



House of Commons  
Work and Pensions Committee

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# Communication of the new state pension

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**Eighth Report of Session 2015–16**





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*Report, together with formal minutes relating  
to the report*

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## Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Department for Work and Pensions and its associated public bodies.

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[Heidi Allen MP](#) (*Conservative, South Cambridgeshire*)

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### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

Committee reports are published on the Committee's website at [www.parliament.uk/workpencom](http://www.parliament.uk/workpencom) and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are Adam Mellows-Facer (Clerk), Margaret McKinnon (Second Clerk), Rod McInnes (Committee Specialist), Rachael Savage (Committee Specialist), Abigail Slade (Committee Specialist), Andrew Wallace (Senior Committee Assistant), Alison Pickard (Committee Assistant), and Jessica Bridges-Palmer (Media Officer).

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## Summary

The new state pension, which will be introduced for people reaching state pension age on or after 6 April 2016, is a welcome simplification of an over complicated system. Over time, more and more pensioners will receive a single flat rate. During transition, however, the majority will not. This has not been made sufficiently clear in Government communications that have focused on the full flat rate of £155.65, contributing to confusion about the new system. Many people who will not lose out from the new state pension, including most people who have had periods of contracting out and many women born between 6 April 1951 and 5 April 1953, wrongly believe they will.

Three groups in particular stand to receive less in the early years of the new state pension than they would notionally have received under the current system:

- people with fewer than 10 years of qualifying contributions;
- people, largely women, who would currently derive rights to a pension based on their spouse's contributions and are not covered by transitional protection; and
- people who built up large guaranteed minimum pensions during the period from 1978 to 1988 and will reach state pension age during the early years of the new state pension.

The losses are largely products of the simplification of an outdated and extraordinarily complex system. It is those complexities, however, that make explaining the consequences to those affected imperative. The Government should not rely on general awareness campaigns. We recommend the DWP directly contact those affected, and others with gaps in their contribution records, explaining their personal circumstances and offering a telephone hotline to discuss with an expert the most appropriate strategy for increasing state pension entitlement.

The Department has rightly upped its efforts to explain the more complex elements of the reforms and made clear recent headway in establishing an online system for state pension statements. In order to best plan for retirement, however, individuals need to see a complete picture of their state, workplace and personal pensions in one place. We welcome the Government's commitment to the creation of a pensions dashboard by 2019, in line with our previous recommendation, and will follow progress with interest.

We are concerned by the Government's reliance on individuals requesting a state pension statement or generating one on a website. This risks missing those who most need to plan financially for retirement. We recommend that people aged 50 or over, unless they opt out on the digital system, should be sent annual state pension statements.





# 1 Introduction

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1. The state pension is a regular payment from the Government to people over state pension age. Many people also have occupational or personal pensions. State pension age is currently rising for some people; it will be 66 by 2020 and 67 by 2028 for both men and women.<sup>1</sup> In parallel, the state pension system is being reformed through the introduction of the new state pension.

2. The new state pension was created by the Pensions Act 2014. For people reaching state pension age on or after 6 April 2016<sup>2</sup> it will replace the existing two-tier system of a basic flat-rate pension based on National Insurance (NI) records and an additional state pension which is partly earnings-related. To qualify for the full new state pension, which will be £155.65 per week in 2016–17, 35 qualifying years of NI contributions or credits will be required. Those with fewer than 35 qualifying years will receive a proportionately lower amount, provided they have at least ten qualifying years.

3. The new state pension is designed to reduce complexity and inequality.<sup>3</sup> It will end the system of “contracting out” whereby certain employees (and their employers) paid lower NI contributions in return for forgoing entitlement to the additional state pension. Instead, those employees built up a private pension. People will qualify for the new state pension on the basis of their individual NI contribution record, so special rules for marriage, divorce or bereavement will end with transitional protection for some. As the level of the full new state pension is set just above the basic level of guaranteed support, means-testing will be reduced, improving incentives to save privately.<sup>4</sup> The new state pension will in time be a radical simplification and has been broadly welcomed. Concerns have been expressed, however, that the complex transition is poorly understood and that certain groups will be unfairly disadvantaged.

4. We launched this inquiry amid concerns about Government communications regarding the new state pension. In part, our work follows up on a 2013 inquiry by our predecessor Committee.<sup>5</sup> Drawing on that valuable work, we were particularly interested in the steps the Department for Work and Pensions (the Department, DWP) had taken to communicate with groups of people most affected by the reforms.

5. In the course of our work our attention was particularly drawn to the adequacy of DWP communication to women born in the 1950s who were affected by increases in state pension age being implemented concurrently with the new state pension reforms. We considered those concerns separately in a Report on *Communication of state pension age changes*,<sup>6</sup> which followed an earlier *Interim report on state pension statements*.<sup>7</sup> Though we

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1 DWP, [State pension age timetables](#)

2 This means that it applies to men born on or after 6 April 1951 and women born on or after 6 April 1953. We return to consequences of different arrangements for men and women in para 19 below.

3 DWP, [The single-tier pension: a simple foundation for saving](#), Cm 8528, January 2013

4 The Standard Minimum Guarantee will be £155.60 per week in 2016–17

5 Work and Pensions Committee, Fifth Report of Session 2012–13, [The Single-tier State Pension: Part 1 of the draft Pensions Bill](#), HC 1000, March 2013

6 Work and Pensions Committee, Seventh Report of Session 2015–16, [Communication of state pension age changes](#), HC 899, March 2016

7 Work and Pensions Committee, Sixth Report of Session 2015–16, [Understanding the new state pension - interim report on pension statements](#), HC 550, January 2016

will continue to monitor state pension developments closely, this will be the final Report of this particular inquiry. We are grateful to everyone who participated, especially the ordinary members of the public who have shared their experiences and views.

## 2 Understanding the new state pension

### Moving to a simpler system

6. The new state pension has been broadly welcomed as fairer and simpler than the “over-complicated and poorly understood” system it will replace.<sup>8</sup> The policy is designed to give people “long term clarity” about how much they can expect to receive in state pension and therefore promote planning for later life. Over time, an increasing proportion of state pensioners will receive a headline flat rate weekly payment.<sup>9</sup> As this flat rate will be set above the level of means-tested benefits, the incentives to save into a private pension are enhanced.<sup>10</sup>

7. Steve Webb, architect of the reform as Pensions Minister in the last Government, told us:

for anyone in their 20s, 30s and 40s, the vast majority will just get the flat rate; they can plan and they know what they are going to get, whereas nobody understands the system we have come from.<sup>11</sup>

8. There are, however, concerns that the period of moving to a simpler system will be long and complex.<sup>12</sup> The foundation of the transition is the “starting amount”, which is based on individual NI records before 6 April 2016. An individual’s starting amount is the higher of what they accrued under the old system or what they would have accrued under the new system had it been in place at the start of their working life, with deductions for periods of reduced NI contributions while contracted-out of the additional state pension. It therefore protects existing rights. The starting amount is a one-off calculation and future rights are accrued on the new system.<sup>13</sup> Baroness Altmann, Minister for Pensions (the Minister), described this process as “crystallis[ing] the complexity of the past”.<sup>14</sup>

9. Our predecessor Committee broadly welcomed the new state pension in a 2013 report but noted confusion about its implications for individuals. In particular, some people wrongly believed they would be entitled to the full flat rate or that higher existing entitlements would be lost. The Committee recommended urgent and targeted communication, especially in relation to those who would “lose out” under the new system.<sup>15</sup> In their response to the report the Government agreed that effective communications would be the key to the

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8 Pensions and Lifetime Savings Association ([USP0120](#)). See also, for example, Association of British Insurers ([USP0132](#)); Hargreaves Lansdown ([USP0023](#)); Which? ([USP0131](#)); Age UK ([USP0026](#)); Savvywoman.co.uk ([USP0115](#)); Fawcett Society ([USP0107](#))

9 DWP ([USP0137](#))

10 [Q2](#) (Steve Webb). We are currently conducting an [inquiry](#) into automatic enrolment into workplace pensions schemes.

11 [Q2](#) (Steve Webb)

12 For example Association of British Insurers ([USP0132](#)); Which? ([USP0131](#)); Aegon UK ([USP0119](#)); Paul Lewis ([USP0114](#))

13 DWP ([USP0137](#)). Contracting out is abolished as part of the reforms. Further specific transitional protection will be provided to women who elected before April 1977 to pay a reduced rate of NI contributions through the “married woman’s stamp” scheme. See DWP, [The single-tier pension: a simple foundation for saving](#), Cm 8528, January 2013, Annex 3 para 34

14 [Q121](#) (Baroness Altmann)

15 Work and Pensions Committee, Fifth Report of Session 2012–13, [The Single-tier State Pension: Part 1 of the draft Pensions Bill](#), HC 1000, March 2013

