PENSIONS POLICY INSTITUTE

The Pensions Primer: a guide to the UK pensions system

Historical Annex

Contents

A reference manual by the Pensions Policy Institute (PPI)

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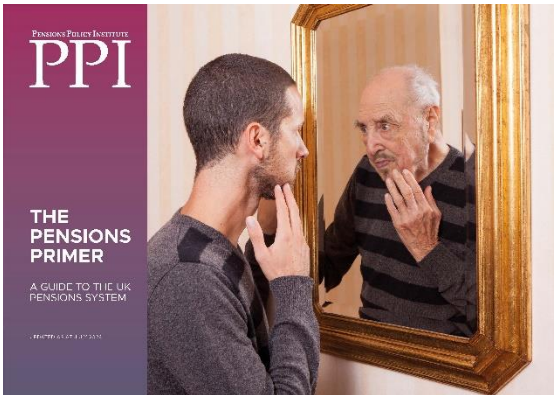
Introduction

Pensions policy has been affected by a significant amount of legislative change made by successive Governments. Today's pensions system is constructed of a complicated mix of current and discontinued policies. As a result, many of todays and tomorrow's pensioners will receive income from State schemes (such as State Earnings Related Pension and Graduated Retirement Benefit) which have been discontinued or replaced with new schemes.



The PPI's reference manual: **The Pensions Primer: a guide to the UK Pensions system**[1] gives a detailed description of the current pensions system and how it operates. It is updated annually and published to coincide with the Institute's Annual General Meeting in June each year. This is an historical annex to the guide.

About this document: The Historical Annex is intended to provide information on areas of the pensions system where it is no longer possible to accrue benefits, but where accrued benefits are still payable to current and future pensioners. The areas covered in this document are described in brief in **The Pensions Primer: a guide to the UK Pensions system**, but readers can use the Historical Annex as a reference for more detailed discussion of these areas and of the policy changes that were made to the discontinued parts of the pension system.

Current levels of allowances and payments are included in The Pensions Primer.

[1] The Pensions Primer is available at https://www.pensionspolicyinstitute.org.uk/research-library/pensions-primer/

First Tier: Eligibility for basic State Pension

The basic State Pension (bSP) was based on an individual's National Insurance (NI) contribution record. Any tax year in which an individual makes, or is credited with making, sufficient NI contributions is known as a qualifying year.

Employees make Class 1 contributions when their weekly earnings exceed their Primary Earnings Threshold (PET). If they earned less than the PET but more than the Lower Earnings Limit (LEL), then they did not make Class 1 contributions but were credited for the bSP.

The self-employed made flat–rate Class 2 contributions, and Class 3 voluntary contributions were paid by those who wish to protect their entitlement and had not paid enough Class 1 or Class 2 contributions. Class 3 payments must generally be made within 6 years from the end of the tax year for which payment is being made[2].

There were 19 activities that could credit someone into the basic State Pension without their having to pay contributions.

Credit was given if, for instance, an individual was entitled to:

- Statutory Sick Pay
- Statutory Maternity Pay
- Jobseekers Allowance
- Incapacity Benefit
- Carer's Allowance
- Severe Disablement Allowance
- or if an individual was aged 16, 17 or 18, or for men aged 60 to 64[3].

No qualifying years and no credit were earned if a married woman or widow was paying reduced-rate NI contributions[4].

Home Responsibilities Protection (HRP) was introduced in 1978 and, for people reaching SPa before April 2010, reduced the number of years of contribution required to secure a full bSP.

