Margaret Greenwood MP

26th March 2018

At the end of the debate on 5 February on the Social Security Benefits Up-rating Order 2018 and the Guaranteed Minimum Pensions Increase Order 2018, I said I would write to your predecessor and other MPs who spoke during the course of the evening in order to address some of the points that I did not have time to cover in my closing speech.

Welfare reform

Ms. Abrahams and a number of Honourable members expressed opposition to the measures in the Welfare Reform and Work Act 2016 that have frozen a number of working age benefits at 2015/16 levels until 2019/20. She voiced concern that this policy may lead to higher poverty rates. This Government is committed to supporting families to get out and stay out of poverty and we believe that a welfare system that focuses on helping people find work and build careers is the most effective way to achieve this goal.

The freeze on working age benefit rates forms part of a package of reforms designed to incentivise work. These include the National Living Wage which has helped to give the country’s lowest earners their fastest pay rise in 20 years. Next month we will be raising the personal allowance in line with inflation to £11,850, which means a typical basic rate tax payer will pay £1,075 less income tax in 2018/19 than in 2010/11. Working parents in England now have access to 30 hours of free childcare a week for three- and four-year-olds,
saving families using the full 30 hours around £5,000 per year in total. At the same time we continue to provide a safety net for those that need it through the welfare system and will spend more than £90 billion on welfare support to working age people in 2018/19.

We see that our welfare reforms are producing positive results across the country. There are now more people in work in the UK than ever before. The number of children living in families where no one is in work is at a record low. The annual average income of the poorest fifth of households has risen in real terms by more than £400 since 2010, whilst incomes of the richest fifth have fallen. On a before housing costs basis, there are now one million fewer people, including 300,000 children, living in absolute poverty than in 2010.

State Pension up-rating for people living overseas

Ms. Abrahams raised the issue of the freeze on State Pension payments to many people living outside of the UK, suggesting that current Government policy is unfair.

The policy on up-rating the UK State Pension overseas is a long-standing policy of successive governments that has been in place for around 70 years. The Government up-rates the UK State Pension overseas where there is a legal requirement to do so, such as for State Pension recipients living in the European Economic Area, Switzerland, Gibraltar and countries with which there is a reciprocal agreement that provides for up-rating. Restoring their pension to UK levels for all overseas pensioners, where we do not currently up-rate, would cost over £0.5 billion extra a year. There is no money available for this.

New State Pension

In response to your predecessor’s questions around the new State Pension, its impact on people who were contracted out of the additional State Pension and the Government’s communications around the transition to the new system, it may help if I first outline the design of the new State Pension transition.

The full rate of the new State Pension will be £164.35 a week in 2018/19, but this is not what everyone will receive. People with no existing National Insurance record at 6 April 2016 will receive the full amount when they reach
their State Pension age with 35 years on their National Insurance record. For people with an existing National Insurance record at that date, there are transitional arrangements which take an individual’s past National Insurance record into account.

If a person was previously contracted-out for a long period, they may have a lower starting amount for new State Pension than someone who had built up some additional State Pension. This is because they paid lower National Insurance when they were contracted out and have built up an occupational pension as a result of these arrangements. Part of their occupational pension replaces the part of the State Pension they were contracted out of. People who were previously contracted out are therefore not missing out. Although some people will get a lower starting amount from the state, many will have more than the new full rate in total if they add their State Pension and their contracted-out private pension together. If no adjustment was made, people who had been contracted-out would be paid twice for the same National Insurance contributions.

The transitional arrangements ensure that everyone who qualifies for the new State Pension will get at least as much as they would have done under the old system, based on their own National Insurance contributions to 6 April 2016.

Anyone who has a Starting Amount of less than the full weekly rate of the new State Pension will be able to add 1/35 of the full amount to their entitlement for each post 2016 qualifying year, until they reach the full amount or their State Pension age, whichever comes first. In this way, many people who were previously contracted out now have the ability to build a higher State Pension than they ever previously could, whilst still having the benefits from their occupational pension.

DWP estimate that by 2020, 75% of people in the new State Pension with a Guaranteed Minimum Pension built up between 1978 and 1988 will gain from the reform. In the first 15 years of the new State Pension system, around three-quarters of people reaching State Pension age will have a notionally higher State Pension than under the previous system. Over three million women stand to receive an average of £550 more per year by 2030.

Since 2014, the Government has run a comprehensive advertising campaign on the new State Pension. The campaign has included advertisements in the press, radio and social media. The Government determined that the most effective ways of communicating the effects of the new State Pension was to provide people with personalised information so they could see what it would
mean for them. The advertising campaign raises awareness and directs people to personalised forecasts - first through a written service and since February 2016 through the online ‘Check your State Pension’ forecast service. The service has had over 7 million visits since it was launched. This is in addition to the factual information available on gov.uk and the work we have done with stakeholder organisations to share relevant information.

GMP Indexation

Ms. Abrahams asked about the up-rating of Guaranteed Minimum Pensions (GMPs) from April 2016 onwards.

