

# Pension Reform Fact Sheet – New Carers Credit

## Introduction

1. The White Paper, *Security in retirement: towards a new pension system*, gives details of a complementary package of reforms designed to help people build up better state pensions. This paper focuses on the proposal for a new carer's credit and our commitment in the White Paper to consult with key stakeholders on the most effective way to implement the new arrangements for those reaching State Pension age from 2010. You should note that the proposals described in this fact sheet will require Parliamentary approval before they can be introduced.

## How does the current state pension system help carers?

2. The current state pension system recognises two main forms of informal (unpaid) care. Parents, generally, are recognised through the award of **Child Benefit** which gives automatic entitlement to **Home Responsibilities Protection**<sup>1</sup>. Those caring for others for at least 35 hours a week, mainly adults, who are receiving certain disability benefits, are recognised through the award of **Carer's Allowance** or the carer's premium in **Income Support**. This latter group can also apply for Home Responsibilities Protection.

3. In most cases those with some caring responsibilities are able to build up entitlement to state pensions. Of the 3.6 million people below State Pension age who said they were undertaking some form of caring activity, we estimate that around 90% were building up some entitlement to **basic State Pension**<sup>2</sup>.

4. Carers can build up entitlement to basic State Pension if they are:

- working and earning at or above the Lower Earnings Limit (around £84 a week);
- awarded Home Responsibilities Protection; or
- receiving certain benefits e.g. Carer's Allowance.

5. Carers can also accrue **State Second Pension** if they are receiving Child Benefit for a child under 6; entitled to Carer's Allowance; or awarded Home Responsibilities Protection in respect of caring for a severely disabled person. Since its introduction in 2002, around 1.9 million carers are accruing State Second Pension.

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<sup>1</sup> Home Responsibilities Protection is not a credit. It operates by reducing the number of years needed to qualify for basic retirement pension or bereavement benefit although it cannot reduce the number of years needed to below 20 (22 for men from 2010 and increasing to 22 for women by 2020).

<sup>2</sup> Analysis of the Family Resources Survey (2003/4).



## **What is the Government proposing to ensure more women and carers get better state pensions?**

6. Clearly the state pension system is helping many carers. But today only around 30% of women are reaching State Pension age with a full basic State Pension compared with around 85% of men.

7. The Government is determined to address this inequality and has put forward a number of reforms that will work together to improve state pension outcomes for women and carers.

### **◆ Reducing to 30 the number of years needed to qualify for a full basic State Pension**

8. A key element in our package of reforms to the state pension system is to deliver improved outcomes for women, many of whom are carers, by reducing the number of years needed to qualify for a full basic State Pension to 30. Currently women need 39 years to qualify for a full basic State Pension (men need 44). On its own, this proposal will mean that around 70% of women reaching State Pension age in 2010 will get full basic State Pension, compared to 50% in 2010 and 30% today under the current rules. **By 2025 over 90% of men and women reaching State Pension age will get full basic State Pension under the reformed system.**

### **◆ Replacing Home Responsibilities Protection with a more generous system of weekly credits which recognises caring for children in basic State Pension and State Second Pension**

9. We have set out plans to replace Home Responsibilities Protection with a more generous system of weekly credits. The credit for parents will be given, automatically, to a person awarded Child Benefit for a child under 12. Aligning the rules for basic State Pension and State Second Pension at age 12 will mean **an extra 780,000 women and an extra 30,000 men will accrue State Second Pension from 2010.**

10. Currently, Home Responsibilities Protection protects a person's basic State Pension until the youngest child reached age 16; and those awarded Child Benefit for children under 6 accrue State Second Pension. We do not believe that lowering the age for which credits will be available in basic State Pension will adversely affect a person's basic State Pension entitlement, particularly because of our plans to reduce the number of years needed to qualify for full basic State Pension (by nine years for women).

## ◆ Removing barriers which may prevent carers building up any basic State Pension

11. Under the current system no one can get any entitlement to basic State Pension unless they have at least 25% of the number of years needed for a full basic State Pension (this rule is known as the 25% de minimis rule and means women need 10 years and men need 11 years to receive any basic State Pension). Further, at least one of these years must be achieved through paid contributions (the first contribution condition), usually from work. These rules can prevent people with good Home Responsibilities Protection records, or with a substantial number of qualifying years attained through the award of credits, getting any basic State Pension at all. Further, the Labour Market Attachment Test can prevent those people receiving Long Term Incapacity Benefit accruing any S2P if they have not worked or paid National Insurance contributions for 10% of their working life. **The White Paper proposes the abolition of the 1<sup>st</sup> contribution condition, the 25% de minimis and the Labour Market Attachment Test.**

### The carer's credit

12. Alongside the measures described above we plan to introduce a new carer's credit for those reaching State Pension age on or after 6 April 2010. The replacement of Home Responsibilities Protection with a system of weekly credits will do more for those caring for children specifically, while all carers should benefit from the reduction in the number of years needed to qualify for a full basic State Pension. **The carer's credit will help more carers of disabled people build better state pension entitlement.** It will be available to carers<sup>3</sup> if they are caring for:

- 20 hours or more a week **and**
- one or more persons, including children aged 12 and over, receiving the middle or highest rate of Disability Living Allowance care component, Attendance Allowance, or Constant Attendance Allowance<sup>4</sup>.