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[2] People were permitted to make back payments for more than 6 years if the payments were for the tax years 1996/1997 through to 2001/2002, and these payments were made by April 2009 or April 2010 depending on when people reach SPa. For detailed explanation see: www.hmrc.gov.uk/nic/class3.htm

[3] House of Commons Hansard, 26 June 2006 Col 63W www.publications.parliament.uk/pa/cm200506/cmhansrd/vo060626/text/60626w0013.htm#06062622000050

[4] Between 1948 and 1978 married women could elect to pay a reduced rate of NI contributions, known as the 'Married Women's Reduced Rate Election'. By electing to pay the reduced rate, women forfeited the right to a pension based on their own contributions and instead relied on their husband's contribution record. The wife would then receive a pension once the husband reached 65 at the rate of 60% of the husband's pension. The option to elect to pay the reduced rate ceased to be available in 1977. Entitlement to the option is lost if an individual is not working for more than 2 complete tax years. Alternatively, individuals could elect to recommence paying the full rate. PPI calculations based on data provided by DWP estimate that in 2003 around 60,000 women were still paying at the reduced rate (Briefing Note 11, July 2004). This figure is likely to have reduced since 2003.

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Protection was given for those complete tax years where an individual was caring for children or an older or a disabled person.

There were some changes in the Pensions Act 2007 which affected people reaching State Pension age (SPa) from 6 April 2010. These people:

- were able to earn positive credits towards bSP rather than HRP reductions. The outcome for individuals under a credit system is more generous and simplifies the way entitlement is calculated.
- only needed 30 qualifying years to be eligible for the full basic State Pension, while people who reached State Pension age before 6 April 2010 still needed to have contributed for 39 or 44 years to qualify for a full basic State Pension.
- received a proportion of the full bSP for every contributing year, as the 25% minimum contribution limit was abolished.

For example, a person with 5 qualifying years and 10 years of HRP, under the reduction system would receive 25% of the full State Pension; calculated as 5 years out of their 20 (i.e. 30 – 10 HRP) required years. Under a credit system, the same person would receive 50% of the full State Pension; calculated as 15 (5 + 10 credits) years out of their required 30 years.

The qualification system was changed for carers such that they receive weekly contribution credits for any week in which they:

- are awarded child benefit; or
- are a foster parent for a child under the age of 12; or
- are engaged in caring within the meaning given in regulations (people caring for one sick or severely disabled person for 20 hours or more per week will qualify for credit, subject to an appropriate validation process).

This change means that in any year, individuals could combine caring credits with NI contributions to build up a qualifying year. Credits for people who were caring for children were awarded until the youngest child reaches 12 years (down from 16 years), aligning the rules for basic State Pension and State Second Pension (discussed in the next section).

Grandparents of working age who care for grandchildren for 20 hours or more per week were also eligible to receive caring credits which count towards their bSP entitlement.

People reaching State Pension age before 2010

For men who reached State Pension age before 6 April 2010, the full bSP was payable with at least 44 qualifying years from a maximum of 49. For women born prior to 6 April 1950 the full bSP was payable with at least 39 qualifying years from a maximum of 44.

A proportionate benefit was payable if the number of qualifying years was less than that needed for the maximum.

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For example, a woman who retired before 6 April 2010 with a 30-year contribution record currently receives a bSP of (30/39) of the full rate. However, if the number of qualifying years at retirement was less than 25% of the amount required for a maximum bSP then no bSP benefit was payable, for a person who reached SPa before 6 April 2010.

If a person[5] cared for a child until the child reached age 16 the requirement for a maximum bSP would reduce from 39 qualifying years to 24. HRP did not give complete protection as it did not reduce the number of qualifying years required for a full bSP below 20 years.

Changes in the Pensions Act 2007 and the 'cliff-edge'

People who reached State Pension age before 6 April 2010 still needed to have 39 or 44 years of National Insurance contributions to qualify for a full basic State Pension.

This sudden drop off in qualifying years, known as the 'cliff-edge', was perceived by some stakeholders as unfair, especially to women. After much debate in Parliament, provision was introduced under the Pensions Act 2008 to enable certain people reaching SPa between 6 April 2008 and 5 April 2015 to buy an additional 6 years of voluntary Class 3 NICs for tax years after 1975/76[6].

[5] Although most recipients are women, HRP is unisex - it is available to the person to whom child benefit is payable
[6] www.parliament.uk/briefingpapers/commons/lib/research/briefings/snbt-03111.pdf

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Example[7]

After six years of full-time education Mari starts work on her 22nd birthday. She works for 4 years then takes an 18-year break to care for her only child, before recommencing employment and working for 16 years until her SPa.

