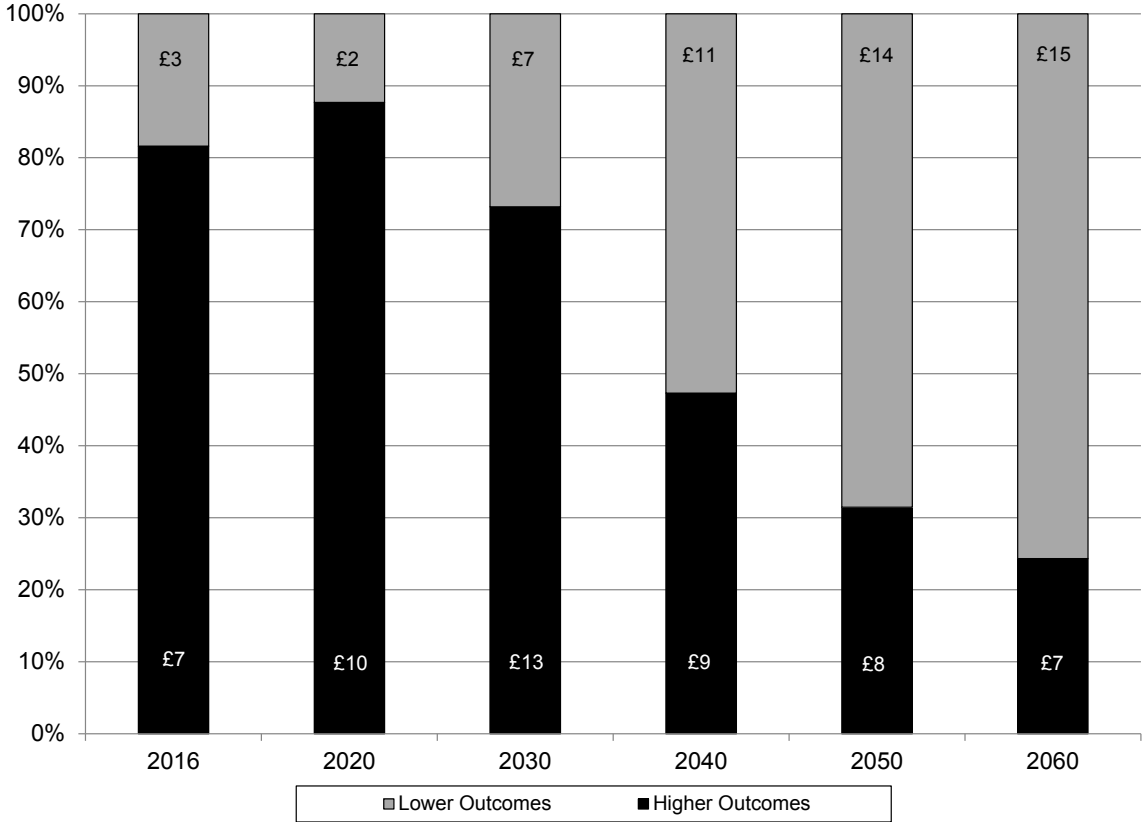


Figure 2 shows the impact of nSP on State Pension outcomes over the whole of retirement. The majority of those retiring in the next fifteen years are set to notionally gain over the course of their retirement, with the proportions of those doing so reducing after 2030. For all pensioners reaching SPa in 2016, the median weekly notional gain of £7 is equivalent to approximately £8,000 over the whole of their retirement.

Figures 15a and 15b in the Annex show the same information broken down by gender. This shows that at least 80% of women reaching SPa before 2030 stand to receive more State Pension under the new system than they would have done under the current one. The equivalent figure for men is over 70%.

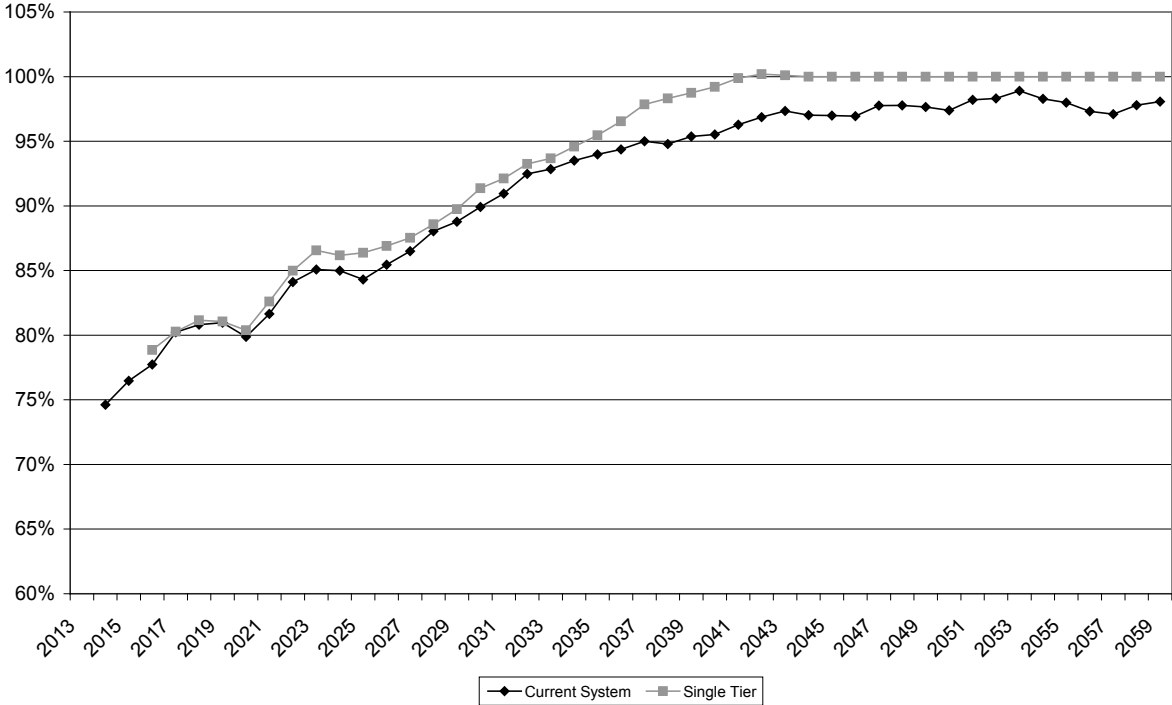
Figure 2: Proportion of all pensioners reaching SPa each year, with changed notional lifetime in retirement State Pension outcomes under nSP; median weekly amounts averaged over lifetime in retirement (2015/16 earnings terms)



Impact of nSP reform on women

The new State Pension reforms bring forward by over a decade the point at which women get equivalent State Pension outcomes to men, as illustrated in figure 3 below. As there is a period of transition from the old system, inequalities take time to be fully removed. Under the current system, the proportion of women in Great Britain qualifying for a full basic State Pension would not have equalised with men until around 2020, and it would have taken over 30 years more for State Second Pension outcomes to equalise (according to DWP forecasts).

Figure 3: Median female gross State Pension income as a proportion of median male gross State Pension income, for those reaching State Pension age in each year, under the current and new pension systems



The gender gap closes due to the closure of the earnings-related State Second Pension, and also because a qualifying year under the new system is worth more than a current basic State Pension qualifying year. As a consequence, the median female amount of gross² State Pension is projected to align with that of men over a decade earlier, in the early 2040s.

² The ‘gross’ measure of State Pension includes any private pension associated with having been contracted out.

Impact of nSP reform on those who have contracted-out

Under the reforms, the State Second Pension will close to new entitlement. This means that the system whereby Defined Benefit (DB) pension schemes can contract-out of the State Second Pension will also come to an end.

Ending contracting-out is a key consequence of the nSP system and will contribute to simplifying the State Pension system. It will remove the connection between state and private pension schemes that can cause misunderstanding and confusion for individuals, difficulty in providing accurate estimates of State Pension and that adds to the administrative burdens for both pension schemes and HMRC. It will harmonise National Insurance rates paid by employers and employees and ensure people are able to claim the same amount of pension.

When nSP is implemented and contracting-out ends, all employees who were members of a contracted-out scheme immediately before implementation will cease to receive the 'contracted-out rebate' and will start to pay full National Insurance contributions (NICs). This will mean an increase in the rate of NICs that they pay equivalent to the value of the rebate (calculated as 1.4 percent of their earnings between the Lower Earnings Limit and the Upper Accrual Point), bringing them into line with the rate of National Insurance that is paid by other employees. The precise increase in National Insurance will vary across individuals and will depend on their level of earnings in each year. In return, contracted-out employees will be brought fully back into the State Pension.

Figure 17 in the annex shows that under the nSP system approximately 90% of people who start to pay higher National Insurance contributions (NICs) and reach State Pension age over the first two decades after implementation will receive enough extra State Pension over their retirement to offset the increase in NICs, and any potential adjustments to their occupational pension schemes.

Figures 4a and 4b compare notional outcomes for people who have been contracted-out at any time between 1978 and 2016 with those people who have not been contracted-out at all. For both groups 70% of those reaching SPa before 2030 are notional gainers and thereafter the large majority of people who have been contracted-out continue to benefit.