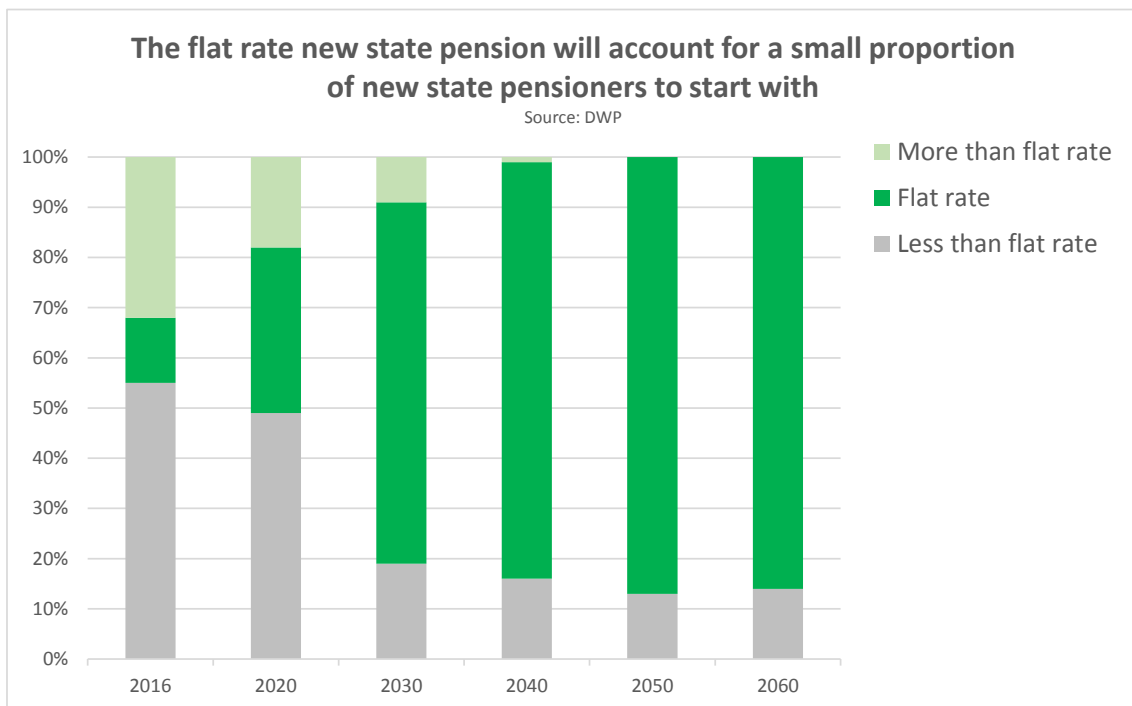
success of the reforms. They committed to address common misconceptions about the generosity of the new state pension and to “focus communications on the key groups of people who will need to take action”.<sup>16</sup>

## Areas of confusion

### The full flat rate

10. The full flat rate of the new state pension in 2016–17, the first year of its operation, will be £155.65 per week. However, just 13% of people reaching state pension age in that year will receive that amount in new state pension. 32% will receive more as a consequence of additional state pensions built up under the current scheme. The remaining 55% will receive less than £155.65 per week, in most cases because of periods of contracting out or because they do not have 35 years of qualifying NI. As demonstrated by Figure 1 below, the proportion of people receiving the full flat rate on reaching state pension age will rise steadily over time, exceeding 80% by 2040.<sup>17</sup>

**Figure 1: Proportions of people reaching state pension age in years 2016–2060 by broad category of entitlement**



11. Witnesses told us that large numbers of people mistakenly believed that they were going to receive the full flat rate. Sally West of Age UK told us about the widespread “impression that the system is very good and more generous for everybody”.<sup>18</sup> This could be detrimental to effective retirement planning,<sup>19</sup> especially if it encouraged people to spend their private pension pots that they could now access more readily under the Government’s

<sup>16</sup> DWP, *Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012–13, into Part 1 of the draft Pensions Bill*, Cm 8620, May 2013, p12

<sup>17</sup> DWP, *Impact of New State Pension (nSP) on an Individual’s Pension Entitlement – Longer Term Effects of nSP*, January 2016, figs 19 and 23

<sup>18</sup> [Q36](#) (Sally West)

<sup>19</sup> [Q85](#) (Kate Smith)

freedom and choice reforms.<sup>20</sup> Kate Smith of Aegon UK, a pensions provider, said that even the relatively informed group of people who had heard about the new state pension “still think they are going to get the full amount”.<sup>21</sup> The Minister agreed:

Where things have gone wrong is that everybody thinks it is a flat rate £155, £156 or whatever.<sup>22</sup>

12. Phil McEvoy, of the Prospect trade union, said “there is still a lot of expectation about the £150-odd a week, because that is what people have been told, primarily through newspapers”.<sup>23</sup> Age UK suggested that the “impression that the changes are wholly beneficial in part reflects the generally positive messages from Ministers and DWP press statements”.<sup>24</sup> For example, in Prime Ministers’ Questions in January 2016, the Prime Minister said:

what we are putting in place—with the single-tier pension starting at over £150 a week, combined with the triple lock—is a very good settlement for pensioners.<sup>25</sup>

13. The Hanover Housing Association described the DWP awareness campaign as “piecemeal and extremely simplistic”, arguing that messages had been “over simplified and generalised to an extent that they say virtually nothing”.<sup>26</sup> Paul Lewis said:

We are told it is a single tier. There are going to be a bale of tiers in 2016–17.<sup>27</sup>

14. Steve Webb, who noted the communication challenges of introducing the new state pension less than two years after the Pensions Act 2014 was passed,<sup>28</sup> defended his approach:

It may be I oversimplified, but if we had not simplified the message, we would not have got a message across at all and nobody would have known anything was coming. That was the challenge.<sup>29</sup>

Sally West sympathised, saying that the initial complexity of the system was challenging to communicate.<sup>30</sup>

15. The current Minister told us that she did “not think that sufficient explanation of the detail had been given” by the Department,<sup>31</sup> but that communications were now improving:

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20 Alan Higham ([USP0057](#)). The Committee conducted an [inquiry](#) into pension freedom guidance and advice.

21 [Q84](#) (Kate Smith)

22 [Q125](#) (Baroness Altmann)

23 [Q89](#) (Phil McEvoy)

24 Age UK ([USP0026](#))

25 [HC Deb, 13 January 2016, Col 854](#)

26 Hanover Housing Association ([USP0040](#))

27 [Q36](#) (Paul Lewis)

28 [Q2](#) (Steve Webb)

29 [Q19](#) (Steve Webb)

30 [Q36](#) (Sally West)

31 [Q123](#) (Baroness Altmann)

What is important is that we help people understand how the new state pension system is going to work. I do not think that has been done terribly well so far, but certainly I have been working very hard since I started to improve that.<sup>32</sup>

The Department told us that a second phase of its new state pension communication campaign began in August 2015, with greater emphasis on specific aspects of the reform such as the effect of past contracting out.<sup>33</sup>

### **Contracting out**

16. Under the existing system many people are, or have previously been, contracted-out of the additional state pension into a workplace or personal scheme. Under contracting out, both employer and employee pay lower NI contributions as a pension is built up in lieu of the additional state pension. All other things being equal, someone who has been contracted-out will have made lower NI contributions than someone who has not. Their new state pension starting amount will be lower as a result. In most cases, however, that difference will be offset by the workplace or personal pension.

17. The Department estimates that 90% of people with past periods of contracting out will be net gainers from the new state pension in the first two decades of implementation.<sup>34</sup> This is because they will be able to accrue new state pension entitlement, between the level of the current basic state pension and the full new state pension, through additional NI contributions. The value of new state pension accrued will exceed that of the contributions paid. Such people will still have the workplace pension they built up while paying less NI than their contracted-in counterparts.<sup>35</sup>

18. Steve Webb noted, however, a “perception that this group is being treated unfairly” by the reforms.<sup>36</sup> This is backed up by the written evidence we received.<sup>37</sup> The current Minister told us that addressing misunderstanding relating to contracting out was now a priority for the Department. We consider this shift in emphasis in the next chapter.

### **Women born between 6 April 1951 and 5 April 1953**

19. Owing to different state pension ages, women born between 6 April 1951 and 5 April 1953 (1951–53 women) will not qualify for the new state pension whereas men born at the same time will.<sup>38</sup> Collection of Women Against Real Injustice and Inequality of the State Pension (CARIISP), a campaign group, described this as “a new permanent inequality”.<sup>39</sup>

20. Although 1951–53 women were subject to a rise in state pension age as a result of the Pensions Act 1995 (but not the 2011 Act, unlike marginally younger women), their state pension age was lower than men of the same age. A woman born in April 1951 has received

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32 [Q122](#) (Baroness Altmann)

33 DWP ([USP0137](#))

34 DWP ([USP0143](#))

35 DWP ([USP0143](#)); [Q24](#) (Steve Webb)

36 Steve Webb ([USP0027](#))

37 For example, Mrs Mary Morgan ([USP0100](#)); Mrs Thomas ([USP0068](#)); Jennie Stopford ([USP0064](#)); Ms Alison Partridge ([USP0054](#)); Helen Kemp ([USP0024](#))

38 DWP, [Note on the cohort of women born between 6 April 1951 and 5 April 1953](#), 2013

39 CARIISP ([USP0110](#))

her state pension since the age of 61, while her male twin will wait until age 65, giving her four additional years of state pension payments.<sup>40</sup> While the woman may receive less money per week than her male twin, she would receive it earlier. As Steve Webb noted:

Even if she is only entitled to a basic pension of £115 per week, this means she will have received nearly £24,000 in state pension before her male twin receives a penny. It is hard to see how this makes her unfairly treated compared with her male counterpart.<sup>41</sup>

Owing to differences in life expectancy, the woman will also on average be alive, and still drawing her state pension, when her male twin dies.<sup>42</sup>

21. CARIISP also noted that a woman born on 6 April 1953, one day younger than the cohort they represent, will qualify for the new state pension. They described this as a “sharp cliff-edge”.<sup>43</sup> The Pensions Policy Institute (PPI) constructed a hypothetical comparison of two women, one reaching state pension age in March 2016 and the other in April 2016 but with otherwise the same circumstances. The younger woman would receive around £12 per week more in state pension.<sup>44</sup> The PPI confirmed, however, that this was an extreme, illustrative case and that examples with similar consequences could be constructed for men. Any losses would also be notional: the older woman would not receive less than she would have expected from the existing state pension in the absence of reform. Steve Webb told us that a cut-off age somewhere was inevitable and noted that slightly younger and older cohorts of women had stronger grounds to feel aggrieved by recent state pension changes.<sup>45</sup>

22. Steve Webb said that the injustice felt by the 1951–53 women was largely a consequence of the “the mistaken assumption that the new state pension is somehow a windfall, when in fact the new system is broadly similar to the system it replaces”.<sup>46</sup> The DWP estimated that 90% of 1951–53 women will receive more in state pension and other benefits in the existing system over the course of their lifetimes from state pension age than if their state pension age was 65 and they received the new state pension.<sup>47</sup>

23. Should someone in this group wish to retire later on a higher state pension, generous deferral rates are available.<sup>48</sup> The DWP estimated that by deferring their state pension to 65, approximately 85% of 1951–53 women would receive a weekly state pension payment equal to more than the full flat rate of the new state pension.<sup>49</sup> Steve Webb acknowledged that deferral was an “obscure” and largely unknown feature of the state pension system.<sup>50</sup>

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40 [Q21](#) (Steve Webb)

41 Steve Webb ([USP0027](#)). This is the most extreme example, but a woman born in March 1953 who therefore reached state pension age at age 63 would receive £12,000 on a state pension of £115 per week before her male twin received anything.