Mari works for a total of 20 years, giving her 20 qualifying years (since no credit is ever given for contributions made in the tax year in which an individual reaches SPa).

Since childcare credit only applies while the child is below age 12, Mari receives 12 years of credit. In addition, she would have been credited with minimum contributions for the tax years in which she was 16, 17 and 18 and in full time education (although she was in full time education for 6 years, the maximum credit for full time education is 3 years).

Mari has 35 years of credits (20 years of work + 3 years of full-time education + 12 years of childcare credit) and was therefore eligible for a full bSP since the number of qualifying years required for a full bSP was 30.

Had there been no childcare credit Mari would have received only 77% (23/30) of bSP.

This example assumes Mari reaches State Pension age after 6 April 2010, when the relevant changes in the Pensions Act 2007 came into effect.

If Mari had retired before 6 April 2010, then she would have received a pension of 96% (23/24) of the full bSP (20 years of work + 3 years of full-time education, 39 years requirement – 15 HRP years for childcare).

Married couples

If both husband and wife had a satisfactory NI contribution record, then they would each receive a full bSP when they reach SPa. However, if the wife was entitled to less than 60% of the full bSP and she was over State Pension age, she may have been able to claim a composite category A and category B pension based on her husband's contribution record, which could have increased her pension to 60% of the full rate.

Prior to April 2010, if the wife was under State Pension age and the husband was over State Pension age and claiming the bSP, then the husband could have been eligible for an adult dependency increase to his State Pension in respect of the wife, equal to 60% of the full bSP.

[7] Throughout this paper, examples relate to entitlement under current rules in the pension system. Changes outlined in the Pensions Act could alter individuals' future entitlements.

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Women and State Pensions age (SPa)

Table 1 compares the effects of increases in SPa for women under the Pensions Act 2011 provisions, compared to previous legislation, according to birth date.

Table 1: Comparing the effects of Pensions Act 1995 and Pensions Act 2011 provisions on womens' State Pension age (SPa).

	Pension Act 1995		Pension Act 2011	
Date of birth	State Pension Date	State Pension age	State Pension Date	State Pension age
6 Apr 1950 - 5 May 1950	6 May 2010	60 Yr 1Mth - 60 Yr 0Mth		
6 May 1950 - 5 Jun 1950	6 Jul 2010	60 Yr 2Mth - 60 Yr 1Mth		
6 Jun 1950 - 5 Jul 1950	6 Sep 2010	60 Yr 3Mth - 60 Yr 2Mth		
6 Jul 1950 - 5 Aug 1950	6 Nov 2010	60 Yr 4Mth - 60 Yr 3Mth		
6 Aug 1950 - 5 Sep 1950	6 Jan 2011	60 Yr 5Mth - 60 Yr 4Mth		
6 Sep 1950 - 5 Oct 1950	6 Mar 2011	60 Yr 6Mth - 60 Yr 5Mth		
6 Oct 1950 - 5 Nov 1950	6 May 2011	60 Yr 7Mth - 60 Yr 6Mth		
6 Nov 1950 - 5 Dec 1950	6 Jul 2011	60 Yr 8Mth - 60 Yr 7Mth		
6 Dec 1950 - 5 Jan 1951	6 Sep 2011	60 Yr 9Mth - 60 Yr 8Mth		
6 Jan 1951 - 5 Feb 1951	6 Nov 2011	60 Yr 10Mth - 60 Yr 9Mth		
6 Feb 1951 - 5 Mar 1951	6 Jan 2012	60 Yr 11Mth - 60 Yr 10Mth		