Until the late 2030s around three-quarters of people reaching State Pension age in any year will have been contracted-out at some point in their working lives (figure 18

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– Annex). This will include people who were contracted-out when in a private sector DB or DC scheme (DC scheme members were able to contract-out until 2012).

Figure 4a: Outcomes for individuals who have been contracted-out between 1978 and 2016

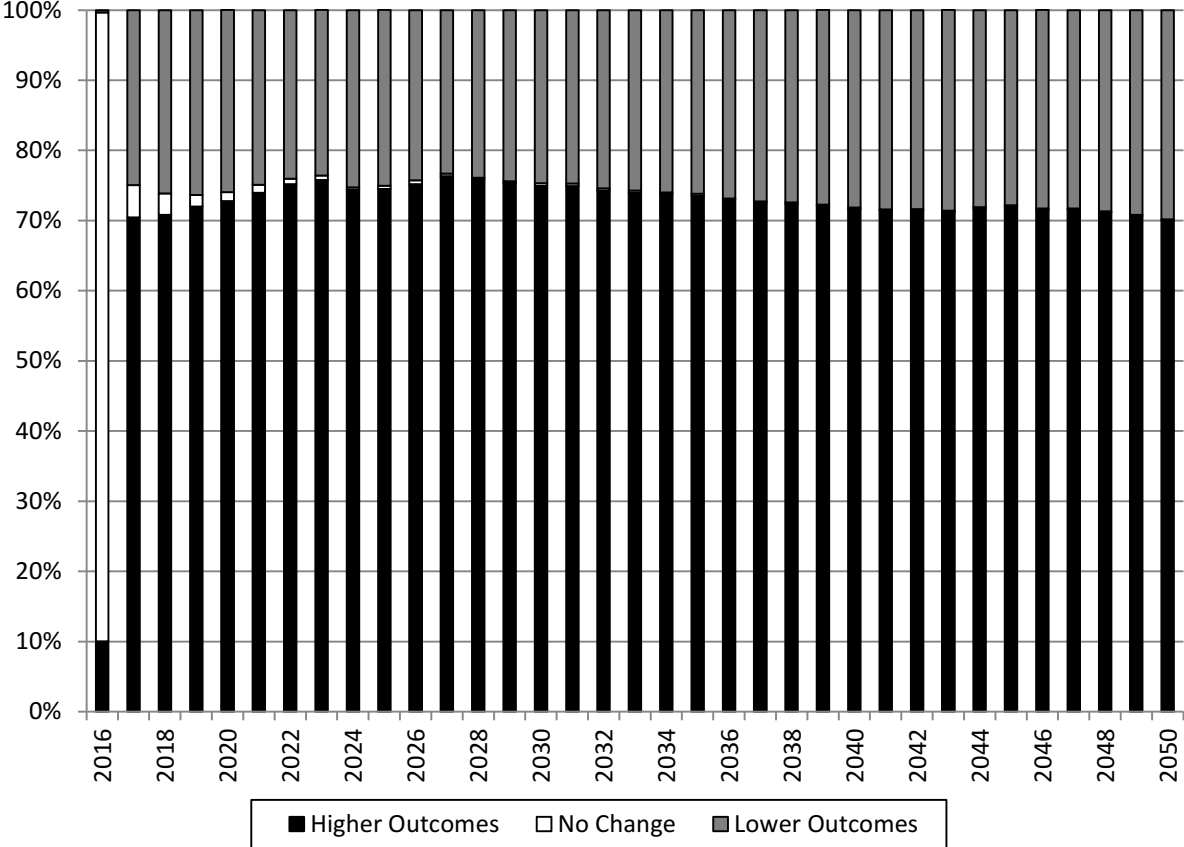
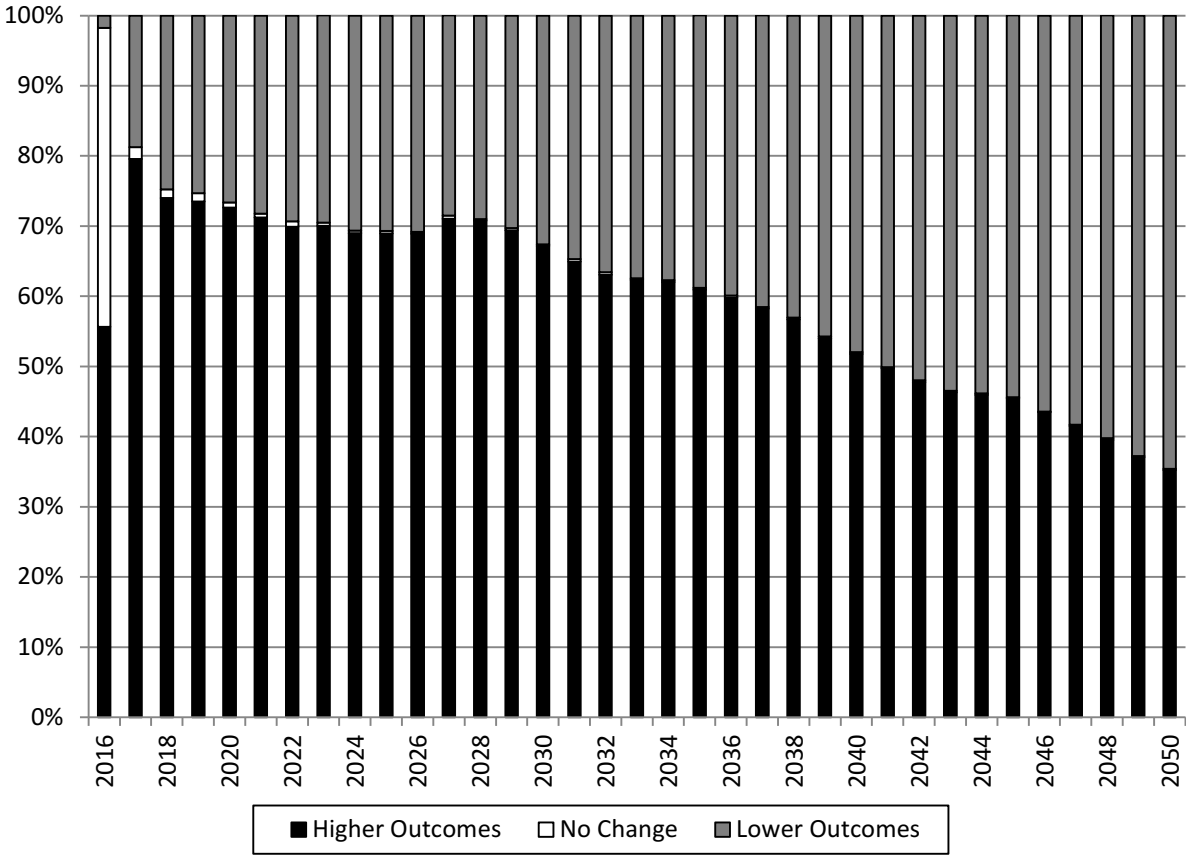


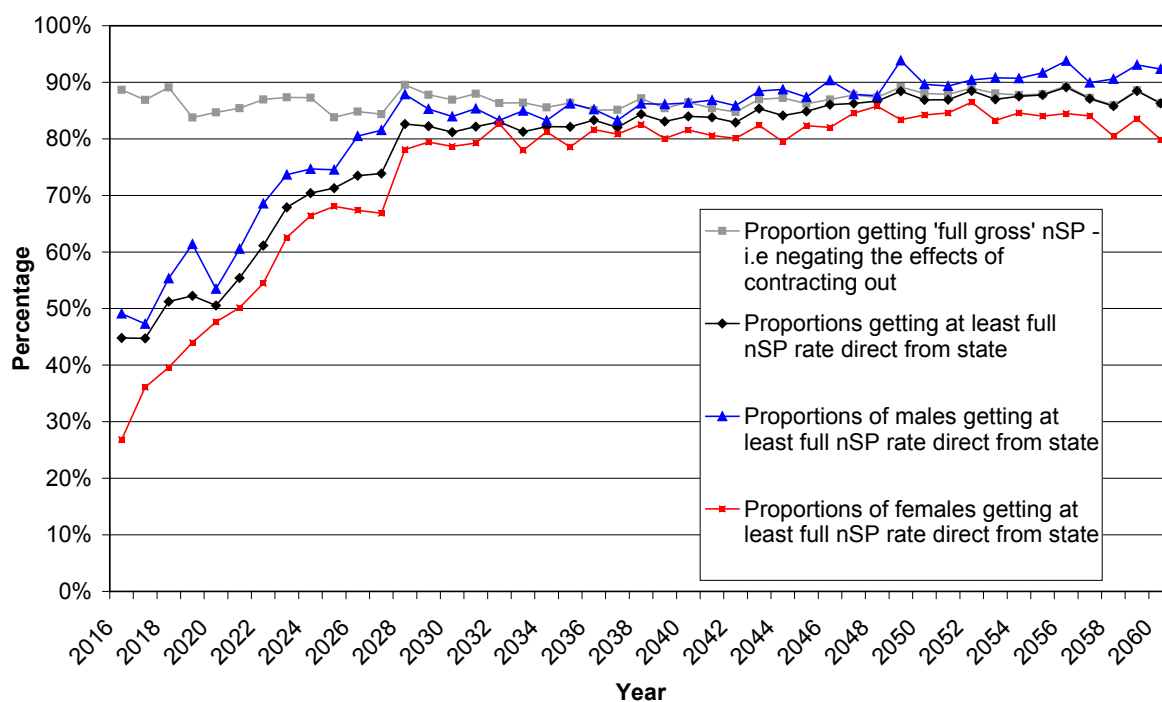
Figure 4b: Outcomes for individuals who were not contracted-out between 1978 and 2016



Individuals with at least the full rate of nSP

Figure 5 below shows the proportion of pensioners reaching SPa who receive at least the full rate of nSP. Negating for contracting-out deductions, around 85% - 90% of people reaching SPa would receive the full “gross” nSP amount (i.e. the full nSP amount prior to contracted-out deductions being applied). The underlying volumes are presented alongside the proportions in the annex – figure 19.

