

Pension Reform Fact Sheet – Making the state pension fairer and more widely available

The proposals described in this fact sheet will require Parliamentary approval before they can be introduced.

Introduction

A key part of the Government's package of proposed reforms is to **make the State Pension fairer and available to more people** as soon as practicable. We want to remove inequalities in the current scheme and make it easier for people with parenting or caring responsibilities to build entitlement. **Our challenge now is to build a consensus for a new pension settlement for the future.**

The Government's proposals will address the gaps in State Pension coverage for people with interrupted careers or with caring responsibilities. They will create a simpler, more easily understood platform on which individuals and employers can build additional provision. And the proposals mean more women in particular will be eligible for a full basic State Pension.

The proposals include:

- Reducing the number of years needed to qualify for a full basic State Pension to 30 years (currently women need 39 years and men need 44 years)
- Making it easier for parents and carers to build entitlement.
- Simplifying the scheme so that all contributions – paid or credited – count.

We propose to implement these changes for people who reach State Pension age from 6 April 2010 – that is men born on or after 6 April 1945 and women born on or after 6 April 1950.

Why 2010?

Women's lower State Pension entitlement is particularly acute for those over the age of about 45 today. They did not benefit fully from Home Responsibilities Protection and have significantly poorer contribution records than men of the same age, despite the fact that most have made valuable contributions to society.

Normally changes to the contributory pension system are introduced gradually and take a full working-life before they start to have effect. If we took this approach only those women starting work from 2010, for example, would begin building up entitlement wholly on the basis of the new rules and it would take

their whole working life, normally 40 years, before they would see the benefits. We feel women's lower State Pensions must be addressed as soon as possible and that is why we propose to introduce the changes from 2010. This produces overnight improvements – it means around 70% of women reaching State Pension age in 2010 would achieve a full basic State Pension, compared to just 30% today.

Our approach would mean, of course, that two people with similar working histories reaching State Pension age either side of 6 April 2010 will have their State Pensions calculated differently and this will produce different outcomes.

We could introduce the changes more gradually to avoid this situation, for example, by phasing in the reduction in years needed for a full basic State Pension. However, this would mean it would take some time before women's State Pension entitlements improved substantially and depending on the length of transition, those aged around 45 or over today, the very women for whom reform is most needed, would miss out.

Some people have suggested that the reforms should be implemented from an earlier date to bring women born before April 1950, for example, into the new rules. However there would still be a cut-off date between the current scheme and the proposed changes. There would still be a cliff-edge – it would just apply to a different group of people.

Deciding on the start date for reform involves striking a balance. **We want to broaden State Pension coverage and improve women's outcomes as soon as practically possible.** But this needs to be managed because we also need to ensure that reform complements Government spending plans without producing pressures which would take money away from other important areas of public spending – whether other spending on pensions or other areas such as health or education.

As with any reform, there has to be a clear start date – based on what is fair, affordable and sustainable. Our assessment is that the 2010 date meets these criteria and gives people clarity on how their State Pension will be calculated.

Why won't the changes apply to all pensioners?

People reaching State Pension age before 2010 will do so in a pension system that is based on different State Pension ages which allowed women to draw their State Pension at age 60, five years earlier than men and the age at which people become eligible for Pension Credit is 60. Introducing the improvements in State Pension coverage for current pensioners, however, would mean they would have the advantage of both policies – women, for example, would gain from both a lower State Pension age and fewer years of contributions for a full basic State Pension. It would not be right to turn back the clock on one aspect of the scheme without doing so on the other.

The cost of introducing the proposals for all pensioners is significant. Calculating basic State Pension entitlement on the basis of 30 years for all pensioners costs **at least £1 billion straight away in 2010** (net of income-related benefits). This would place considerable pressure on Government finances and costs would have to be met from somewhere else.

What about all those who reach State Pension age before 2010?

It is important to recognise the following that anyone who reaches State Pension age before April 2010 will keep the State Pension entitlement they have been expecting during their working lives.

In their second report the Pensions Commission say that average pensioner income today compares well with that of previous generations. Many present retirees are receiving state earnings related provision that is more generous than in the past and more generous than that which was projected for the future. Of course there is considerable variation between the poorest and the richest among today's pensioners – but we have already put in place policies to tackle pensioner poverty.

Since 1997 we have made various changes, including Pension Credit, to improve retirement incomes of today's pensioners. We recognised for example that many women were particularly at risk of poverty in retirement, with single female pensioner incomes 15 per cent lower than incomes of single male pensioners in 1996/97. Pension Credit has greatly improved their position: two-thirds of those entitled to Pension Credit are women and 0.8 million female pensioners have been lifted out of relative poverty between 1996/97 and 2004/05, with the help of Pension Credit.

For the future we want to ensure that people are confident about what the state will provide and can use their State Pension as a secure platform for additional private saving.

Women who reach State Pension age before April 2010 will continue to have the opportunity to draw a State Pension from age 60. The coverage reforms would only commence as women's pension age starts to increase to equalise with men's at age 65 by 2020. So women who do not gain from the improvements in coverage will still benefit from an earlier State Pension age.

During this tax year, we will be spending over £10 billion more on pensioners than if 1997 policies had continued. And almost half this spending - over £5 billion - is going to the poorest third of pensioners. Our approach is delivering improved outcomes for today's retired generation. The proposed changes are part of a comprehensive package of reforms which include continuing to increase the Pension Credit guarantee by earnings beyond 2008 and restoring the earnings link to basic State Pension. These proposed changes will help to strengthen retirement incomes for all.

Conclusion

There are no perfect solutions – but our approach delivers an overnight step change in the number of women projected to achieve a full basic State Pension from 2010, including those aged around 45 or over today, who have much poorer contribution records than men of the same age and younger women.