42 Steve Webb ([USP0027](#))

43 CARIISP ([USP0110](#))

44 Pensions Policy Institute ([USP0136](#))

45 [Q21](#) (Steve Webb)

46 Steve Webb ([USP0027](#))

47 DWP, *Note on the cohort of women born between 6 April 1951 and 5 April 1953*, 2013

48 [Q21](#) (Steve Webb). In the current system state pension is increased by 1% for every 5 weeks of deferral, which equates to 10.4% pa. The new state pension is increased by 1% for every 9 weeks of deferral, which equates to just under 5.8% pa.

49 DWP, *Note on the cohort of women born between 6 April 1951 and 5 April 1953*, 2013

50 [Q22](#) (Steve Webb)



24. Mr Webb told us that 1951–53 women were not contacted directly and more generally by the last Government because their state pension ages were not altered by the Pensions Act 2011. CARIISP said they had had to seek out their own information.<sup>51</sup> Hymans Robertson, a pensions and benefits consultancy, concluded that the situation regarding 1951–53 women underscored the need for better early communication of policy changes.<sup>52</sup> With reference to this cohort of women, our predecessor Committee recommended in 2013:

We believe that this group should be prioritised as part of the overall communications strategy for the [new state pension]. We recommend that DWP publish detailed information on its website to help this cohort of women to calculate their State Pension entitlement. This should explain the option to defer taking the current State Pension, and set out the benefits this offers.<sup>53</sup>

In its response to that Report, the Government agreed that the group “should be a priority in terms of communications”.<sup>54</sup>

### **Conclusion on areas of confusion**

25. **The new state pension is a welcome simplification of an overcomplicated system. Over time, more and more pensioners will receive a single flat rate. During transition, however, the majority will not. This has not been made sufficiently clear in Government communications that have focused on the full flat rate of £155.65.**

26. **People with periods of contracting out typically gain from the new state pension. That many such people believe wrongly that they are disadvantaged is in part a failure of Government communication.**

27. **Women born between 6 April 1951 and 5 April 1953 will not be eligible for the new state pension in April 2016, whereas men born on the same dates will. This is the consequence of introducing the new state pension during state pension age equalisation. The complaints of the 1951–53 cohort are founded on the misconception that they would get the full flat rate of £155.65 if they were given access to the new state pension. That is simply not the case. The majority of women in this cohort will receive more in state pension payments across their lifetimes within the existing system than men of the same age in the new one. In addition, the existing generous deferral scheme would enable many such women, if they chose, to take a state pension at age 65 higher than that received by their male contemporaries. These realities should have been better communicated to this group, as was recommended by our predecessor Committee.**

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51 CARIISP ([USP0110](#))

52 Hymans Robertson ([USP0126](#))

53 Work and Pensions Committee, Fifth Report of Session 2012–13, *The Single-tier State Pension: Part 1 of the draft Pensions Bill*, HC 1000, March 2013, para 168

54 DWP, *Government Response to the Fifth Report of the House of Commons Work and Pensions Select Committee, Session 2012–13, into Part 1 of the draft Pensions Bill*, Cm 8620, May 2013, p22



## Groups who will receive less than they might have expected

### Overall picture

28. The new state pension will be at least as generous as the existing system for the vast majority of people reaching state pension age in 2016, because accrued rights will be protected. The proportion of people who notionally gain over the course of their retirement then falls over time. Around 75% of women and 70% of men who reach state pension age in the first 15 years will receive a higher value state pension than they would have under the old system.<sup>55</sup> By 2060, more than half of people reaching state pension age will receive less in lifetime state pension payments than they would notionally have done under the existing system.<sup>56</sup>

29. The last Government's 2011 consultation paper on reforming the state pension set out the principle that "any options for reform must be cost neutral in each and every year to avoid placing an unsustainable burden on future taxpayers".<sup>57</sup> As Steve Webb put it to us, the new state pension "costs nil overall; if someone gains, somebody loses". Duncan Gilchrist, DWP Deputy Director of Contributory Pensions, explained that there were two major sources of long-term savings within the new state pension system:

- increased NI contributions from employees and employers as a consequence of the abolition of contracting out; and
- reduced additional pension payments as people will not be able to accrue more than the full flat rate (or the starting amount if higher).<sup>58</sup>

30. There are also, however, three relatively small groups of people who will get less from the new state pension than they would have expected from the old system. We now consider each of them in turn.

### *i) People with fewer than 10 years of contributions*

31. Individuals will accrue the new state pension at a rate of  $\frac{1}{35}$ th of the full flat rate for each qualifying year of NI contributions. A minimum of 10 qualifying years will, however, be required to qualify for any state pension at all. The Government said that the minimum qualifying period was intended to target state pension expenditure on those making a "significant economic or social contribution to the country".<sup>59</sup> It will be a source of savings for the Government in the reforms.<sup>60</sup>

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55 DWP ([USP0143](#))

56 DWP, *Impact of New State Pension (nSP) on an Individual's Pension Entitlement - Longer Term Effects of nSP*, January 2016, fig 2

57 DWP, *A state pension for the 21st century*, Cm 8053, April 2011

58 [Q144](#) (Duncan Gilchrist)

59 DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, p89. A previous minimum qualifying period formula was removed by the Pension Act 2007 for people reaching state pension age from 6 April 2010.

60 [Q4](#) (Steve Webb)

32. The DWP projected that, between 2016 and 2020, around 20,000 people in Great Britain will reach state pension age with fewer than 10 qualifying years. This translates to around 2% of women reaching state pension age and 1% of men. The proportions affected will fall over time.<sup>61</sup>

33. Steve Webb explained that, for people who spent their life in the UK, it was “almost impossible” not to build up 10 years of contributions:

you get credits for being unemployed and looking for a job, for being sick and unable to work, being a carer and bringing up children. You just cannot not get 10 years if you are outside prison, frankly.<sup>62</sup>

He added that those affected would largely be “people who have come into the country late in life, who may well have pension rights somewhere else anyway”.<sup>63</sup> Your Homes Newcastle, which manages council homes on behalf of Newcastle City Council, cautioned that people affected included many who initially entered the country as refugees. They expressed concern that the DWP had made “little attempt to consult” with this group.<sup>64</sup>

#### Box 1: Case study

*Email to Age UK from a UK citizen living abroad who has 9 qualifying years of NI contributions: “am I entitled to a UK pension when I turn 66? If so, how much is it? If not, how much do I need to pay for the extra year to bring it to 10...I’ve had all the forms from Govt, but I’m still in the dark”.*<sup>65</sup>

34. The DWP said that through fact sheets, case studies and cooperation with stakeholder groups it was making targeted efforts to explain the changes to people who may be affected by the minimum qualifying period.<sup>66</sup> They added around half of people in those circumstances will be eligible for pension credit, a means-tested benefit which guarantees a minimum income people of state pension age.<sup>67</sup> The guaranteed minimum for single people will be £155.60 in 2016–17. Individuals may also choose to purchase additional NI contributions to ensure entitlement to a state pension.<sup>68</sup>

#### **ii) Women with derived rights**

35. Under the current state pension system some people are able to derive a state pension on the basis of their spouse or civil partner’s NI record.<sup>69</sup> These people are overwhelmingly women.<sup>70</sup> Such women, on reaching state pension age, are able to claim a state pension equivalent to 60% of their husband’s state pension if he is alive and they are married. This rises to 100% of state pension entitlement accrued by the husband at his death or, provided

61 DWP, *Impact of New State Pension (nSP) on an Individual’s Pension Entitlement - Longer Term Effects of nSP*, January 2016, p 17

62 [Q4](#) (Steve Webb)

63 [Q4](#) (Steve Webb)

64 Your Homes Newcastle ([USP0021](#))

65 Age UK ([USP0026](#))

66 DWP ([USP0137](#))

67 DWP, *Impact of New State Pension (nSP) on an Individual’s Pension Entitlement - Longer Term Effects of nSP*, January 2016, p 17

68 DWP ([USP0137](#))

69 Sometimes called a category B or BL state pension.

70 DWP, *Impact of New State Pension (nSP) on an Individual’s Pension Entitlement - Longer Term Effects of nSP*, January 2016, fig 9

the former wife has not remarried, at the point of divorce. Entitlement rights derived from a partner's NI contributions will not be recognised in the calculation of starting amounts in the new state pension. The exception to this rule is women who opted to pay the "married woman's stamp", a reduced rate of NI, while in work. The choice to opt into this scheme was removed in 1977, but women who had elected to take such an option could continue with it. The accrual of further entitlement in the new state pension will be entirely on an individual basis.<sup>71</sup> In the most extreme case a widowed woman with no qualifying years in her own right could be entitled to no state pension at all compared to an expected £115.95 under the current system.<sup>72</sup>

36. The Department estimates that the removal of derived rights will affect 290,000 people between 2016 and 2030, less than 4% of those reaching state pension age over that period. In 2020 alone, approximately 30,000 people will be affected.<sup>73</sup> Duncan Gilchrist told us that the number who would receive no state pension at all would be "very small".<sup>74</sup>

37. People affected may be able to increase their state pensions.<sup>75</sup> Many will have the opportunity to build up individual NI records before retirement and may be able to claim NI credits retrospectively for, for example, time spent caring.<sup>76</sup> The Government has extended the deadline for paying voluntary NI contributions for years between 2006–07 and 2015–16 to April 2023.<sup>77</sup> Furthermore, those with incomes below the guaranteed minimum may be eligible for pension credit.