Figure 5: Proportion of pensioners reaching SPa who receive at least the full rate of nSP



Impact of specific features of nSP reform

The Minimum Qualifying Period

Figure 6 below highlights that small proportions of males and females reaching SPa will be affected by the minimum qualifying period of 10 years for nSP, and who may receive no nSP upon retiring, according to our Pensim2 modelling. Note that these figures do not take into account the fact that individuals may choose to purchase voluntary National Insurance contributions, to take them up to and over the 10 year minimum qualifying period. It should also be noted that around half of those who do not meet the minimum qualifying period will receive Guaranteed Pension Credit.

Figure 6: Projected numbers and proportions of males and females reaching SPa in Great Britain with less than 10 qualifying years

	2016 to 2020	2021 to 2030	2031 to 2040	2041 to 2050
Number of males with less than 10 qualifying years at SPa	10,000	10,000	10,000	-
Number of females with less than 10 qualifying years at SPa	10,000	40,000	20,000	10,000
Proportion of males with less than 10 qualifying years at SPa	1%	0%	0%	0%
Proportion of females with less than 10 qualifying years at SPa	2%	1%	1%	0%

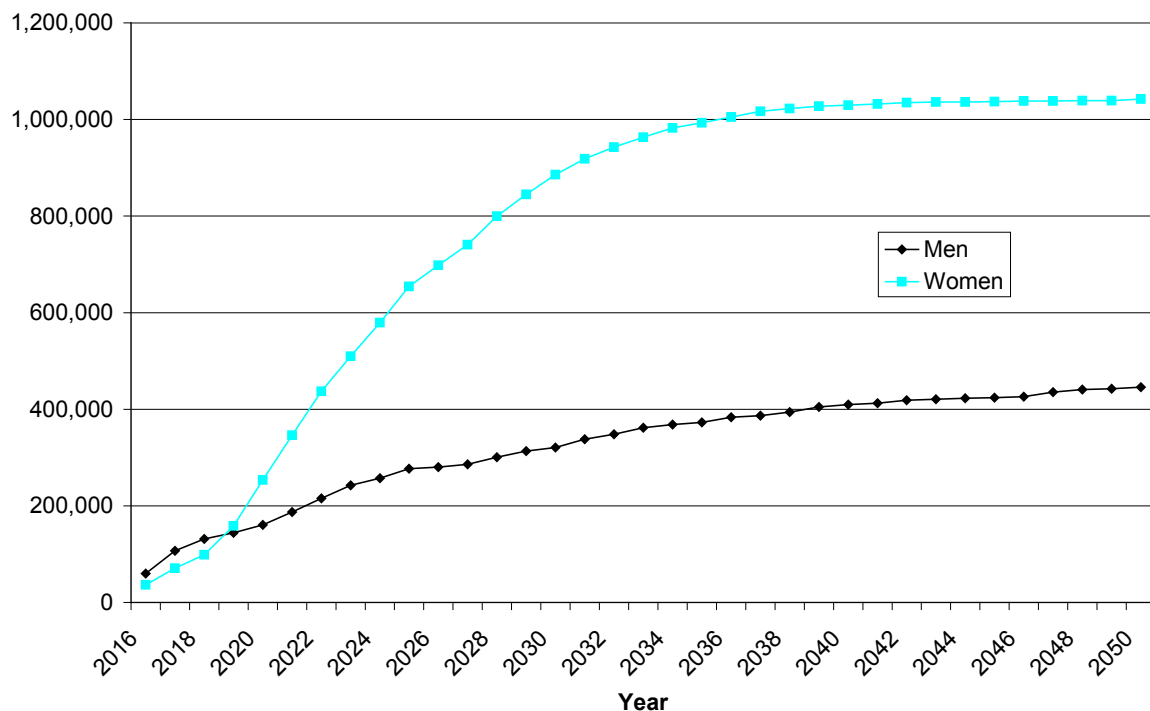
“-“ indicates less than 5,000

The nSP valuation

The primary reason that notional outcomes for women improve more quickly in the early years is that the nSP valuation (those people who have a higher Starting Amount from the new scheme rules) benefits carers, the lower paid and part-time workers, who are predominantly women. In 2016 around 2 in 5 women reaching State Pension age would get a notionally higher State Pension as a result of the nSP valuation, with around 1 in 5 of men also benefiting from this element of the reform³ (Figure 20 – Annex). This mechanism results in the gap between average pension outcomes for men and women closing more quickly for early cohorts.

Largely as a result of the nSP valuation, around 650,000 women who reach State Pension age in the first ten years after the nSP pension is implemented will receive on average a notional increase of £8 per week in State Pension (in 2015/16 earnings terms, figure 21 - Annex). One million women will receive a notionally higher State Pension as a result of the nSP valuation by the mid-2030's.

Figure 7: Cumulative numbers of males and females receiving a notionally higher State Pension as a result of the nSP valuation



³ The reason there are fewer women in absolute terms in 2016 (figure 7) is due to the lower caseload of females reaching SPa in the earlier years because of SPa equalisation. Women born between 6th April 1953 and 5th December 1953 will be affected by both the nSP reforms and the equalisation of State Pension age.

Simpler uprating of nSP

Under the current pensions system, different elements of the system are updated in different ways. The table below provides a simplified illustration of the complex picture.

Element	Pre-SPa	Post-SPa
<i>Current State Pensions system</i>		
Basic State Pension Full amount: £115.95	Triple lock (earnings in legislation)	Triple lock (earnings in legislation)
Additional pension	Earnings	CPI
Contracted-out deduction (1978 to 1987) GMP	Earnings or fixed rate revaluation depending on scheme rules	Not uprated
Contracted-out deduction (1988 to 1996) GMP	Earnings or fixed rate revaluation depending on scheme rules	Uprated by CPI capped at 3%
<i>New State Pension system</i>		
New State Pension Full amount: £155.65	Triple lock (earnings in legislation)	Triple lock (earnings in legislation)
Protected payments	CPI	CPI

The rules around uprating are changing as a result of the new State Pension reforms which can lead to individuals receiving higher or lower outcomes than they would have received under the current system, even if nothing else changes for the individual.

More of an individual's pension will be uprated by the triple lock. This is highly likely⁴ to benefit anyone whose nSP amount is greater than the amount they would have received through bSP. Ninety nine percent of pensioners will be in this position over the next 50 years.

Individuals with a protected payment (where the value of their National Insurance record under the current rules in 2016 is higher than the full rate of the nSP) will see this revalued before their SPa by CPI. Currently, before SPa, amounts of additional

⁴ The only circumstances in which this would not be of benefit is if CPI growth is higher than earnings and 2.5% in each year of someone's retirement, which is a highly unlikely scenario.

pension are revalued by earnings. So if earnings growth exceeds CPI then this could lead to notionally lower outcomes for this group as a result of the reforms. 10% of women and 20-35% of men reaching SPa before 2025 will have a protected payment (figure 22 – Annex) However, this group will all benefit from having more of their pension uprated by the triple lock.

The final group potentially affected by changes in uprating mechanisms are those who have been contracted-out of the additional pension system at some point in their working life. This is particularly the case where people were contracted-out between 1978/79 and 1987/88⁵. Under the current system these people are awarded an amount of SERPS which is uprated by CPI once in payment. A contracted-out deduction is also made to account for the fact they paid a lower rate of National Insurance, which reduces the amount of SERPS they receive. The individual receives a broadly equivalent amount to the contracted-out deduction of Guaranteed Minimum Pension (GMP) which is paid by the scheme. There is no requirement on schemes under general occupational pensions and social security legislation to uprate GMPs accrued between 1978/79 and 1987/88. Therefore under the current State Pension system contracted-out deductions relating to this period are not uprated. Since SERPs is uprated by CPI, the amount of SERPS received after a contracting-out deduction is made can grow over time. This complex arrangement will end under the new State Pension system and could lead to some people getting a lower notional outcome.