There is no requirement for Government to index GMPs. For those who reached State Pension age before 6 April 2016, however, a comparison is made each year looking at the difference between the value of the GMP and the additional State Pension. This has the effect of delivering price protection of the individual’s GMP through the additional State Pension. On the pre-1988 element, the net additional State Pension had the effect of delivering all the price protection, whilst on the post-1988 element, schemes must index post-1988 GMPs up to a maximum of CPI at 3%.

Additional State Pension, and with it the option to contract out, ended with the introduction of new State Pension for people reaching State Pension age from 6 April 2016. The calculation that provided, for some people, the effect of having their GMP price protected ended as well.

The transitional arrangements in the new State Pension are particularly beneficial to people who have been contractured out:

- People with pre-2016 National Insurance records have a Starting Amount calculated for them based on their National Insurance position at 6 April 2016 – this includes a reduction to account for the GMP. People can build on this Starting Amount either until they reach the full rate of new State Pension (£164.35 from April 2018), or until they reach State Pension age – for some this can be up to an additional £38 a week.

- People with a new State Pension Starting Amount will also have benefitted from the triple lock of the basic State Pension – people with 30 pre-2016 qualifying years will from April 2018 be just under £13 a week better off than if the basic State Pension had been uprated by earnings since 2010 when the triple lock was announced.
Changes to the State Pension age

Ms. Abrahams proposed allowing early drawdown of State Pensions for women affected by changes to the State Pension age, claiming that this proposal would be ‘cost-neutral’. Evidence submitted by the Government Actuary to the Work and Pensions Select Committee in April 2016 showed it would be extremely complex to predict the costs of such a policy accurately. At the very least, it would involve bringing forward significant amounts of expenditure, with the associated burdens on the taxpayer, and would also risk leaving pensioners with an inadequate income in later life.

Even if it were actuarially neutral, the option of allowing people to retire early and receive a reduced State Pension would result in additional costs to the state from the loss of taxes. There would be further costs from the wider impact on the economy, as adding one year to working lives would result in sustained increases to annual GDP of over 1% (worth around £20 billion at current levels of GDP). We also understand that these proposals do not have the support of the WASPI campaigners.

Your predecessor also asked whether the Government would review the Government’s approach to pensions provision for women born in the 1950s, and release the original legal opinion contained in the “pink files”. As you will be aware, the Government does not disclose its legal advice.

I must also defend the Government’s record on communications around changes to the State Pension age. In the years between the passage of the 1995 legislation and 2011, the equalisation of State Pension age was frequently reported in the media and debated at length in parliament. The Government carried out an extensive advertising campaign and people were notified of the changes with leaflets and later individual letters. Throughout this period the department has been providing individuals with their most up-to-date State Pension age when they have requested a pension statement. Between April 2000 and the end of 2017, the department provided more than 20 million personalised State Pension statements to people who requested them. We continue to encourage people to request a personalised State Pension statement and have made information on State Pension age changes available via the Pension Service and on gov.uk.

Following the 2011 Pensions Act, the Department for Work and Pensions wrote to all those directly affected to inform them of the change to their State Pension age, using the address details recorded by HM Revenue and
Customs at the time. Mailing to these individuals, who are due to reach State Pension age between 2016 and 2026, was completed between January 2012 and November 2013, subject to the accuracy of their address details.

It was a Labour government that brought in the Pensions Act 2007, which legislated for increases in State Pension age to 66, 67, and 68 by 2026, 2036, and 2046 respectively. The actions of successive governments to equalise and increase State Pension age were the responsible choice to make in light of the demographic pressures facing our society.

**Independent Pensions Commission**

Honourable members from Scotland raised the suggestion of the need for an Independent Pensions Commission.

The Government does not consider that the time is right for an independent Pension Commission. The State Pension reforms and the introduction of Automatic Enrolment in recent years have built on the last Pensions Commission under Lord Turner. The Government also legislated in 2014 for regular reviews on the State Pension age which would include an independently led review. The first of these was undertaken by John Cridland CBE whose recommendations on a future timetable were accepted by the Government in the July 2017 review.

We are also already implementing a significant programme of reforms including reforms to Automatic Enrolment and legislating for the establishment of a single financial guidance body. We are introducing a range of measures to protect pension scheme members including an authorisation and supervision regime for Master Trusts and measures to promote transparency. We are considering what more, if anything, needs to be done to protect members of defined benefit pension schemes and will publish a White Paper in due course. The report ‘Automatic Enrolment Review 2017: Maintaining the Momentum’ was published on 18 December 2017, sets a clear direction to build a more robust and inclusive savings culture and specifically in testing targeted interventions for the self-employed, and supporting younger generations with the opportunity to save for a more secure retirement. Government resources are better used focussing, with all of our partners, on these priorities at this time.

I would like to thank all the Honourable members who contributed to the debate on the Up-rating Order and the GMP Increase Order for their
engagement with these topics and hope you find this response to be a helpful explanation of the Government position on a number of important policy areas. I am copying this letter to Neil Gray and Stephen Lloyd and will place a copy in the House Library.

Kit Malthouse MP

Minister for Family Support, Housing and Child Maintenance