38. Paul Lewis, a financial journalist, described the removal of derived rights as "discrimination against women".<sup>78</sup> The Minister argued that a system of recognising individuals in their own right better fits modern life.<sup>79</sup> The Fawcett Society supported greater financial independence for women but argued that insufficient notice had been given.<sup>80</sup> Other witnesses raised concerns over a lack of proactive communications in this area, and that many women who are or may in future be affected were unaware of the change.<sup>81</sup> Sally West used the example of women who may be widowed in future who do not realise they may not be entitled to a pension based on their husbands' contributions.<sup>82</sup> Alan Higham, a pensions expert, said some women had received financial settlements following divorce that assumed they would derive rights to a pension.<sup>83</sup>

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71 DWP, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013, page 29 para 33

72 Age UK ([USP0026](#))

73 [HL Deb, 18 December 2016, GC 341](#)

74 [Q149](#) (Duncan Gilchrist)

75 The DWP has published [guidance](#) on making up gaps in NI records.

76 DWP, *NI credits and the single-tier pension*, 2013

77 [HL Deb 16 December 2013 c244 GC](#)

78 Paul Lewis ([USP0114](#))

79 [Q149](#) (Baroness Altmann)

80 Fawcett Society ([USP0107](#))

81 [Q44](#) (Sally West); Alan Higham ([USP0057](#)); Roger Parker ([USP0041](#))

82 [Q44](#) (Sally West)

83 Alan Higham ([USP0151](#))

**Box 2: Case studies**

*Mrs Kerri Ellison: “The [cessation of the right to derive entitlement to a state pension] has left me with no pension and no good options. When it passed into law in 2014 I was only 6 years from retirement; six years is not enough time to make reasonable adjustments to pension plans. Even if I could make the minimum 10 years NICs, I would need 16 years to create a pension equivalent to what had been promised. Additionally if my husband dies before me and his pension stops, there will be no ‘widow’s pension’ to allow me to carry on”.*<sup>84</sup>

*Jessica Daniel: “I am now 60, and will not reach pensionable age until I am 66 years old. However, I have made the devastating discovery that this is actually meaningless, because I will never have any entitlement to a state pension. Despite forty years of marriage, during which I believed that my husband and I were working jointly towards a married couple’s state pension, I now discover that the changes being introduced this year mean that I will have no entitlement based on my husband’s contributions. Because I have no contributions of my own I will receive nothing, and have no entitlement to a widow’s pension”.*<sup>85</sup>

39. Mr Higham called on the DWP to send personalised letters to those affected.<sup>84</sup> Similarly, Sally West said notifying people of gaps in their contribution records through “individual communications” would give people better opportunity to adjust their plans.<sup>85</sup> The Department told us that women affected by the changes to derived entitlements were among the groups being targeted in communications.<sup>86</sup>

**iii) Guaranteed minimum pensions**

40. Between 1978–79 and 1996–97, many members of occupational pension schemes were contracted-out of the additional state pension and instead built up a pension through their occupational scheme that was broadly equivalent to the amount of state pension forgone. This broadly equivalent amount was called a Guaranteed Minimum Pension (GMP).<sup>89</sup>

41. GMPs are paid by occupational pension schemes. There are two different arrangements for uprating them, depending on when rights were built up:

- For GMPs built up between 1978–79 and 1987–88, the individual is eligible for an additional state pension equivalent to the additional value of their GMP if had been uprated using the Consumer Prices Index (CPI). In simple terms the state pays the uprating, albeit from outside the contractual requirements of the occupational scheme.
- For GMPs built up between 1988–89 and 1996–97, the occupational pension scheme is required to uprate the GMP in line with the CPI or by 3%, whichever is lower. If the

84 Alan Higham ([USP0151](#))

85 [Q44](#) (Sally West)

86 DWP ([USP0137](#))

87 Mrs Kerri Ellison ([USP0048](#))

88 Jessica Daniel ([USP0144](#))

89 DWP, [The new State Pension Transition and Contracting-Out](#), July 2015

CPI has risen by more than 3%, the difference is made up through an additional state pension. In simple terms, provided inflation does not exceed 3%, the occupational pension scheme pays the uprating.<sup>90</sup>

- The additional state pension is abolished as part of the reforms. The effect is that GMPs built up between 1978–79 and 1987–88 will not be uprated after state pension age. Their real value will therefore decline over time.

42. Phil McEvoy said that, regardless of the legal situation, people expected the state to provide indexed adjustments to GMP.<sup>91</sup> We also heard that many occupational scheme policy booklets referred to state inflation-proofing of GMPs and assured members they would not be worse off as a result of contracting out.<sup>92</sup> Steve Webb said that the Government had removed the separate indexation procedures from the new state pension because they were “horribly complicated”.<sup>93</sup>

43. Alan Higham estimated that a person with £28 per week of GMP built up between 1978 and 1988 would lose approximately £10,000 of extra state pension in total, assuming they live to age 90 and annual inflation is 2%.<sup>94</sup> Hymans Robertson estimated that people could be “worse off to the tune of £20,000 over the course of their retirement”.<sup>95</sup> People with high-value GMPs who reach state pension age soon after April 2016 stand to lose the greatest amounts.<sup>96</sup>

### Box 3: Case study

*Mr Martin Smart: “I reach SPA on 4 May 2016 under the NSP. I was a member of a contracted-out final salary DB pension scheme between 1973 and 2009. I worked through the Serps era 1978–1997 and as a result accrued a Guaranteed Minimum Pension (GMP) in lieu of being in the State scheme Serps. My scheme booklet in 1979 clearly denotes that I would NOT be worse off than if I had remained in Serps. It clearly states the procedure by which the GMP would be kept in balance with Serps from my SPA. This mechanism has been preserved hitherto (accrued rights)—until NOW!*

*“By removing the GMP uprating mechanism (the Contracted-out Deduction), an important annual review process has been denied to an innocent pensioner, which could cost me up to £17,000 in lost pension over my expected post-SPA lifetime.*

*“Unfortunately, the State Pension Forecast (SPF) under both the old and new systems shows nothing about how the GMP-uprating works because it is an incremental calculation rather than a principal amount, so that people who did not know about the GMP-uprating mechanism under the current rules will be none the wiser as a result...”<sup>97</sup>*

44. Potential notional losses from holding a GMP may be offset by gains from the new uprating system. Under the current system the basic state pension is uprated according

90 For further details see House of Commons Library Briefing Note SN04956, [Guaranteed Minimum Pension - annual increases](#), by Djuna Thurley, June 2015

91 [Q115](#) (Phil McEvoy)

92 For example Ms Pauline Clark ([USP0129](#)); Mr Martin Smart ([USP0111](#)); Prospect ([USP0043](#)); Mr Frederick Kenny ([USP0003](#)); Mrs Patricia Strong ([USP0055](#))

93 [Q24](#) (Steve Webb)

94 Alan Higham ([USP0057](#))

95 Hymans Robertson ([USP0126](#))

96 [Q24](#) (Steve Webb); Pensions Policy Institute ([USP0136](#))

97 Mr Martin Smart ([USP0111](#))

to the “triple lock” formula, which uses the highest of CPI inflation, average earnings growth or 2.5%, while the additional state pension is uprated using the CPI alone. Under the new state pension, existing basic and additional state pensions will both be included in the calculation of starting amounts. The entire pension will then be uprated by the triple lock.<sup>98</sup> Many people with periods of contracting out will also be able to build up additional new state pension qualifying years of new state pension, up to the full flat rate.<sup>99</sup> Furthermore, the Minister told us that some occupational schemes had said they would take over uprating of GMPs.<sup>100</sup>

45. The number of people with GMPs who will receive less in state pension than they notionally would have done under the existing system will fall over time. The Pensions Policy Institute summarised that, of people with a GMP, those who reach state pension age from “around 2021” are “more likely to gain”, while those who reach state pension age in the early years of the new state pension are “more likely to lose out”. Those losses would be concentrated in those with large GMPs.<sup>101</sup> Steve Webb said “people with huge GMPs will probably lose”.<sup>102</sup>

46. The Department told us it was “impossible to discern” how many people were approaching retirement age with GMPs that would no longer be subject to indexation.<sup>103</sup> Similarly, it does not know the value of the notional losses that affected people will experience.<sup>104</sup> Alan Higham said there was a role for pension schemes in communications:

In the absence of knowing what this might mean for people, the DWP should encourage occupational schemes to issue communications to their members and former members warning them off the change. It was pension schemes who told them that the GMP would be increased by the State.<sup>105</sup>

Sally West said the Government needed to provide “detailed information” to both individuals affected and their pension schemes to enable to adapt their plans accordingly.<sup>106</sup>

### **Conclusion on groups who will receive less than they might have expected**

47. **Three groups in particular stand to receive less in the early years of the new state pension than they would notionally have received under the current system:**

- **people with fewer than 10 years of qualifying contributions;**
- **people, largely women, who would currently derive rights to a pension based on their spouse’s contributions and are not covered by transitional protection; and**
- **people who built up large guaranteed minimum pensions during the period from 1978 to 1988 and will reach state pension age during the early years of the new state pension.**

98 The Government has pledged to retain the triple lock until 2020.

99 DWP, *Impact of New State Pension (nSP) on an Individual’s Pension Entitlement - Longer Term Effects of nSP*, January 2016, p 20.