However, there are two key factors that offset these potential notional losses. Firstly, this group will be highly likely to benefit from more of their pension being uprated by the triple lock as explained above. Secondly, people with periods of contracting-out on their National Insurance record are likely to be able to build additional qualifying years from 2016/17 which will add 1/35th of the full nSP amount to the amount they receive, up to the full rate.

Figures 8a and 8b show the proportions of the nSP population who have a higher, lower or same notional State Pension under the nSP system by whether they were contracted-out between 1978/79 and 1987/88.

⁵ In our modelling this is the only group affected. People with periods of contracting out between 1988/89 and 1996/97 could also be affected if CPI growth exceeds 3%.

Figure 8a: Outcomes for individuals who were contracted-out between 1978/79 and 1987/88

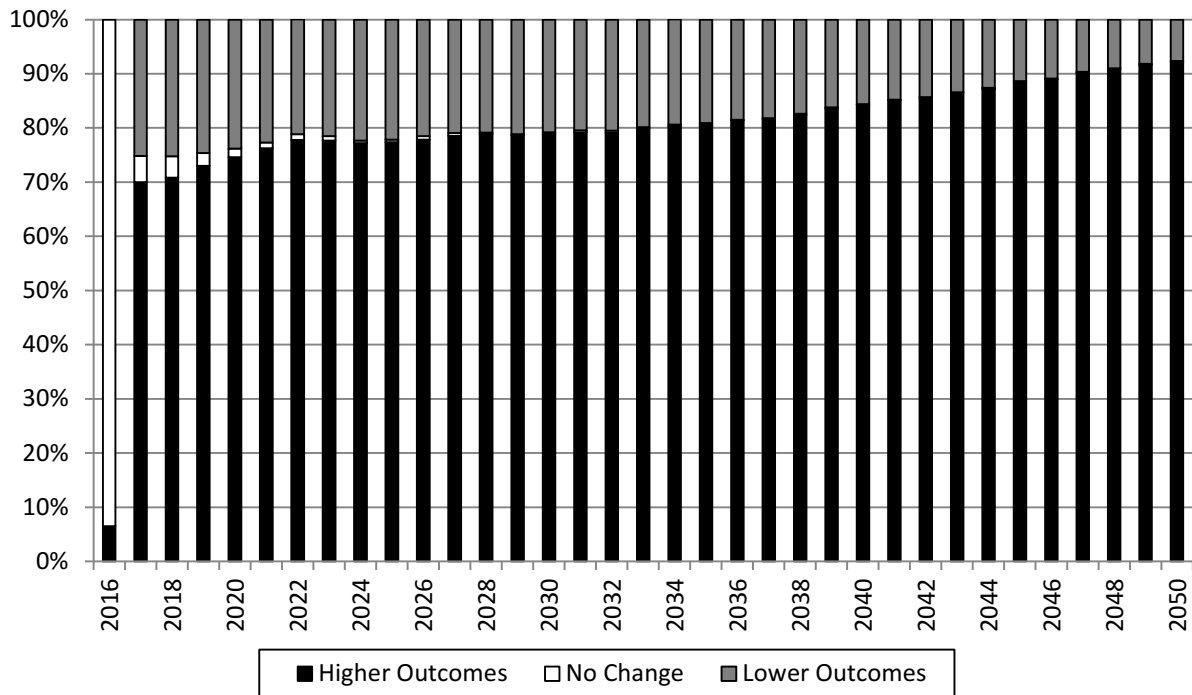
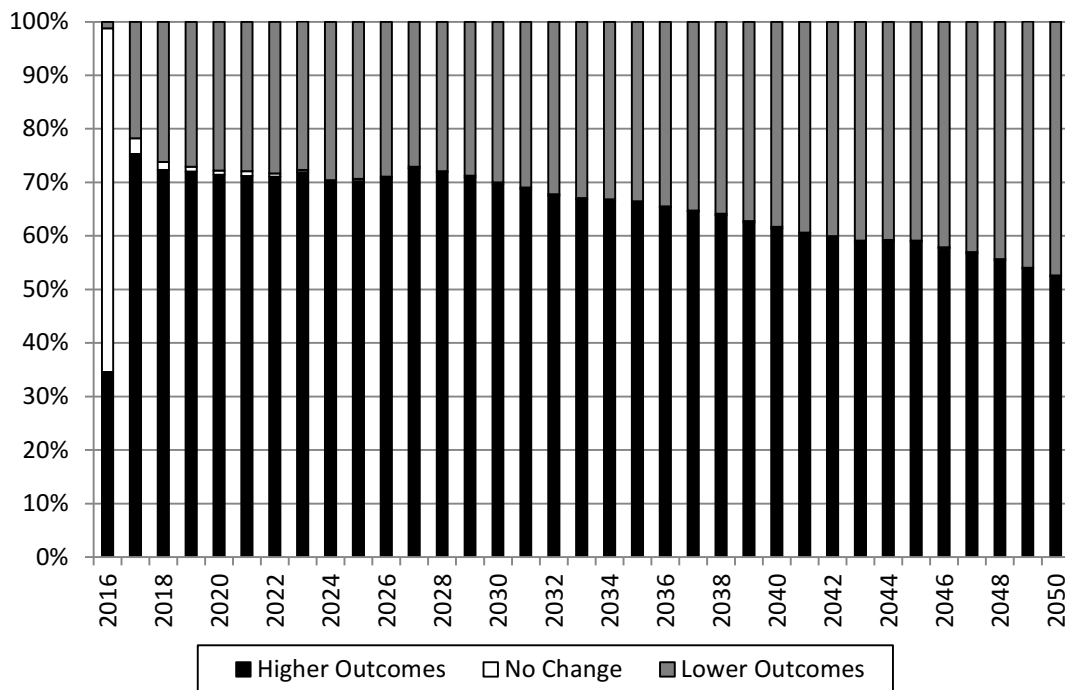


Figure 8b: Outcomes for individuals who were not contracted-out between 1978/79 and 1987/88



This analysis shows that in the first year of reform (2016), people who were not contracted-out between 1978/79 and 1987/88, are more likely to have a higher notional outcome upon reaching SPa in 2016, than those who were contracted-out.

This is unrelated to the uprating issue, and is due to the fact that people who were not contracted-out are more likely to benefit from the nSP transition valuation discussed earlier in the document.

For the next 5 years or so the proportions of people with a higher notional outcome are broadly the same for those contracted-out and not contracted-out, with similar higher median notional weekly outcomes (Figure 23b – Annex).

From the early 2020s onwards the contracted out population are more likely to have a higher outcome than those who were not contracted-out, suggesting that the two offsetting effects highlighted above dominate the uprating effect. The contracted-out population also see higher median higher notional weekly outcomes and have lower median notional lower outcomes (Figures 23b and 23c – Annex).

Derived entitlement to basic State Pension⁶

Proportion of nSP recipients affected

Figure 9 below shows the estimated proportion of pensioners who at some point in their retirement would have received Category B or BL basic State Pension under the current system and would get a lower notional outcome at that point under the nSP system. For example, in these figures we would include someone who reaches State Pension age in 2018 and receives more under nSP than they would have in the current system while still married, but less once they are widowed. The results are presented in cohorts covering five years due to the relatively small number of cases involved. Note that the first cohort contains relatively fewer women than men due to the equalisation of State Pension age.

⁶ The analysis presented in this section provides an update to most of the analysis published in December 2013, around derived entitlement to basic State Pension. Please see the publication at the link below for further details around removal of derived entitlement and an explanation of terms used in this section:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/265470/single-tier-derived-entitlement.pdf

Figure 9: People projected to receive less State Pension due to the withdrawal of derived entitlement, as a proportion of people reaching State Pension age

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

The proportion of each cohort that is affected falls over the first two 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 approximately 1% of new pensioners are affected in this way.

The modelling only covers people who were already in the country at the start of the simulation and does not include the purchase of Class 3 National Insurance through voluntary contributions or any behavioural response to the SP reforms. The proportion of people receiving a lower notional state pension could well be less than reflected above.

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 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 income⁷. Removing people modelled as receiving Guarantee Credit under the current system reduces the number of people involved up to 2060 by around 25%.

⁷ 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.

Figure 10: People projected to receive less State Pension due to the withdrawal of derived entitlement, as a proportion of people reaching State Pension age, excluding those who receive Guarantee Credit under the current system

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

Whether affected while married or widowed

Figure 11 presents the same estimates as in figure 10 above (again excluding those who receive Guarantee Credit under the new system), but splits future pensioners by whether they are modelled as receiving less pension under nSP while still married or if they are not affected until they are widowed. 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 £69.50 “married woman’s pension” to the £115.95 “widow’s pension”⁸.

Figure 11: People projected to receive less State Pension due to the withdrawal of derived entitlement, as a proportion of the total number reaching State Pension age, by whether they are affected while they are still married.