6 Mar 1951 - 5 Apr 1951	6 Mar 2012	61 Yr 0Mth - 60 Yr 11Mth		
6 Apr 1951 - 5 May 1951	6 May 2012	61 Yr 1Mth - 61 Yr 0Mth		
6 May 1951 - 5 Jun 1951	6 Jul 2012	61 Yr 2Mth - 61 Yr 1Mth		
6 Jun 1951 - 5 Jul 1951	6 Sep 2012	61 Yr 3Mth - 61 Yr 2Mth		
6 Jul 1951 - 5 Aug 1951	6 Nov 2012	61 Yr 4Mth - 61 Yr 3Mth		
6 Aug 1951 - 5 Sep 1951	6 Jan 2013	61 Yr 5Mth - 61 Yr 4Mth		
6 Sep 1951 - 5 Oct 1951	6 Mar 2013	61 Yr 6Mth - 61 Yr 5Mth		
6 Oct 1951 - 5 Nov 1951	6 May 2013	61 Yr 7Mth - 61 Yr 6Mth		
6 Nov 1951 - 5 Dec 1951	6 Jul 2013	61 Yr 8Mth - 61 Yr 7Mth		
6 Dec 1951 - 5 Jan 1952	6 Sep 2013	61 Yr 9Mth - 61 Yr 8Mth		
6 Jan 1952 - 5 Feb 1952	6 Nov 2013	61 Yr 10Mth - 61 Yr 9Mth		
6 Feb 1952 - 5 Mar 1952	6 Jan 2014	61 Yr 11Mth - 61 Yr 10Mth		
6 Mar 1952 - 5 Apr 1952	6 Mar 2014	62 Yr 0Mth - 61 Yr 11Mth		
6 Apr 1952 - 5 May 1952	6 May 2014	62 Yr 1Mth - 62 Yr 0Mth		
6 May 1952 - 5 Jun 1952	6 Jul 2014	62 Yr 2Mth - 62 Yr 1Mth		
6 Jun 1952 - 5 Jul 1952	6 Sep 2014	62 Yr 3Mth - 62 Yr 2Mth		

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6 Jul 1952 - 5 Aug 1952	**6 Nov 2014**	62 Yr 4Mth - 62 Yr 3Mth		
6 Aug 1952 - 5 Sep 1952	**6 Jan 2015**	62 Yr 5Mth - 62 Yr 4Mth		
6 Sep 1952 - 5 Oct 1952	**6 Mar 2015**	62 Yr 6Mth - 62 Yr 5Mth		
6 Oct 1952 - 5 Nov 1952	**6 May 2015**	62 Yr 7Mth - 62 Yr 6Mth		
6 Nov 1952 - 5 Dec 1952	**6 Jul 2015**	62 Yr 8Mth - 62 Yr 7Mth		
6 Dec 1952 - 5 Jan 1953	**6 Sep 2015**	62 Yr 9Mth - 62 Yr 8Mth		
6 Jan 1953 - 5 Feb 1953	**6 Nov 2015**	62 Yr 10Mth - 62 Yr 9Mth		
6 Feb 1953 - 5 Mar 1953	**6 Jan 2016**	62 Yr 11Mth - 62 Yr 10Mth		
6 Mar 1953 - 5 Apr 1953	**6 Mar 2016**	63 Yr 0Mth - 62 Yr 11Mth		
6 Apr 1953 - 5 May 1953	**6 May 2016**	63 Yr 1Mth - 63 Yr 0Mth	**6 Jul 2016**	63 Yr 3 Mth - 63 Yr 2 Mth
6 May 1953 - 5 Jun 1953	**6 Jul 2016**	63 Yr 2Mth - 63 Yr 1Mth	**6 Nov 2016**	63 Yr 6 Mth - 63 Yr 5 Mth
6 Jun 1953 - 5 Jul 1953	**6 Sep 2016**	63 Yr 3Mth - 63 Yr 2Mth	**6 Mar 2017**	63 Yr 9 Mth - 63 Yr 8 Mth
6 Jul 1953 - 5 Aug 1953	**6 Nov 2016**	63 Yr 4Mth - 63 Yr 3Mth	**6 Jul 2017**	64 Yr 0 Mth - 63 Yr 11 Mth
6 Aug 1953 - 5 Sep 1953	**6 Jan 2017**	63 Yr 5Mth - 63 Yr 4Mth	**6 Nov 2017**	64 Yr 3 Mth - 64 Yr 2 Mth
6 Sep 1953 - 5 Oct 1953	**6 Mar 2017**	63 Yr 6Mth - 63 Yr 5Mth	**6 Mar 2018**	64 Yr 6 Mth - 64 Yr 5 Mth
6 Oct 1953 - 5 Nov 1953	**6 May 2017**	63 Yr 7Mth - 63 Yr 6Mth	**6 Jul 2018**	64 Yr 9 Mth - 64 Yr 8 Mth