100 [Q151](#) (Baroness Altmann)

101 Pensions Policy Institute ([USP0136](#))

102 [Q24](#) (Steve Webb)

103 [Q150](#) (Duncan Gilchrist)

104 Alan Higham ([USP0151](#))

105 Alan Higham ([USP0151](#))

106 [Q44](#) (Sally West)

48. **The losses are largely products of the simplification of an outdated and extraordinarily complex system. It is those complexities, however, that make explaining the consequences to those affected imperative. People who understand their individual circumstances are better placed to adapt their plans in their best interest. Government should not rely on general awareness campaigns or happenstance in promoting that understanding. It should focus on identifying the individuals affected, assessing their potential losses, and communicating with them. We consider improvements in communication in the next chapter.**



## 3 Improving communication

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### Phases of the DWP campaign

#### *General awareness and statements on demand*

49. Steve Webb told us that his initial priority in communicating the new state pension was to set up a system of personalised statements on demand. This, he said, was necessary because of the complexity of the changes:

People are so diverse and have such different histories in the State Pension system that you cannot get a general message across. So my priority was personal statements.”<sup>107</sup>

State pension statements are available to people aged 55 and over. The Department issued around 500,000 such statements between their introduction in September 2014 and October 2015.<sup>108</sup>

50. The timetable set by the Government left less than two years from the passing of the Pensions Act 2014, which created the new state pension, until the introduction of the reforms in April 2016. This was a revised timetable: our predecessor Committee noted in its 2013 examination of the draft legislation that the implementation date was brought forward from “from April 2017 at the earliest [...] very late in the scrutiny process”.<sup>109</sup> The change ensured that women born in the year from 6 April 1953, who had been subject to two increases in their state pension age, would be included in the new state pension.<sup>110</sup> We heard that the Department faced challenges in getting the statement service up and running:

a lot of effort was put in to setting up the statement service post Royal Assent, and initially capacity was stretched because the process was semi-manual.<sup>111</sup>

51. Witnesses criticised the quality of the DWP’s communication campaign. Hymans Robertson said the Department was over-reliant on people on requesting a statement:

As many will be working under the false assumption that they will get £155 per week there is a real risk they won’t seek out this additional information in the first place.<sup>112</sup>

We consider the case for automated statements later in this chapter. Hargreaves Lansdown, a pensions provider, told us that DWP communications had been insufficiently focused on clarifying complex changes:

No attempt has been made to address or communicate policy anomalies or to grapple with the challenging issue of contracted-out benefits.<sup>113</sup>

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107 [Q2](#) (Steve Webb)

108 DWP ([USP0137](#))

109 Work and Pensions Committee, Fifth Report of Session 2012–13, [The Single-tier State Pension: Part 1 of the draft Pensions Bill](#), HC1000, March 2013

110 [HC Deb, 19 March 2013, col. 44WS](#)

111 Steve Webb ([USP0027](#))

112 Hymans Robertson ([USP0126](#))

113 Hargreaves Lansdown ([USP0023](#))



### Explaining complexities

52. Richard Caseby, DWP Director of Communications, told us that while the last Government had sought to promote general awareness of the new state pension, the current Government had focused on increasing understanding of specific aspects of the reforms. As noted in the last chapter, the Minister has placed a particular emphasis on the effect of past contracting out.<sup>114</sup> She explained the challenges in doing this:

It is much harder to undo impressions that have been wrongly gained initially than to get the impressions right in the first place. There has been a reluctance to engage with the issue of contracting out because it is so difficult. That reluctance has been on a number of sides, but we are tackling that now.<sup>115</sup>

53. The Department told us the campaign had introduced “a full range of communications tools”, including a new Ministerial blog (see Figure 2), animations on PensionTube (Figure 3), fact sheets, infographics, case studies and advertisements across multiple media. Stakeholder groups were being used to promote awareness of the changes in groups that may be detrimentally affected by the changes, such as people with low numbers of qualifying years.<sup>116</sup> A “pensions personality quiz” created by the DWP and Silver Surfers, a website for the over-50s, was promoted to 275,000 Facebook followers, with 2,500 users in one month. The Department encourages stakeholders to share content over social media more generally.<sup>117</sup> There may be lessons, in terms of effectiveness and costs, from innovative Government awareness campaigns, such as that used by the Department for Business, Innovation and Skills to promote shared parental leave.<sup>118</sup>

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114 [Q124](#) (Baroness Altmann)

115 [Q122](#) (Baroness Altmann)

116 DWP ([USP0137](#))

117 DWP ([USP0137](#))

118 See, for example, *Personnel Today*, 13 January 2015, [Shared parental leave: more than half believe childcare should be shared](#), by Jo Faragher

Figure 2. Ministerial Blog

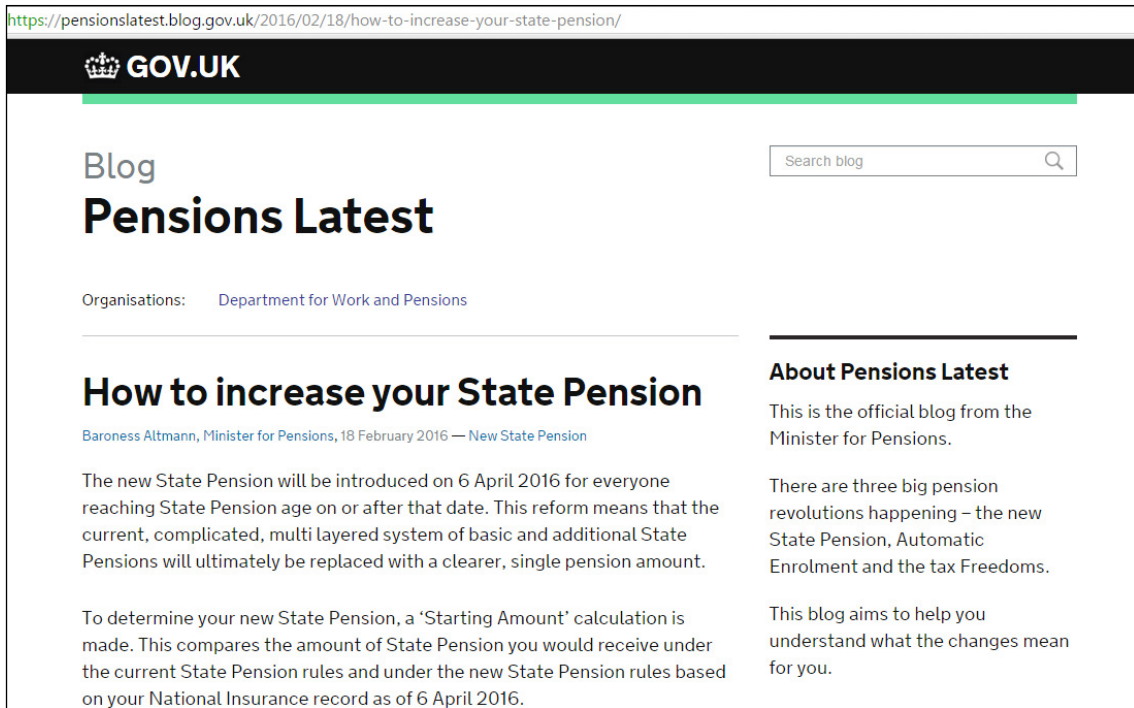


Figure 3. PensionTube animation on contracting out



54. Age UK described the DWP’s campaign materials as “generally well written and presented” but called for “more detailed information for some specific groups” and information targeted at those providing advice on the reforms.<sup>119</sup> Mercer, a company that provides pensions advice and administration services to businesses, said that while the campaign was likely to raise awareness that reform was happening, it was less suited to explaining the individual implications. The PensionTube video on contracting out was

119 Age UK ([USP0026](#))

better at explaining differences in pre-April 2016 circumstances than their implications for new state pension levels or the options available for people to improve their pension.<sup>120</sup> There were widespread calls for greater personalisation of communications.<sup>121</sup>

### Online statements

55. The Department told us that a forthcoming digital statement service would enable individuals to see their starting amounts, a forecast of future entitlement and state pension age online. If they wish they will also be able to view their full national insurance record and information on how to increase their state pension.<sup>122</sup> The Minister said this would be a “revolution in the way people can look at their statement” and do “all the things we would want that the current system cannot do”.<sup>123</sup> The new system is currently being publicly tested and the Minister said she hoped it would be generally available for the start of the new state pension in April 2016. An extract from an online statement on the testing website is shown in Figure 4.

Figure 4: Extract from online state pension statement

**Your State Pension**

Forecast    How to increase it

**The earliest you can get your State Pension is  
3 August 2047 when you'll be 68, your estimate is  
£155.65 a week**

Your estimate is based on the current law. The amount shown is not a guarantee and is based on your National Insurance record using the latest complete tax year available, 5 April 2015. The forecast assumes National Insurance contributions are added to your record for future years until you cannot increase your State Pension any further. It does not include any increase due to inflation.

120 Mercer ([USP0106](#))

121 For example, [Q85](#) (Kate Smith), [Q86](#) (Deborah Cooper); Mercer ([USP0106](#)); Hargreaves Lansdown ([USP0023](#)); Aegon UK ([USP0119](#))

122 DWP ([USP0137](#))

123 [Qq130-1](#) (Baroness Altmann)

56. Alan Higham said that the provision of state pension calculations online was a “crucial step” as “private pension schemes would have no real excuse not to be able to present a combined view of private pension and state pension”.<sup>124</sup> Which? said that in order to plan effectively for retirement people needed to be able to see “all their pensions and savings in one place” and called on the Government to “lead and coordinate the development of a comprehensive pension and savings dashboard”.<sup>125</sup> Yvonne Braun, Director of Long Term Savings Policy at the Association of British Insurers, told us she favoured joint ownership of the dashboard between industry and government, a model that had worked well in Sweden.<sup>126</sup>

57. Our July 2015 Report on *Pension freedom advice and guidance* concluded that a pensions dashboard was “long overdue” and recommended the Government “announce a clear timetable” for its introduction.<sup>127</sup> The Government responded:

If the industry identifies legislative and regulatory barriers preventing firms from innovating in this area, then the government will consider whether these can be overcome. However, [...] it is important that any dashboard is industry led; there is no benefit in the government imposing a solution on industry that is not fit for purpose.<sup>128</sup>

58. Steve Webb called for a more active role from government in establishing the dashboard:

The one thing I was disappointed about was when it was said that Government would just stand back and let the industry do this. Industry clearly needs to work together, co-ordinate, get information in one place, but Government can integrate the State Pension information, which really ought to be there, can help to make sure there are common standards and vested interests do not get in the way.<sup>129</sup>

He said the Government “has a huge enabling role” to act as “an honest broker and bring people together”.<sup>130</sup> The introduction of automatic enrolment into workplace pensions, which will result in a proliferation of small defined contribution pension pots, makes the introduction of a dashboard more urgent.<sup>131</sup>

59. The 2016 Budget announced the Government “will ensure the industry designs, funds and launches a pensions dashboard by 2019”, meaning “an individual can view all their retirement savings in one place”.<sup>132</sup> This is in line with our previous recommendation.