Year of SPa	2016-2020	2021-2025	2026-2030	2031-2035	2036-2040	2041-2045	2046-2050	2051-2055	2056-2060
Affected while married	1%	1%	1%	0%	1%	0%	0%	0%	0%
Not affected until widowed	2%	1%	1%	1%	1%	0%	0%	0%	0%
All	3%	3%	2%	1%	1%	1%	0%	0%	0%

This analysis implies that the ending to the derived entitlement of State Pension will affect a relatively small proportion of the caseload at any time.

⁸ Based on 2015-16 rates

Changes to means-tested benefits⁹

Eligibility for Pension Credit

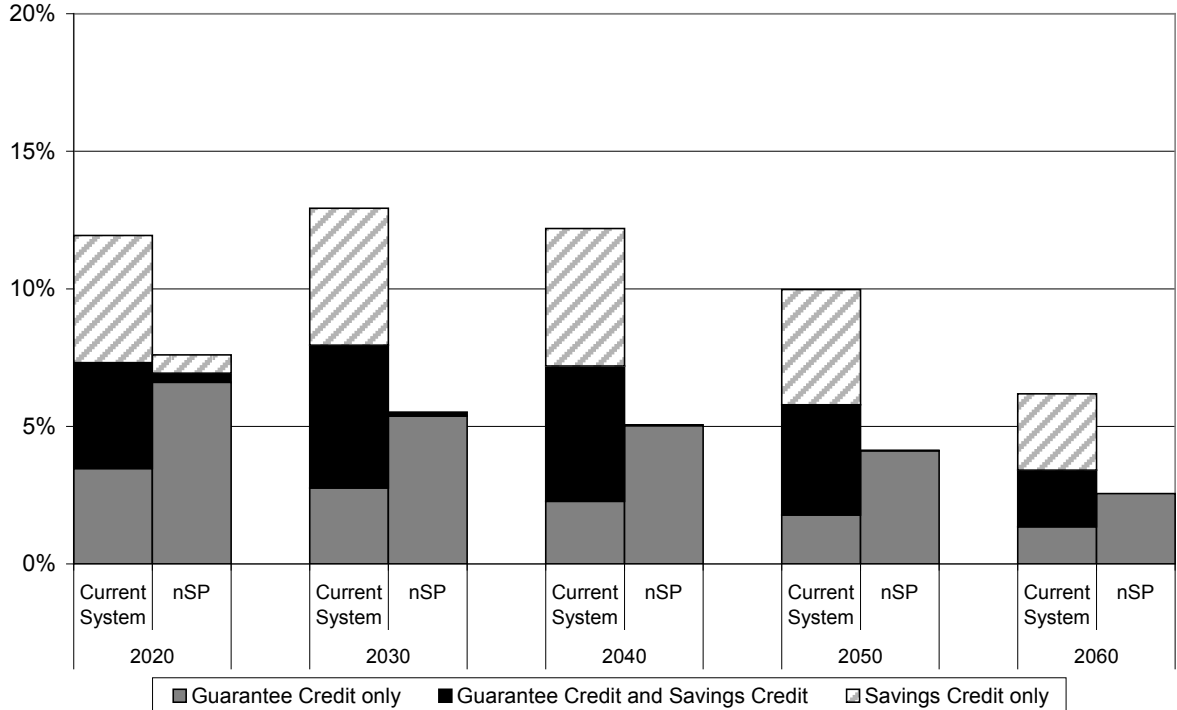
The introduction of the nSP leads to fewer pensioners relying on Pension Credit for two reasons: a higher basic pension means that fewer pensioners require Guarantee Credit to top up their income under the nSP and Savings Credit is no longer required to ensure that people benefit from additional saving. The scale of the expected reduction in eligibility is shown below in figure 12.

Under the current system, eligibility for Pension Credit (or Universal Credit where only one member of a couple is above the qualifying age for Pension Credit) amongst the nSP population would have been expected to peak at around 13 percent around 2030 and fall to 6 percent by 2060. Under the nSP, eligibility for Pension Credit is reduced by a third (4 percentage points) when compared to the current system in the first few years following implementation, with eligibility falling by a half by 2030 and ultimately falling to approximately 3 percent by 2060.

Ending Savings Credit for nSP pensioners is the main driver of the reduction in the number of people qualifying for Pension Credit, although there is also a reduction in the proportion of pensioners eligible for Guarantee Credit. The reduction in the numbers within scope of the Guarantee Credit is the result of most pensioners under the new system having a State Pension above the level of the Standard Minimum Guarantee.

⁹ Means-tested benefits are assessed at benefit unit level therefore the unit of analysis is now households rather than individuals.

Figure 12: Eligibility for Pension Credit amongst the population reaching State Pension age after implementation of the new State Pension



Support with housing costs or council tax bills

Housing Benefit (HB) provides means-tested support for households on a low income needing help with their rent and localised council tax support provides means-tested support for council tax bills. Entitlement amongst the nSP population is shown in figure 13, with and without the new State Pension.

Figure 13: Entitlement to housing and council tax support (amongst the population reaching State Pension age after April 2016)

		2020	2030	2040	2050	2060
Housing Benefit	Current System	12%	15%	14%	12%	11%
	nSP	12%	15%	14%	12%	11%
Council Tax Benefit	Current System	29%	32%	31%	28%	23%
	nSP	29%	30%	29%	27%	23%

Entitlement to support with rent and council tax bills is affected by the implementation of the nSP because an increase in State Pension income means that individuals are less likely to need help with housing costs and also because the cut off point for support will be lower following the removal of Savings Credit.

Despite the average HB award falling, these changes have little effect on the overall number of people claiming HB. This is because it takes a lot of additional income to be taken out of HB entitlement altogether, and the Government is proposing to protect the outcomes of those who could otherwise lose some rent support among people reaching State Pension age in the first five years after implementation. Therefore even where people are no longer entitled to Pension Credit (whether through a higher pension income or removal of Savings Credit) some entitlement to housing or council tax support may remain.

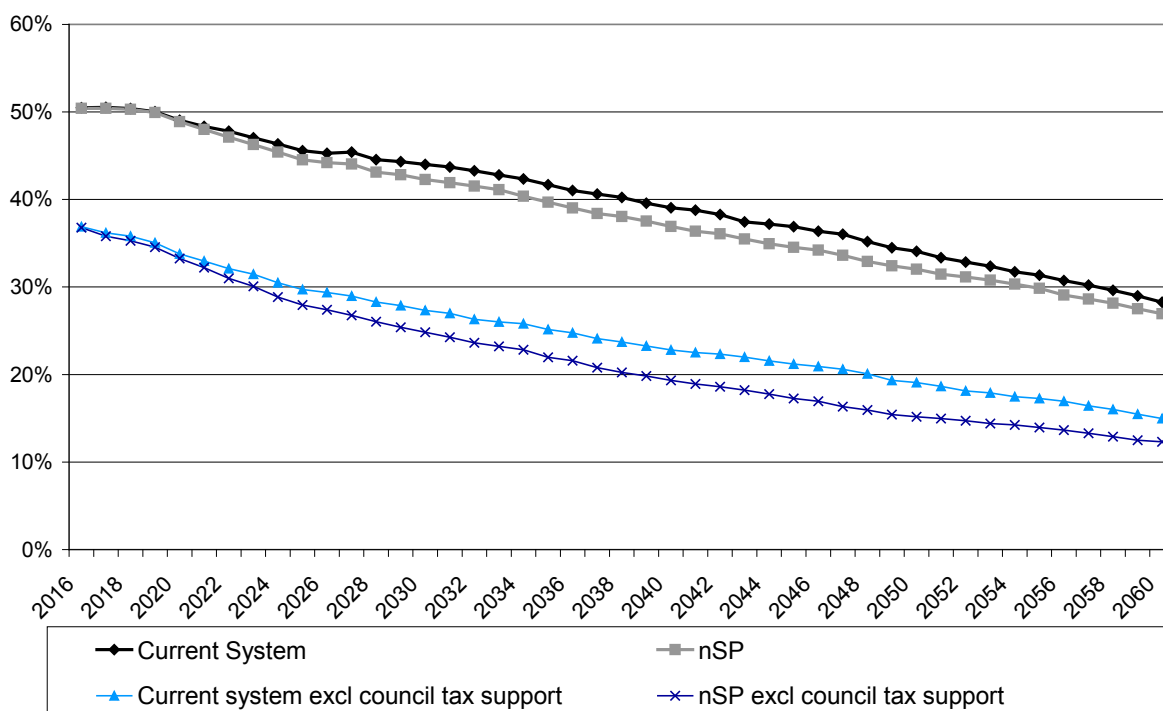
By 2040 the average weekly entitlement to support with Housing Benefit is notionally around £8 lower than in the current system, and notionally around £3 lower for council tax support. However, many recipients will have a higher pension under the system are likely to be better off overall.

Overall scope of means-tested benefits

Figure 14 below shows that the reliance on means-tested benefits is expected to fall over time. This reflects growth in pensioner incomes associated with the triple-lock, automatic enrolment, female labour market participation and previous pension reforms. It is also partly driven by the reduced scope of Savings Credit under current uprating policy and the introduction of Universal Credit.