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6 Nov 1953 - 5 Dec 1953	**6 Jul 2017**	63 Yr 8Mth - 63 Yr 7Mth	**6 Nov 2018**	65 Yr 0 Mth - 64 Yr 11 Mth
6 Dec 1953 - 5 Jan 1954	**6 Sep 2017**	63 Yr 9Mth - 63 Yr 8Mth	**6 Mar 2019**	65 Yr 3 Mth - 65 Yr 2 Mth
6 Jan 1954 - 5 Feb 1954	**6 Nov 2017**	63 Yr 10Mth - 63 Yr 9Mth	**6 May 2019**	65 Yr 4 Mth - 65 Yr 3 Mth
6 Feb 1954 - 5 Mar 1954	**6 Jan 2018**	63 Yr 11Mth - 63 Yr 10Mth	**6 Jul 2019**	65 Yr 5 Mth - 65 Yr 4 Mth
6 Mar 1954 - 5 Apr 1954	**6 Mar 2018**	64 Yr 0Mth - 63 Yr 11Mth	**6 Sep 2019**	65 Yr 6 Mth - 65 Yr 5 Mth
6 Apr 1954 - 5 May 1954	**6 May 2018**	64 Yr 1Mth - 64 Yr 0Mth	**6 Nov 2019**	65 Yr 7 Mth - 65 Yr 6 Mth
6 May 1954 - 5 Jun 1954	**6 Jul 2018**	64 Yr 2Mth - 64 Yr 1Mth	**6 Jan 2020**	65 Yr 8 Mth - 65 Yr 7 Mth
6 Jun 1954 - 5 Jul 1954	**6 Sep 2018**	64 Yr 3Mth - 64 Yr 2Mth	**6 Mar 2020**	65 Yr 9 Mth - 65 Yr 8 Mth
6 Jul 1954 - 5 Aug 1954	**6 Nov 2018**	64 Yr 4Mth - 64 Yr 3Mth	**6 May 2020**	65 Yr 10 Mth - 65 Yr 9 Mth
6 Aug 1954 - 5 Sep 1954	**6 Jan 2019**	64 Yr 5Mth - 64 Yr 4Mth	**6 Jul 2020**	65 Yr 11 Mth - 65 Yr 10 Mth
6 Sep 1954 - 5 Oct 1954	**6 Mar 2019**	64 Yr 6Mth - 64 Yr 5Mth	**6 Sep 2020**	66 Yr 0 Mth - 65 Yr 11 Mth
6 Oct 1954 - 5 Nov 1954	**6 May 2019**	64 Yr 7Mth - 64 Yr 6Mth	**66th birthday**	66 Yr

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First Tier: Deferral of State Pensions

Individuals could choose to defer[8] the commencement of their bSP in return for an enhanced pension, through the award of increments, or as a one-off lump sum[9].

Until April 2005, the basis for determining increments was that each pension would be increased by 1% for each 7 weeks of deferral. From April 2005, the terms were improved so the pension was increased by 1% for each 5 weeks of deferral. Until April 2005, State Pension could not be deferred past age 70. From April 2005, this restriction has been removed.

For each 5 weeks of deferral, people could receive an increase of 1% in their pension. This is equivalent to an increase of around 10.4% for each year people defer. Increments could be earned after payments had started if recipients request that the Department for Work and Pensions cease payments.

Similar rules were in place for other State Pensions including the Graduated Retirement Benefit, SERPS and S2P. However, individuals had to defer all State Pension benefits – they could not elect for instance to defer bSP but start receiving SERPS.