60. Introducing a dashboard on this timetable will be a challenge. Charlotte Clark, Director of Private Pensions at the DWP, said that many pension records were held on

<sup>124</sup> Alan Higham ([USP0151](#))

<sup>125</sup> Which? ([USP0131](#))

<sup>126</sup> [Oral evidence by Yvonne Braun on Pensions automatic enrolment, HC 579–ii, 24 February 2016, Q111](#)

<sup>127</sup> Work and Pensions Committee, First Report of Session 2015–16, [Pension freedom guidance and advice](#), HC 371, October 2015, para 39

<sup>128</sup> HM Treasury, [Pension freedom guidance and advice: government response to the Work and Pensions Committee's first report of session 2015–16](#), Cm 9183, December 2015

<sup>129</sup> [Q28](#) (Steve Webb)

<sup>130</sup> [Q28](#) (Steve Webb)

<sup>131</sup> Steve Webb quoted in *This is Money*, 9 March 2016, [Retirement saving should be made more ‘fun’ with apps and games, says pensions minister](#)

<sup>132</sup> HM Treasury, [Budget 2016 Red Book](#), HC 901, March 2016, para 1.114

outdated “legacy systems”,<sup>133</sup> while Yvonne Braun told us that the many thousands of small trust-based pension schemes may struggle to adapt.<sup>134</sup> The Minister noted that standard statements from pension providers were some way from being available.<sup>135</sup>

61. Age UK sounded a word of caution on digital provision more generally, noting that a substantial proportion of people aged 55 to 64 do not use the internet and that such people were concentrated in lower socio-economic groups. Even those with internet access “may prefer written information on complex subjects”.<sup>136</sup> The Minister told us that the Department would continue to provide a service for people who are not digitally enabled and that the digital service would be accompanied by a telephone support system.<sup>137</sup>

**62. The Department has rightly upped its efforts to explain the more complex elements of the reforms and made clear headway in establishing an online system for state pension statements. The Pensions Minister should take credit for this progress. Though the Government will need to ensure that those without access to the internet, or who are uncomfortable using it, are adequately informed, online provision of personalised pension information will clearly become increasingly important.**

**63. The Government aspires to promote greater private pension saving. In order to best plan for retirement, individuals need to see a complete picture of their state, workplace and personal pensions in one place. We therefore welcome the Government’s commitment to ensuring the creation of a pensions dashboard by 2019. This is in line with our previous recommendation. Achieving it will be challenging and we will continue to monitor progress closely.**

## Proactive and personalised communication

64. Though the Government’s new state pension communication campaign has evolved, it has consistently sought to raise general awareness of the new state pension and encourage individuals to request statements. Personalised information has not been sent out proactively.

### Direct communication

65. In the last chapter, we considered groups of people who will receive less from the new state pension than they might have expected to receive under the existing system. Sally West told us that her “biggest concern” regarding the new state pension was that “people that are going to be less well-off under the new system but may not know it and may not know there is something that they can do about it”.<sup>138</sup> For example, individuals may be able to pay additional voluntary NI contributions.

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133 [Oral evidence by Charlotte Clark on Pensions automatic enrolment, HC 579–iii, 9 March 2016, Q198](#)

134 [Oral evidence by Yvonne Braun on Pensions automatic enrolment, HC 579–ii, 24 February 2016, Q112](#)

135 [Oral evidence by Baroness Altmann on Pensions automatic enrolment, HC 579–iii, 9 March 2016, Q196](#)

136 Age UK ([USP0026](#))

137 [Q146](#) (Baroness Altmann)

138 [Q46](#) (Sally West)

66. In our recent Report on *Communication of state pension age changes*, we found that the increases in state pension age legislated for in 1995 were particularly poorly communicated. In particular, successive Governments did not directly contact the women affected, relying instead on raising general awareness and sending statements on request. Many women continued to assume wrongly that their state pension age was 60.<sup>139</sup>

67. Hargreaves Lansdown expressed concern that “the DWP has failed to learn the lessons of its communication failure in respect of the rise in women’s state pension age and may be in danger of repeating the same mistakes all over again” with the new state pension.<sup>140</sup> In the last chapter we concluded that it had been insufficiently clear in Government communications that only a small minority of people will receive the flat rate new state pension in the early years of the reform.

68. We questioned the Department on why they were not sending statements proactively. We were told:

- there are likely to be mistakes or gaps in address records;<sup>141</sup>
- direct communication has a “notoriously low response rate” and is poor value for money;<sup>142</sup> and
- it is inappropriate to send personal details such as dates of birth and projections of pension entitlements without permission,<sup>143</sup> at least partly for legal reasons relating to the Data Protection Act 1998.<sup>144</sup>

69. Duncan Gilchrist clarified that the Department’s legal advice did not preclude sending letters to large numbers of people but did restrict the personalised content of those letters.<sup>145</sup> This represented a change in interpretation of the Data Protection Act 1998: between 2004 and 2006 the DWP sent around 16 million unprompted Automatic Pension Forecasts which included a personalised projection of state pension entitlement at state pension age.<sup>146</sup>

70. Robin Ellison, Head of Strategic Development for Pensions at Pinsent Masons, a law firm, and Visiting Professor of Pensions Law and Economics at Cass Business School, told us that Government Departments often took a very cautious approach to data protection. This was true of the Department:

it is known that, for understandable reasons, in practice DWP lawyers give cautious advice which in the private sector might be more robust, especially given possible political implications which do not normally apply in the private sector. For example, it is possible to envisage criticism by a select committee if a certain percentage of letters went astray; the DWP is damned if they do and damned if they don’t.<sup>147</sup>

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139 Work and Pensions Committee, Seventh Report of Session 2015–16, [Communication of state pension age increases](#), HC 899, March 2016

140 Hargreaves Lansdown ([USP0023](#))

141 [Q147](#) (Baroness Altmann)

142 [Q147](#) (Richard Caseby)

143 [Q147](#) (Baroness Altmann)

144 [Q161](#) (Baroness Altmann)

145 [Q162](#) (Duncan Gilchrist)

146 DWP ([USP0162](#))

147 Robin Ellison ([USP0147](#))



71. Noting the caveat that DWP lawyers may hold information that he does not, Mr Ellison concluded:

even though there may be risks (quoted somewhere as 3%) that personal information may end in the wrong hands, the issue is whether an exercise is sensible, proportionate and reasonable in the circumstances. Most advisers, even though of a cautious disposition, would have thought that sending a circular letter in these circumstances, even with personalised information, would not have aroused the ire of the [Information Commissioner's Office] or given rise to a legal challenge in the courts by an individual whose private information was affected by such a decision.<sup>148</sup>

72. Age UK suggested that people who will receive less under the new state pension than they would notionally have done in the existing system and people with gaps in their contribution record should be contacted individually by the Department. This could enable some such people to address gaps in their contribution record or plan more accurately for retirement.<sup>149</sup>

73. *We recommend that, as a matter of urgency, the Department write to people it projects will reach pension age with:*

- *fewer than 10 qualifying years; or*
- *lower state pensions than they would have derived from a spouse's contributions under the existing system; or*
- *gaps in their contribution record.*

*These letters should clearly explain the person's circumstances and set out both projected entitlements and means of improving them. Though some letters will go astray, the benefits of this approach exceed any risks. We further recommend the Department work with pension providers to write similarly to individuals who built up a guaranteed minimum pension during the period 1978 to 1988. If the Department has any doubts regarding the lawfulness of such letters under the Data Protection Act 1998 it should seek the advance approval of the Information Commissioner.*

74. *We recommend the Government provide a new state pension telephone hotline service for the recipients of these letters. This service should enable claimants to discuss with an expert a strategy for increasing state pension entitlement that is most appropriate for their individual circumstances. This service might be provided by an existing pensions guidance service.*

### **Regular automatic statements**

75. The Government's current approach to state pension statements, whether hard copy or online, is reactive; individuals only receive statements if they request them. People aged over 55 can currently request a statement, though the Department expects "a much wider age group" to have access to the forthcoming digital statements.<sup>150</sup> Witnesses argued that

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<sup>148</sup> Robin Ellison ([USP0147](#))

<sup>149</sup> Age UK ([USP0026](#))

<sup>150</sup> DWP ([USP0137](#))

statements should instead be sent proactively, to increase understanding of state pension entitlements, encourage informed retirement planning and alert people to means of increasing their entitlement.<sup>151</sup>

76. The Department issued 16 million Automatic Pension Forecasts (APFs) between 2004 and 2006 to people aged between 20 and 64.<sup>152</sup> In our last report we noted that the main APF letters did not refer to changes in the state pension age.<sup>153</sup> Nearly 9,000 individuals were interviewed 13–17 weeks after they were sent those letters as part of an extensive survey of the APF programme.<sup>154</sup> Richard Caseby cited evidence from that survey in arguing that “direct mail is very expensive and it does not offer a lot of value for money”.<sup>155</sup>