In the early years, the impact of the reforms is small since changes only apply to new pensioners. In the long term, the impact of the reforms is to reduce eligibility for means-tested support by three percentage points, or around 300,000 pensioner benefit units by the mid-2040s. The bottom two series of figure 14 show eligibility excluding council tax support, which is now locally administered.

Figure 14: Eligibility for any means-tested benefit (all pensioners), with and without council tax support



Annex

Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP

January 2016

Annex - Further detailed analysis

Figure 14a: Proportion of all female pensioners from 2016 at each time point with changed notional State Pension outcomes under nSP; median weekly amounts (2015/16 earnings terms)

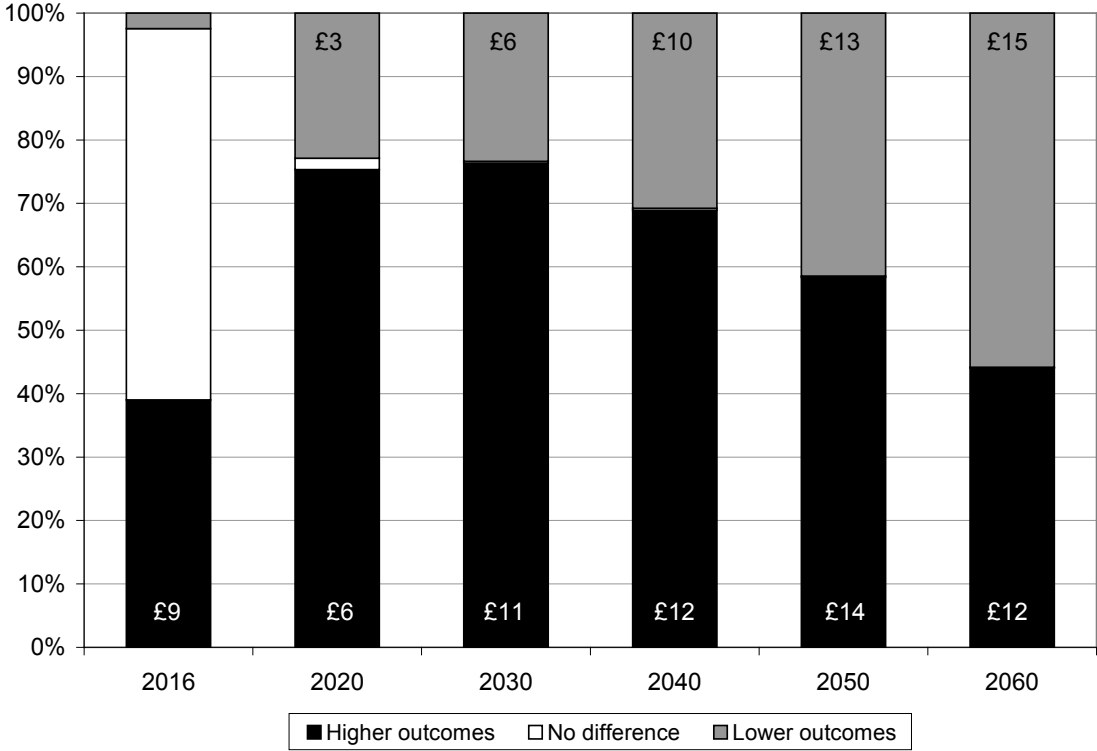


Figure 14b: As above, but for males

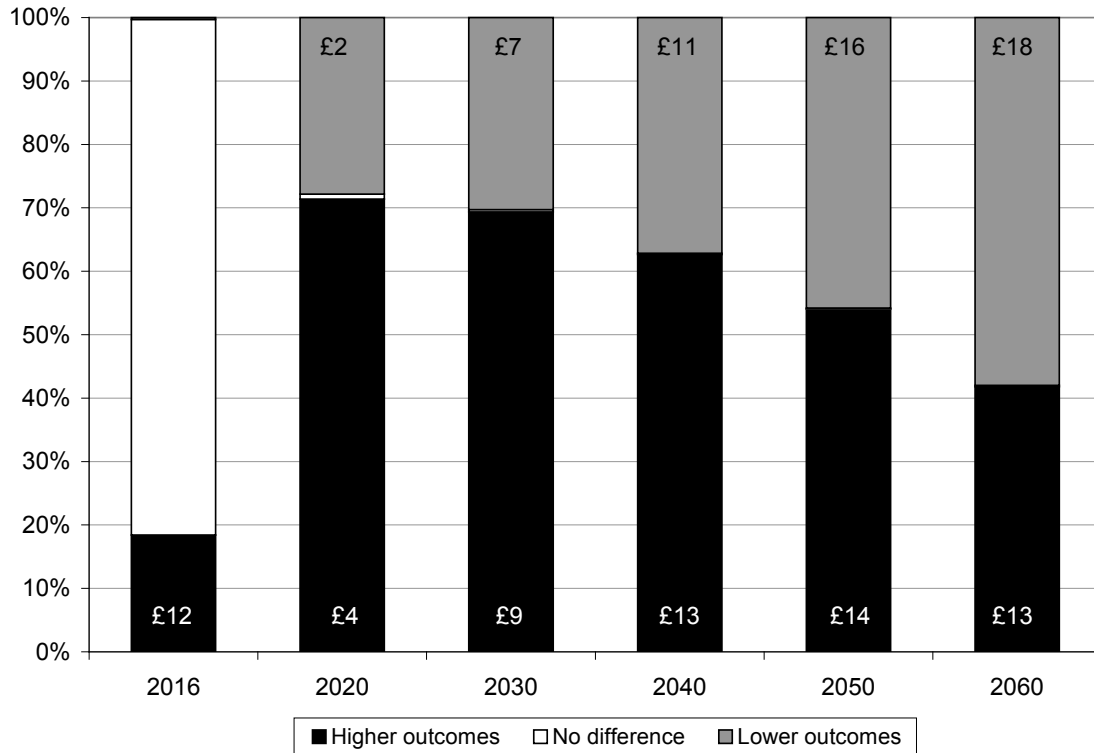


Figure 15a: Proportion of female pensioners reaching SPa each year, with changed notional lifetime in retirement State Pension outcomes under nSP; median weekly amounts averaged over lifetime in retirement (2015/16 earnings terms)

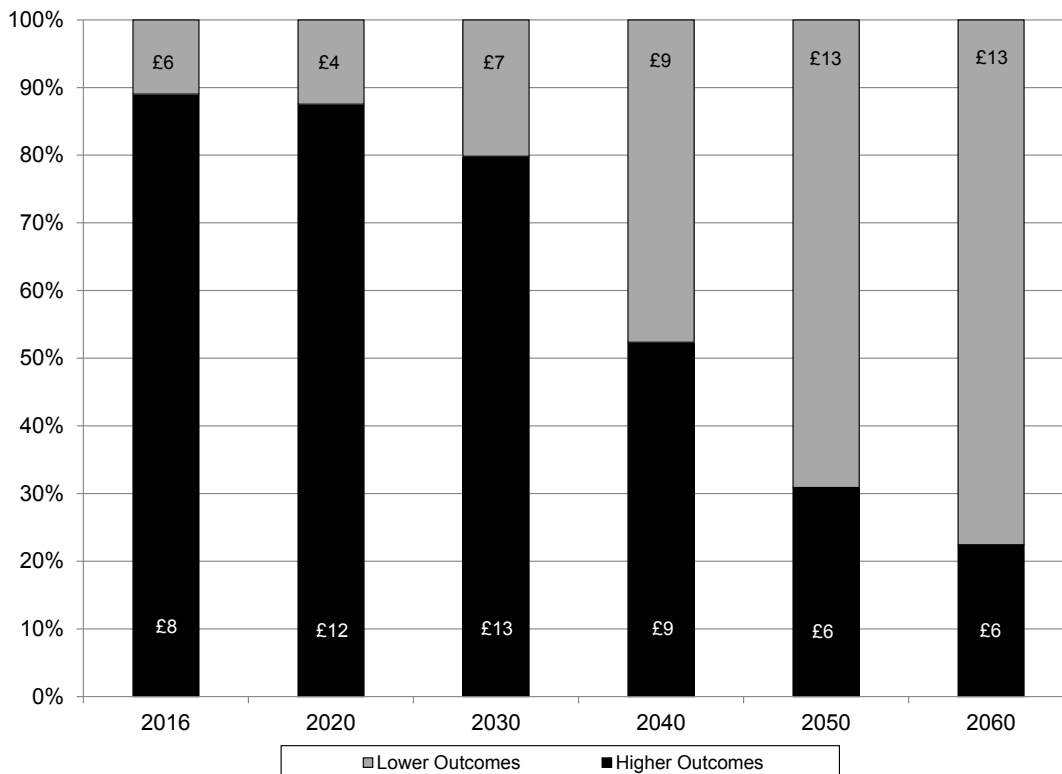
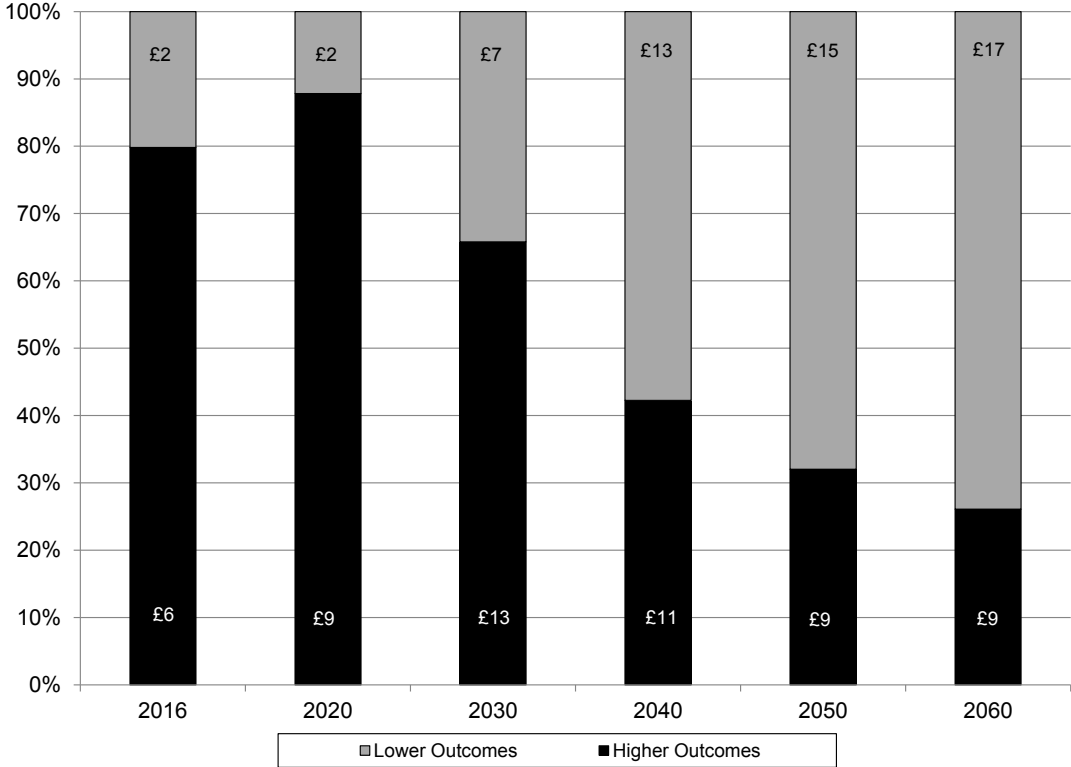