While benefit was being deferred, the amount not claimed was still counted as income for Pension Credit and other means-tested benefits.

Benefit that has been deferred for 12 consecutive months from April 2005 could be taken as a one-off lump sum payment, rather than as an increase in future pension payments. The deferred benefit accrued interest at 2% above the Bank of England Base Interest Rate, and the whole of the resulting lump sum was taxable at the marginal rate of tax paid by the pensioner on his or her other income[10]. Because of the interest rate available, there could be a financial gain from deferring and taking a lump sum. The actual gain is not the full value of the lump sum (as it could be claimed and invested instead) but the value of any extra interest over and above what could be gained from claiming the pension and investing it. If the pension could be taken and invested at a higher rate than the 2% above the Bank of England base rate, it would suggest that deferring may not be cost effective.

[8] DWP (2010) *State Pension Deferral, Your Guide*.
[9] Increments could also be awarded if payment is delayed for other reasons, such as a delay in returning the forms, or the Department for Work and Pensions not being aware of a change of address. Whatever the reason for the delay, individuals could only receive a 'back-payment' of up to 3 months of the missed payments.
[10] Even if some of the lump sum would normally have fallen in a higher tax band.

Second Tier: State Earnings Related Pension Scheme

State Earnings Related Pension Scheme (SERPS) was introduced in 1978 as a state earnings related pension scheme. It was established under the Social Security Pensions Act 1975 and replaced the Graduated Retirement Benefit (see later section in this Annex for further details on GRB).

SERPS was originally scheduled to provide a pension of 25% of band earnings – annual earnings up to a maximum of 53 times the weekly Upper Earnings Limit (UEL), and less a deduction of 52 times the weekly Lower Earnings Limit (LEL)[11] - linking the pension payable to earnings while in employment. The pension would be higher for higher earners but capped.

All employees were members of SERPS, and had earned SERPS pension for any periods of employment, unless they:

- earned below the Lower Earnings Limit, or
- were aged over the SPa, or
- were a married woman or widow paying reduced rate NI contributions, or
- were a member of a contracted-out occupational pension scheme.

No SERPS pension was earned for periods of self-employment or unemployment.

SERPS was funded through National Insurance contributions (NIc) on a pay-as-you-go basis. Subsequent changes reduced the amount individuals could accrue through SERPS contributions, and from 2002/3 SERPS was replaced with the State Second Pension.

SERPS was payable from SPa and is taxable. Once in payment, it increases in line with prices.

The accrual rate was 1.25% of band earnings for each of the 'best 20 years' of membership. The best 20 years acted as protection for those with fluctuating earnings, with periods of self- employment or with periods outside the labour force. Those reaching SPa prior to 1998/9 would have had less than 20 years of membership, and so accrued a smaller benefit.

[11] Originally the LEL was not deducted until the year before reaching SPa. Subsequent calculation changes led to the LEL being deducted in the year of accrual. 53 times the weekly UEL is used where an individual has more than one job and is paid by more than one employer at the same time. For someone remaining in the same employment throughout the tax year, the maximum is 52 times the weekly UEL.

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In the Social Security Act of 1986 measures were introduced to reduce the value of future SERPS accruals:

- The best 20 years rule was removed and replaced by lifetime revalued band earnings. This disadvantaged most those with fluctuating earnings or with an incomplete employment record.
- The accrual rate was reduced for those reaching SPa after 1998/9 – the long-term target for accrual after 1987/8 was reduced from 25% to 20% of revalued band earnings.

From 1978, members could contract-out of SERPS and into an employer's pension scheme. In addition, from 1988 instead of accruing a SERPS pension members could contract-out and receive a rebate into a personal pension instead[12].

The 1995 Pensions Act introduced a further change to the calculation method – the overall effect of which was to reduce entitlement further.

In 2002/3 SERPS was replaced with State Second Pension (S2P). There was no impact on SERPS benefits already earned. The maximum additional State Pension was calculated from a combination of GRB, SERPS and S2P. Further accrual in S2P ceased with the introduction of the new State Pension in 2016.