77. One third of survey respondents recalled the nature of the communications, unprompted. Over half recalled receiving some information from the Government or Pensions service, a proportion that rose to more than six in ten when prompted about the content. One third of all respondents said they read the letter or the accompanying leaflets, while a further quarter of respondents said they had glanced at them. The research report on the survey noted that “recall and readership increased with age”. Among those aged 50 and above, eight in ten recalled receiving the APF and over half (54%) said they read some or all of it.<sup>156</sup>

78. The research report on the survey noted that “views on the APF were generally positive”. Three-quarters of people who at least glanced at the APF found it useful while 80% of those who could recall receiving it (half of all recipients) thought it improved their understanding of pensions. This feedback was most positive from respondents aged 50 and above.<sup>157</sup>

79. The Pensions and Lifetime Savings Association said the Department should target communications on those approaching state pension age:

These individuals are more likely to be considering their retirement plans and potential income. Such individuals are also more likely to have greater certainty about their State Pension age.<sup>158</sup>

The Hanover Housing Association suggested that statements should be sent automatically to people aged over 55, and on request to those aged under 50, as a “starting point”.<sup>159</sup>

80. Aegon UK argued that the policy of restricting statements to people aged 55 and over was significantly flawed as, under pension freedom and choice reforms, people can now access their private pension from 55. The restriction could therefore hinder retirement planning. Instead, they said, people should be contacted proactively “well before their 55th birthday”.<sup>160</sup>

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151 For example, Aegon UK ([USP0119](#))

152 DWP Research Report No. 447, [Evaluation of Automatic State Pension Forecasts, 2007](#)

153 Work and Pensions Committee, Seventh Report of Session 2015–16, [Communication of state pension age increases](#), HC 899, March 2016

154 DWP Research Report No. 447, [Evaluation of Automatic State Pension Forecasts, 2007](#)

155 [Q147](#) (Richard Caseby)

156 DWP Research Report No. 447, [Evaluation of Automatic State Pension Forecasts, 2007](#)

157 DWP Research Report No. 447, [Evaluation of Automatic State Pension Forecasts, 2007](#)

158 Pensions and Lifetime Savings Association ([USP0120](#))

159 Hanover Housing Association ([USP0040](#))

160 Aegon UK ([USP0119](#))



81. Deborah Cooper, of Mercer, told us that changes in individual circumstances, or those of a friend or relative, could prompt people into taking more interest in pensions than usual. While the Department would not be aware of those changed circumstances, by sending regular statements it was more likely to take advantage of that increased interest. She argued:

if you send information regularly enough, and you make it clear enough why it is important to them, sometimes they will take notice. I think that is the best you can do. You cannot expect that people will react if you write to them once.<sup>161</sup>

82. In evidence to our predecessor Committee on plans for the new state pension in 2013 the Minister, then an independent pensions expert, said “I think it is important that people get regular statements that help them [...] plan.”<sup>162</sup> Kate Smith echoed this call, drawing on comparisons with the private sector:

We need to issue personalised benefit statements in the same way we do in the private sector to everybody, not just once but regularly, so they have an up-to-date picture of exactly what they are going to get from the state pension and when.<sup>163</sup>

83. Proposals for annual statements are not new. In response to a request by the House of Commons Social Security Committee, the Contributions Agency committed in 1995 to “looking at issuing a NI Account Statement to each contributor”.<sup>164</sup>

**84. The Government’s pensions strategy is predicated on people engaging more with their pension savings and better planning for retirement. By relying on individuals requesting a state pension statement or generating one on a website, the Government risks missing those it most needs to reach.**

**85. We recommend the Government sends automatic state pension statements to all people aged 50 and over. These should be issued annually, in line with the private sector. Individuals should be able to choose to receive their statement by email or opt out on the digital statement system. Such individuals should still be informed by post of any major policy changes that affect them.**

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161 [Q86](#) (Deborah Cooper)

162 [Evidence by Dr Ros Altmann to the Work and Pensions Committee, HC1000, 27 February 2013, Q11](#)

163 [Q84](#) (Kate Smith)

164 The Contributions Agency Annual Report 1994/95 (HC 503 1004/95). The Contributions Agency was an agency of the Department of Social Security, the predecessor to the DWP.

## Conclusions and recommendations

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### Understanding the new state pension

1. The new state pension is a welcome simplification of an overcomplicated system. Over time, more and more pensioners will receive a single flat rate. During transition, however, the majority will not. This has not been made sufficiently clear in Government communications that have focused on the full flat rate of £155.65. (Paragraph 25)
2. People with periods of contracting out typically gain from the new state pension. That many such people believe wrongly that they are disadvantaged is in part a failure of Government communication. (Paragraph 26)
3. Women born between 6 April 1951 and 5 April 1953 will not be eligible for the new state pension in April 2016, whereas men born on the same dates will. This is the consequence of introducing the new state pension during state pension age equalisation. The complaints of the 1951–53 cohort are founded on the misconception that they would get the full flat rate of £155.65 if they were given access to the new state pension. That is simply not the case. The majority of women in this cohort will receive more in state pension payments across their lifetimes within the existing system than men of the same age in the new one. In addition, the existing generous deferral scheme would enable many such women, if they chose, to take a state pension at age 65 higher than that received by their male contemporaries. These realities should have been better communicated to this group, as was recommended by our predecessor Committee. (Paragraph 27)
4. Three groups in particular stand to receive less in the early years of the new state pension than they would notionally have received under the current system:
  - people with fewer than 10 years of qualifying contributions;
  - people, largely women, who would currently derive rights to a pension based on their spouse's contributions and are not covered by transitional protection; and
  - people who built up large guaranteed minimum pensions during the period from 1978 to 1988 and will reach state pension age during the early years of the new state pension. (Paragraph 47)
5. The losses are largely products of the simplification of an outdated and extraordinarily complex system. It is those complexities, however, that make explaining the consequences to those affected imperative. People who understand their individual circumstances are better placed to adapt their plans in their best interest. Government should not rely on general awareness campaigns or happenstance in promoting that understanding. It should focus on identifying the individuals affected, assessing their potential losses, and communicating with them. (Paragraph 48)

## Improving communication

6. The Department has rightly upped its efforts to explain the more complex elements of the reforms and made clear headway in establishing an online system for state pension statements. The Pensions Minister should take credit for this progress. Though the Government will need to ensure that those without access to the internet, or who are uncomfortable using it, are adequately informed, online provision of personalised pension information will clearly become increasingly important. (Paragraph 62)
7. The Government aspires to promote greater private pension saving. In order to best plan for retirement, individuals need to see a complete picture of their state, workplace and personal pensions in one place. We therefore welcome the Government's commitment to ensuring the creation of a pensions dashboard by 2019. This is in line with our previous recommendation. Achieving it will be challenging and we will continue to monitor progress closely. (Paragraph 63)
8. *We recommend that, as a matter of urgency, the Department write to people it projects will reach pension age with:*
  - *fewer than 10 qualifying years; or*
  - *lower state pensions than they would have derived from a spouse's contributions under the existing system; or*
  - *gaps in their contribution record.*

*These letters should clearly explain the person's circumstances and set out both projected entitlements and means of improving them. Though some letters will go astray, the benefits of this approach exceed any risks. We further recommend the Department work with pension providers to write similarly to individuals who built up a guaranteed minimum pension during the period 1978 to 1988. If the Department has any doubts regarding the lawfulness of such letters under the Data Protection Act 1998 it should seek the advance approval of the Information Commissioner.* (Paragraph 73)
9. *We recommend the Government provide a new state pension telephone hotline service for the recipients of these letters. This service should enable claimants to discuss with an expert a strategy for increasing state pension entitlement that is most appropriate for their individual circumstances. This service might be provided by an existing pensions guidance service.* (Paragraph 74)
10. The Government's pensions strategy is predicated on people engaging more with their pension savings and better planning for retirement. By relying on individuals requesting a state pension statement or generating one on a website, the Government risks missing those it most needs to reach. (Paragraph 84)
11. *We recommend the Government sends automatic state pension statements to all people aged 50 and over. These should be issued annually, in line with the private sector. Individuals should be able to choose to receive their statement by email or opt out on the digital statement system. Such individuals should still be informed by post of any major policy changes that affect them.* (Paragraph 85)

# Formal Minutes

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**Wednesday 23 March 2016**

Members present:

Rt Hon Frank Field, in the Chair

Heidi Allen	Craig Mackinlay
Mhairi Black	Steve McCabe
Ms Karen Buck	Jeremy Quin
John Glen	Craig Williams
Richard Graham	

Draft report (*Communication of the new state pension*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 85 read and agreed to.

Summary agreed to.

*Resolved*, That the Report be the Eighth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 13 April 2016 at 9.15am]

## Witnesses

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The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

### Wednesday 25 November 2015

*Question number*

**Rt Hon. Steve Webb**, former Minister of State for Pensions

[Q1–34](#)

**Paul Lewis**, financial journalist, and **Sally West**, Age UK

[Q35–57](#)

### Wednesday 16 December 2015

**Anna Keen**, and **Lin Phillips**, Women Against State Pension Inequality

[Q58–82](#)

**Kate Smith**, Aegon UK, **Dr Deborah Cooper**, Mercer and **Phillip McEvoy**, Prospect

[Q83–119](#)

### Monday 18 January 2016

**Baroness Altmann CBE**, Minister of State for Pensions, Department for Work and Pensions, **Duncan Gilchrist**, Deputy Director, Contributory Pensions, Department for Work and Pensions, and **Richard Caseby**, Director of Communications, Department for Work and Pensions

[Q120–183](#)

## Published written evidence

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The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

USP numbers are generated by the evidence processing system and so may not be complete.