Figure 15b: As above, but for males



Over 80% of women and over 70% of men are notional retirement lifetime gainers in the first 15 years of nSP.

From 2030 onwards, the picture for men and women is quite similar, with the proportion of pensioners reaching SPa with notionally higher outcomes over their whole retirement declining.

Although the median weekly notional gain seen by males reaching SPa after 2030 is higher than females, this is offset by the fact women tend to live longer than men, so the total amount of notional gain over the whole of their retirement is quite similar for males and females who reach SPa after 2030.

Figure 16: Median male and female net lifetime in retirement new State Pension income – by year of SPa (2015/16 earnings terms)

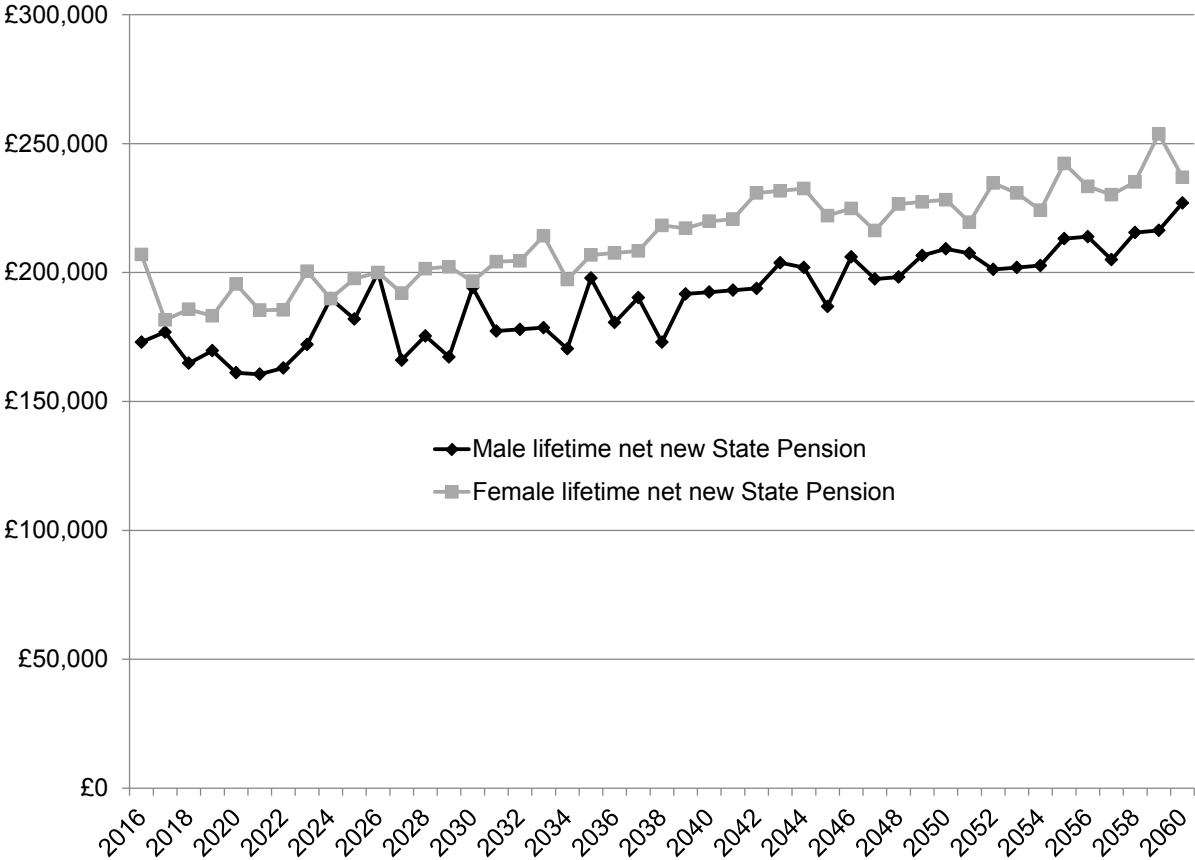


Figure 16 above shows that in terms of median net lifetime nSP income in retirement, although on average women receive less nSP per week than men up until approximately 2040, this is offset by the fact women tend to live longer than men, so the total amount of net nSP received through the whole of retirement by women is consistently higher than that of men (by on average more than 10% for those reaching SPa between 2016 and 2060).

Figure 17: Proportion of people reaching SPA after 2016 paying extra NICs who gain enough in extra State Pension to compensate

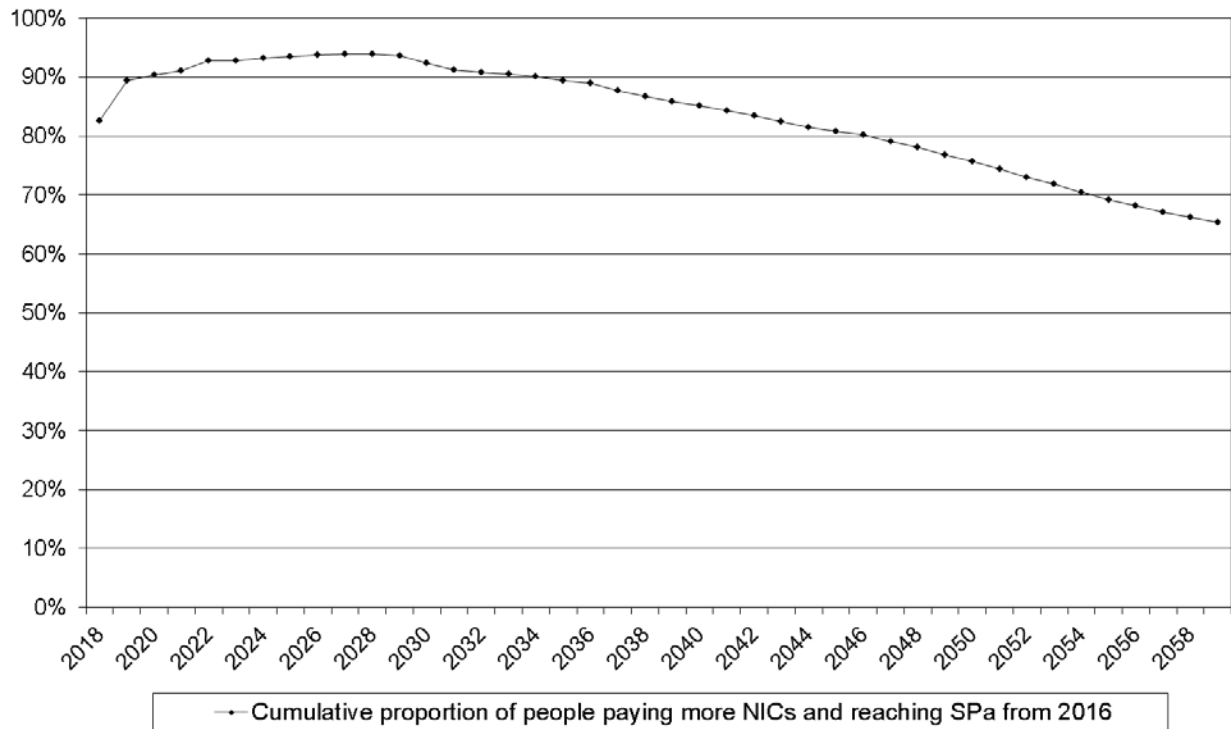


Figure 18: Proportion of people reaching SPA each year, that have been contracted-out at any point in their working lives