Sources

Department for Work and Pensions (DWP) (2008) A Guide to State Pensions -NP46 Section – Additional State Pension

http://www.thepensionservice.gov.uk/pdf/np46/np46sept08.pdf

Reardon A. (2002) Zurich Pensions Handbook

[12] See RN Second tier: Contracting-out.

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Second Tier: State Second Pension accrual – comparisons with SERPS accrual

After the 1986 and 1995 reforms an employee with a full work record reaching SPa after 2008/9 could expect a SERPS pension of approximately 20% of their band earnings. State Second Pension (S2P) was designed to give lower earners a higher benefit than this.

Under SERPS the benefit accrual was based on all earnings between the Lower Earnings Limit (LEL) and the Upper Earnings Limit (UEL) whereas with S2P band-earnings were divided into 3 separate bands until 2010:

- The first band was between the LEL and the Lower Earnings Threshold (LET) (£4,940 and £13,900 from April 2009).
- The second band was between the LET and the Upper Earnings Threshold (UET) (£13,900 and £31,800).
- The third band was between the UET and the UEL (£31,900 and £43,888).

The two band-earnings for S2P from 2010 on were the following:

- The first band was between the Lower Earnings Limit (LEL) and the Low Earnings Threshold (LET) (£5,564 and £14,700 from April 2012).
- The second band was between the LET and the Upper Accrual Point (UAP) (£14,700 and £40,040).

Under SERPS, a man with a potential 49 years of membership (from age 16 to SPa at age 65), would each year accrue a pension of 20%/49 of band-earnings.[13] In comparison under S2P the accrual rate varies with the bands.

So, for a man with a potential total membership of SERPS and S2P of 49 years the accrual rates for S2P up until 2010 were:

- 40%/49 - for earnings in the first band
- 10%/49 - for earnings in the second band
- 20%/49 - for earnings in the third band

The accrual rates for S2P from 2010 on are:

- 40%/49 - for earnings within the first band
- 10%/49 - for earnings within the second band

[13] If they spent their entire working life under the post 1986 system

In addition, where earnings were below the LET, then under S2P the individual was treated as if they earned at that threshold. Qualifying carers or disabled people were also treated as if they earned at that threshold.

The UET was deliberately set such that at the point where the total benefit accrual was equivalent for both SERPS and S2P[14]. In order to enable equivalence, the second band was set as roughly twice as wide as the first band.

Table 2: Comparison of SERPS and S2P accrual – 2009/10[15]

Earnings from employment	Band earnings	SERPS accrual[16] (p.a.)	S2P accrual (p.a.)	Gain from S2P
Carer - £0	-	-	£73	£73
£3,000	-	-	-	-
At LEL - £4,940	-	-	£73	£73
£5,1400	£200	£1	£73	£72
£10,000	£5,060	£21	£73	£52
At LET - £13,900	£8,960	£37	£73	£37
£19,000	£14,060	£57	£84	£26
£25,000	£20,060	£82	£96	£14
At UET - £31,000	£26,860	£110	£110	-
£35,000	£30,060	£123	£123	-
At UEL - £43,888	£38,948	£159	£159	-
£50,000	£38,948	£159	£159	-

Sources

Department for Work and Pensions (DWP) (2008) A Guide to State Pensions -NP46 Section – Additional State Pension

http://www.thepensionservice.gov.uk/pdf/np46/np46sept08.pdf

Department for Work and Pensions (DWP) (2008) Revaluation of Earnings Factors Orders www.dwp.gov.uk/asd/reval.asp

[14] Exact equality does not hold due to rounding
[15] Assumes potentially 49 years of service
[16] Annual amount

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Second Tier: Graduated Retirement Benefit

The Graduated Retirement Benefit (GRB) was a compulsory scheme introduced in April 1961 through the National Insurance Act 1959. **It was discontinued from April 1975.**

As with all state schemes the pension was payable from SPa, although commencement could be delayed and increments earned, and is funded on a pay-as-you-go basis. Once in payment, the pension increases in line with prices[17].