- 4 Aegon UK ([USP0119](#))
- 5 Age UK ([USP0026](#))
- 6 Alan Higham ([USP0151](#))
- 7 Alan Higham ([USP0173](#))
- 8 Alan Higham ([USP0057](#))
- 9 Angela Gair ([USP0108](#))
- 10 Ann Moughan ([USP0045](#))
- 11 Association of British Insurers ([USP0132](#))
- 12 Barbara Sculthorpe ([USP0150](#))
- 13 Beverley Hondebrink ([USP0009](#))
- 14 Brenda O'Brien ([NSP0001](#))
- 15 Brenda Orr ([USP0049](#))
- 16 Brighton Women's Centre ([USP0113](#))
- 17 Brighton Women's Centre ([USP0175](#))
- 18 BT Pension Scheme Management Limited ([USP0053](#))
- 19 Caralyn Longhurst ([USP0052](#))
- 20 Collection (Women) Against Real Injustice and Inequality State Pension ([USP0110](#))
- 21 Collection (Women) Against Real Injustice and Inequality State Pension ([USP0141](#))
- 22 Collection of Women Against Real Injustice and Inequality of the Contributory State Pension (USP0159) ([USP0159](#))
- 23 Collection of Women Against Real Injustice and Inequality of the Contributory State Pension (USP0160) ([USP0160](#))
- 24 David Harling ([USP0074](#))
- 25 Debra Collins ([USP0083](#))
- 26 Department for Work and Pensions ([USP0153](#))
- 27 Department for Work and Pensions ([USP0158](#))
- 28 Department for Work and Pensions ([USP0162](#))
- 29 Department for Work and Pensions ([USP0137](#))
- 30 Department for Work and Pensions ([USP0143](#))
- 31 Dianne Jones ([USP0168](#))
- 32 Dr David Murray ([USP0170](#))
- 33 Dr Shirley Pressler ([USP0101](#))
- 34 Elaine Tasker ([USP0105](#))
- 35 Fawcett Society ([USP0107](#))

- 36 Hanover Housing Association ([USP0040](#))
- 37 Hargreaves Lansdown ([USP0023](#))
- 38 Helen Ellis ([USP0121](#))
- 39 Helen Kemp ([USP0024](#))
- 40 Hymans Robertson ([USP0126](#))
- 41 Institute for Fiscal Studies ([USP0075](#))
- 42 Jan Falkingham ([USP0148](#))
- 43 Jane Northam ([USP0031](#))
- 44 Jane Northam ([USP0176](#))
- 45 Jennie Stopford ([USP0064](#))
- 46 Jessica Daniel ([USP0144](#))
- 47 Josephine Cumbo ([USP0156](#))
- 48 Kate Hardcastle ([USP0169](#))
- 49 Katharine Swann ([USP0145](#))
- 50 Later Life Ambitions ([USP0133](#))
- 51 Linda Shillabeer ([USP0138](#))
- 52 Malcolm Orchard ([USP0010](#))
- 53 Malka Bernard ([USP0007](#))
- 54 Marie Allen ([USP0161](#))
- 55 Marilyn Byrne ([USP0032](#))
- 56 Mary Harkness ([USP0039](#))
- 57 Mercer ([USP0106](#))
- 58 Michael Mansfield ([USP0004](#))
- 59 Miss Maria North ([USP0029](#))
- 60 Miss Trisha Snowling ([USP0124](#))
- 61 Mr Andrew Grant ([USP0059](#))
- 62 Mr Christopher Thompson ([USP0017](#))
- 63 Mr Colin Clarke ([USP0171](#))
- 64 Mr Frederick Kenny ([USP0003](#))
- 65 Mr John Greenwood ([USP0034](#))
- 66 Mr Martin Lane ([USP0046](#))
- 67 Mr Martin Smart ([USP0111](#))
- 68 Mr Mike Euesden ([USP0038](#))
- 69 Mr Mike Jackson ([USP0088](#))
- 70 Mr Paul Bartlett ([USP0012](#))
- 71 Mr Roger Parker ([USP0041](#))
- 72 Mr Steve Troake ([USP0056](#))
- 73 Mr Sue Itzinger ([USP0060](#))

- 74 Mr Timothy Offiler ([USP0079](#))
- 75 Mrs Barbara Hall-Fletcher ([USP0033](#))
- 76 Mrs Caroline Carver ([USP0035](#))
- 77 Mrs Christine Dickinson ([USP0087](#))
- 78 Mrs Christine Mann ([USP0011](#))
- 79 Mrs Clare Megan ([USP0019](#))
- 80 Mrs Glynis Stott ([USP0061](#))
- 81 Mrs Hebe Smith ([USP0008](#))
- 82 Mrs Jan Fulster ([USP0128](#))
- 83 Mrs Janet Powell ([USP0066](#))
- 84 Mrs Jocelyn Tucker ([USP0127](#))
- 85 Mrs Judith Doman ([USP0123](#))
- 86 Mrs Judith Smith ([USP0082](#))
- 87 Mrs Julia Rose ([USP0016](#))
- 88 Mrs Julie Heptinstall ([USP0081](#))
- 89 Mrs Karin Lane ([USP0047](#))
- 90 Mrs Kerri Ellison ([USP0048](#))
- 91 Mrs Lena MacLeod ([USP0042](#))
- 92 Mrs Lesley Clarke ([USP0028](#))
- 93 Mrs Linda Williams ([USP0103](#))
- 94 Mrs Lynn Baxter ([USP0086](#))
- 95 Mrs Margaret Barry ([USP0020](#))
- 96 Mrs Mary MacDougall ([USP0130](#))
- 97 Mrs Mary Morgan ([USP0100](#))
- 98 Mrs Norah Hickey ([USP0025](#))
- 99 Mrs Patricia Clough ([USP0070](#))
- 100 Mrs Patricia Strong ([USP0006](#))
- 101 Mrs Patricia Strong ([USP0055](#))
- 102 Mrs Rosemary Ingram ([USP0030](#))
- 103 Mrs Sharyn Davies ([USP0112](#))
- 104 Mrs Susan Bissmire ([USP0090](#))
- 105 Mrs Sylvia Metcalf ([USP0134](#))
- 106 Mrs Thomas ([USP0068](#))
- 107 Ms Alison Partridge ([USP0054](#))
- 108 Ms Eileen Brown ([USP0073](#))
- 109 Ms Elizabeth Murray ([USP0058](#))
- 110 Ms Helen Cherry ([USP0104](#))
- 111 Ms J Palmer ([USP0149](#))



- 112 Ms Linda Edwards-Shea ([USP0118](#))
- 113 Ms Linda Tomlinson ([USP0062](#))
- 114 Ms Lucia Daniels ([USP0022](#))
- 115 Ms Pauline Clark ([USP0129](#))
- 116 Ms Pauline Clark ([USP0164](#))
- 117 Ms Rosalyn Morgan ([USP0125](#))
- 118 National Pensioners Convention ([USP0067](#))
- 119 Patricia Sanderson ([USP0116](#))
- 120 Patricia Strong ([USP0146](#))
- 121 Paul Lewis ([USP0114](#))
- 122 PCS Union ([USP0069](#))
- 123 Pensions and Lifetime Savings Association ([USP0120](#))
- 124 Pensions Policy Institute ([USP0136](#))
- 125 Peter O'Brien ([USP0152](#))
- 126 Peter O'Brien ([USP0157](#))
- 127 Peter O'Brien ([USP0163](#))
- 128 Peter O'Brien ([USP0174](#))
- 129 Peter O'Brien ([USP0179](#))
- 130 Prospect ([USP0043](#))
- 131 Robin Ellison ([USP0147](#))
- 132 Royal Mail Pension Plan ([USP0109](#))
- 133 Ruth Hardman-Howard ([USP0005](#))
- 134 Sandra Gorman ([USP0089](#))
- 135 savvywoman.co.uk ([USP0115](#))
- 136 Sheila Blakeman ([USP0078](#))
- 137 Shelagh Simmons ([USP0051](#))
- 138 Stephane Booroff ([USP0172](#))
- 139 Steve Webb ([USP0027](#))
- 140 Teresa Tickner ([USP0065](#))
- 141 Unemployed at Home ([USP0018](#))
- 142 Valerie Haskey ([USP0050](#))
- 143 Victoria van Cleak ([USP0037](#))
- 144 Which? ([USP0131](#))
- 145 Women Against State Pension Inequality (WASPI) ([USP0084](#))
- 146 Women Against State Pension Inequality (WASPI) ([USP0139](#))
- 147 Women Against State Pension Inequality (WASPI) ([USP0140](#))
- 148 Women Against State Pension Inequality (WASPI) ([USP0142](#))
- 149 Women Against State Pension Inequality (WASPI) ([USP0166](#))

- 150 Women Against State Pension Inequality (WASPI) ([USP0167](#))
- 151 Women Against State Pension Inequality (WASPI) ([USP0177](#))
- 152 Women Against State Pension Inequality (WASPI) ([USP0178](#))
- 153 Your Homes Newcastle ([USP0021](#))
- 154 Yvonne Jebson ([USP0063](#))

## List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the [publications page](#) of the Committee's website.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2015–16

First Report	Pension freedom guidance and advice	HC 371
Second Report	Welfare to work	HC 363
Third Report	A reconsideration of tax credit cuts	HC 548
Fourth Report	Benefit delivery	HC 372
Fifth Report	The local welfare safety net	HC 373
Sixth Report	Understanding the new state pension – interim report on pension statements	HC 550
Seventh Report	Communication of state pension age changes	HC 899
First Special Report	Progress with automatic enrolment and pension reforms: Government and Financial Conduct Authority responses to the Committee's Fourth Report of Session 2014–15	HC 375
Second Special Report	Improving Access to Work for disabled people: Government response to the Committee's Second Report of Session 2014–15	HC 386
Third Special Report	Benefit Sanctions: Beyond the Oakley Review: Government Response to the Committee's Fifth Report of Session 2014–15	HC 557
Fourth Special Report	Pension freedom guidance and advice: Financial Conduct Authority Response to the Committee's First Report of Session 2015–16	HC 719
Fifth Special Report	Welfare-to-work: Government Response to the Committee's Second Report of Session 2015–16	HC 720