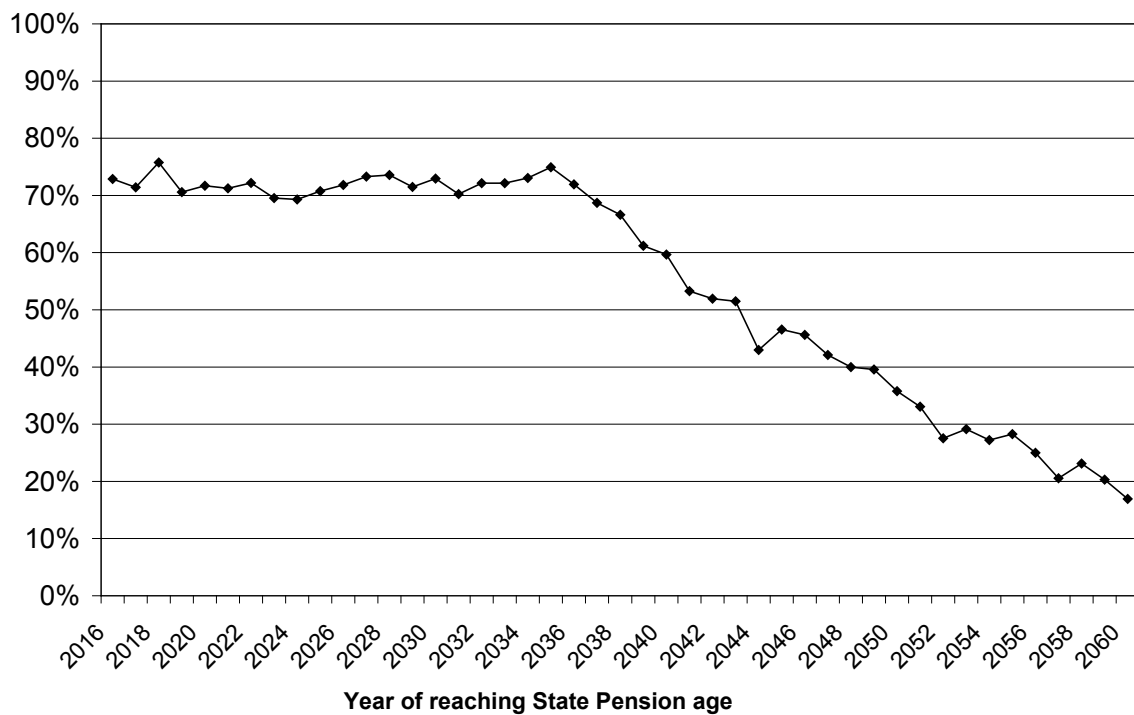


Figure 19: Number of pensioners reaching SPa who receive at least the full rate of nSP

	2016	2020	2030	2040	2050	2060
Number of individuals getting 'full gross' nSP - i.e negating the effects of contracting-out	370,000	410,000	730,000	640,000	690,000	730,000
Proportion of individuals getting 'full gross' nSP	89%	85%	87%	86%	88%	86%
Number of males getting at least full nSP rate direct from state	160,000	130,000	340,000	310,000	340,000	390,000
Proportion of males getting at least full nSP rate direct from state	49%	53%	84%	86%	90%	92%
Number of females getting at least full nSP rate direct from state	20,000	120,000	340,000	310,000	340,000	340,000
Proportion of females getting at least full nSP rate direct from state	27%	48%	79%	82%	84%	80%
Proportion of all individuals getting at least full nSP rate direct from state	45%	51%	81%	84%	87%	86%

Figure 20: Proportions of people reaching SPa in each year, who receive a notionally higher State Pension as a result of the nSP valuation

Year of SPa	Men	Women
2016	19%	39%
2017	15%	39%
2018	10%	34%
2019	8%	34%
2020	7%	38%
2021	8%	27%
2022	8%	25%
2023	8%	19%
2024	4%	18%
2025	5%	19%
2030	2%	9%
2040	1%	1%
2050	1%	1%

Figure 21: Median weekly higher notional outcomes for males and females reaching SPa, for those who get a notionally higher State Pension as a result of the nSP valuation

	2016	2020	2030	2040	2050
Men	£14	£10	£4	£3	£1
Women	£8	£8	£6	£4	£2

In 2016, 29% of women reaching SPa receive a higher weekly notional outcome of more than £5 per week (with a median of £8). The corresponding figure for men is 14% (median of £14).

Figure 22: Proportion of individuals reaching SPa each year with a protected payment

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040
All	32%	25%	28%	23%	18%	15%	16%	13%	14%	13%	9%	1%
Men	37%	30%	34%	35%	24%	23%	24%	19%	19%	19%	13%	1%
Women	12%	9%	11%	11%	12%	7%	9%	8%	9%	6%	5%	0%

Figure 23a: Proportion of all pensioners who were contracted out-at some point between 1978/79 and 1987/88

	2016	2017	2018	2019	2020	2030	2040	2050
All	43%	44%	44%	42%	41%	34%	20%	10%
Men	47%	49%	49%	48%	49%	41%	23%	11%
Women	27%	22%	26%	26%	26%	27%	16%	9%

Figure 23b: Pensioners with notionally higher State Pension outcomes under nSP; median weekly amounts (2015/16 earnings terms)

Contracted-out between 1978/79 and 1987/88	2017	2020	2030	2040	2050
Yes	£2	£4	£10	£14	£17
No	£2	£5	£10	£12	£13

Figure 23c: Pensioners with notionally lower State Pension outcomes under nSP; median weekly amounts (2015/16 earnings terms)

Contracted-out between 1978/79 and 1987/88	2017	2020	2030	2040	2050
Yes	£0	-£2	-£5	-£5	-£5
No	-£2	-£3	-£8	-£11	-£14

Figure 24 below shows the annual number of males and females projected to reach SPa up to the 2065/66 financial year, based on the current legislation on SPa. The effect of completed SPa equalisation can be seen from 2019/20 onwards.

Figure 24: Annual numbers of men and women projected to reach SPa

Financial year	Total	Men	Women	Financial year	Total	Men	Women
2016/17	410,000	320,000	90,000	2041/42	730,000	350,000	380,000
2017/18	410,000	320,000	90,000	2042/43	720,000	350,000	370,000
2018/19	330,000	250,000	80,000	2043/44	700,000	340,000	360,000
2019/20	350,000	170,000	180,000	2044/45	360,000	180,000	190,000
2020/21	490,000	240,000	250,000	2045/46	340,000	170,000	180,000
2021/22	680,000	330,000	350,000	2046/47	740,000	360,000	380,000
2022/23	700,000	340,000	360,000	2047/48	790,000	380,000	400,000
2023/24	730,000	360,000	370,000	2048/49	800,000	390,000	410,000
2024/25	740,000	360,000	380,000	2049/50	790,000	380,000	410,000
2025/26	750,000	370,000	390,000	2050/51	780,000	380,000	410,000
2026/27	400,000	190,000	200,000	2051/52	790,000	380,000	410,000
2027/28	390,000	190,000	200,000	2052/53	800,000	390,000	410,000
2028/29	800,000	390,000	410,000	2053/54	810,000	390,000	410,000
2029/30	820,000	400,000	420,000	2054/55	800,000	390,000	410,000
2030/31	840,000	410,000	430,000	2055/56	830,000	410,000	430,000
2031/32	860,000	410,000	440,000	2056/57	830,000	410,000	420,000
2032/33	850,000	410,000	440,000	2057/58	840,000	420,000	420,000
2033/34	850,000	410,000	440,000	2058/59	870,000	440,000	440,000
2034/35	830,000	400,000	430,000	2059/60	860,000	430,000	440,000
2035/36	840,000	400,000	430,000	2060/61	850,000	420,000	430,000
2036/37	810,000	390,000	420,000	2061/62	850,000	420,000	420,000
2037/38	830,000	400,000	430,000	2062/63	830,000	420,000	410,000
2038/39	820,000	400,000	420,000	2063/64	830,000	420,000	410,000
2039/40	780,000	380,000	400,000	2064/65	820,000	410,000	410,000
2040/41	750,000	360,000	380,000	2065/66	810,000	410,000	400,000

Contact details

Queries about the content of this document

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