Employees who were not members of an occupational pension scheme and whose weekly earnings exceeded the minimum threshold of £9.00 (in 1960's cash terms) paid graduated contributions in addition to their NI Class 1 contributions. These graduated contributions were converted into 'units' of graduated retirement pension. For men, each £7.50 of graduated contributions purchased one unit of graduated retirement pension whereas for women each £9.00 purchased one unit. From 2010 the terms of conversion would be equalised at £7.50 per unit purchased – this coincides with the commencement of the changes to the SPa for women.

The maximum number of units that could be purchased was 86 for a man and 72 for a woman – equivalent to total contributions of £645 and £648 respectively. A full-time manual male employee on average weekly earnings - £15.07 in 1961 rising to £55.70 in 1975 - would, by 1975, have paid approximately 83%[18] of the maximum.

Those who had paid sufficient contributions to secure the maximum pension ceased paying graduated contributions. This limited the tax raising capability of the scheme. By 1975 many people had reached – or were close to reaching - maximum benefits.

The pension was taxable as earned income and a 50% widow(er)'s pension is automatically provided.

Sources

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http://www.thepensionservice.gov.uk/pdf/np46/np46sept08.pdf

Department for Work and Pensions (DWP) (2008) Abstract of Statistics 2007 Section 5 - Rates of Benefit

www.dwp.gov.uk/asd/asd1/abstract/Abstract2007.pdf

Department for Work and Pensions (DWP) (2007) DWP Tabulation Tool www.dwp.gov.uk/asd/tabtool.asp

[17] Indexation was introduced in 1978
[18] PPI Calculations

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Second Tier: Accessing pension savings pre-Freedom and Choice

Until June 2010, individuals with Defined Contribution (DC) pensions were effectively required to annuitise any remaining private pension savings (after taking an optional 25% tax-free lump sum) by age 75. As a response to calls for more flexibility, the Government removed the effective requirement to use private pension savings to purchase an annuity by age 75.

Prior to April 2015 individuals could buy:

- **Capped Drawdown** –Investing pension savings in an income drawdown arrangement with no upper age limit and with a withdrawal cap of 150% (from March 2014) of what they would have received from an equivalent annuity.
- **Flexible drawdown/Flexi access income drawdown** – Individuals could withdraw unlimited amounts from their pension savings, provided that they could demonstrate that they had a secure income already in payment, guaranteed for life of £12,000 a year from 2011.

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Third Tier: Preserved rights and protection

The Social Security Act 1973 first introduced protection for those leaving occupational pension schemes before retirement, or early leavers. Prior to then many schemes provided nothing for the job mover. Since then, a number of further provisions have been made to increase the rights of early leavers.

Individuals have to be a member for at least 2 years before they are statutorily entitled to full 'vested' or preserved pension benefits. This is known as the vesting period.

The options available for an individual who leaves employment after the vesting period and with preserved benefits are:

- to leave the deferred pension within the original scheme, or
- to take a transfer value i.e. cash equivalent of the individual member's rights into an individual arrangement such as a personal pension, or
- to take a transfer value to the new employer's pension scheme.

The Pensions Act 2004 introduced new rights for employees who leave after 3 months but before the end of the vesting period. Since April 2006, these employees have two options of:

- a refund of their own contributions, or
- a cash transfer sum to take to another scheme.

If a member leaves a scheme with less than 3 months service – and so is not eligible for a preserved benefit - they will receive a refund of their own contributions, but not any made by the employer[19].

Some pension schemes automatically provide an entitlement to full preserved pension benefits, irrespective of how long the person is a member of the scheme.

[19] This was reduced from 2 years by the 2004 Pensions Act

Acknowledgements and contact details

This document is the Historical Annex to the **Pensions Primer**, which is intended to provide a description of the UK pensions system for the purpose of considering pensions policy. It should not be used to make individual pensions decisions.

Every effort has been made to avoid error, but in such a complicated field unintentional errors and omissions may remain. Please contact the PPI if any data appears to be out-of-date, or to suggest additional subjects for Reference Notes. The Pensions Policy Institute takes responsibility for remaining errors.

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