13. **The new carer's credit will mean around 70,000 extra carers a year could be credited into basic State Pension**, over half of whom will be women. It will also mean around 110,000 more women and 50,000 more men will accrue entitlements to State Second Pension.

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<sup>3</sup> Since 2003 Foster Carers were able to apply for Home Responsibilities Protection to protect their basic State Pension entitlement. When Home Responsibilities Protection is replaced Foster Carers will be able to apply for the new carer's credit which help them build entitlement to the basic State Pension and to the State Second Pension.

<sup>4</sup> These are also qualifying benefits for Carer's Allowance, and the current system of Home Responsibilities Protection.

## **Discussion points – We'd like your help**

14. The Government made a commitment in the White Paper to consult with key stakeholders on the most effective way to implement the new arrangements for those reaching State Pension age from 2010. **We would welcome your views on a number of key issues.**

### **◆ The link to certain disability benefits**

15. We have proposed to link the new carer's credit to the award of the middle or highest rate of the Disability Living Allowance care component; Attendance Allowance; or Constant Attendance Allowance. Entitlement to these benefits is based specifically on the level of an individual's personal care needs arising from severe disability, which may be supported by evidence from an independent health professional. Award of these benefits is widely recognised in the pensions and benefits system and as a criterion for other help, for example in relation to various aspects of the income-related benefits and Pension Credit.

16. It would be technically feasible to link the new carer's credit to care of people in receipt of lower rate Disability Living Allowance or Incapacity Benefit. But the lower rate of the Disability Living Allowance care component is awarded to people who need much lower levels of care. People who are awarded the lower rate do not need regular and substantial care for prolonged periods. Incapacity Benefit is awarded irrespective of care needs, although a person in receipt of Incapacity Benefit may also be eligible for disability benefits. It seems inappropriate to extend the carer's credit to all those caring for at least 20 hours a week, whether or not they are caring for someone who needs care. This would undermine public confidence in the administration of the new carer's credit if it was not linked to an assessment of care needs.

**Do you agree with our proposal to link entitlement to the carer's credit to those who are caring for someone in receipt of middle or highest rate of the Disability Living Allowance care component; Attendance Allowance; or Constant Attendance Allowance?**

### ◆ The number of hours of caring

17. We set a level of at least 20 hours a week to qualify for the new carer's credit, because we found a wide range of evidence<sup>5</sup> suggesting that those caring for 20 hours or more a week are more likely to experience detrimental effects on their employment prospects. For example, employment rates for carers looking after someone for fewer than 20 hours a week are almost identical to those of the whole population aged 16 to State Pension age, whereas those caring for more than 20 hours are significantly lower across all age groups<sup>6</sup>.

**Do you agree that 20 hours is an appropriate level at which to set entitlement to the new carer's credit?**

### ◆ The application process and use of self-certification

18. We envisage a system where the carer applies for the credit at the end of each tax year, self-declaring they are caring for at least 20 hours a week and stating who they are caring for. Or, we could perhaps consider a system which allows the carer to apply for the carer's credit at the start of a period of caring and award the credit until the carer notifies us of a change in circumstances. We would hope to make those eligible for the new carer's credit aware of its availability through various means. For example, through a flyer included with disability benefits claim forms or claims for Carer's Allowance, telling recipients that their carer may be able to claim the new carer's credit.

19. The application form would include a section for the disabled person to complete, similar to that included in the new Carer's Allowance application form. The carer would be awarded National Insurance credits in respect of basic State Pension and State Second Pension for relevant weeks of qualifying care during the tax year.

**Do you agree that eligible carers should apply for the new carer's credit at the end of the tax year?**

### ◆ Awareness and take-up

20. Key to the new carer's credit's success will be ensuring people are fully aware of the new rules and how the credit can protect state pension entitlement. We would like to work with interested groups to use existing literature, forms and guidance to make people aware of the new carer's credit but we also welcome new ideas.

**How can we best reach those who will be eligible for the new carer's credit?**

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<sup>5</sup> See for example Maher & Green 2002 (analysing GHS 2000)

<sup>6</sup> Family Resources Survey 2004/05

## **Do you have any other concerns?**

21. We welcome your input on the issues raised above, but would also be interested to receive any other suggestions you may have to help us find the most effective way to implement the new carer's credit for those reaching State Pension age from 2010. You can post your views on the new carer's credit on the Pensions Forum website (<http://www.dwp.gov.uk/pensionsreform/forum/>) or you may wish to make a formal response to the Pensions Reform White Paper Team (<http://www.dwp.gov.uk/pensionsreform/consultation.asp>).