



NEWSLETTER

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Dear Colleague

A STATE PENSION FOR THE 21st CENTURY

Steve Webb, the Pensions Minister, published a Pensions Green paper on 04 April 2011.

The Green Paper "A state pension for the 21st century" can be downloaded from <http://www.dwp.gov.uk/docs/state-pension-21st-century.pdf>

The Government is seeking views on two options to change the state pension:

The Government believes it is necessary to reform the state pension for future pensioners so that it provides a better foundation for saving. This paper seeks views on two broad options for reform to deliver a simple, flat rate contributory state pension that lifts the majority of future pensioners above the standard means-test:

Option 1: acceleration of existing reforms so that the state pension evolves into a two tier flat rate structure more quickly; or

Option 2: more radical reform to a single-tier flat-rate pension set above the level of the Pension Credit standard minimum guarantee.

The paper also seeks views on two options for increasing the state pension age. The two options are;

Increasing the State Pension age through a formula linked to life expectancy, or

Increasing the State Pension age through a review.

Comment

The news media have reported the Green Paper as providing a single-tier State Pension of about £155 a week in about 5 years' time. **However, Ministers have made it quite clear that the proposed new pension will not apply to existing pensioners.**

Both options are for future pensioners; pensioners who have already reached state pension age by the date of the reform would not be affected, so no existing recipient of state pension would see their income reduced. For future pensioners, we would also continue to honour the contributions that people have built up to the date of reform.

Ministers have also made it quite clear that there will be no new money.

Any options for reform must be cost neutral in each and every year to avoid placing an unsustainable burden on future taxpayers.

For **future** pensioners, there would be a shift of resources from the moderately better-off to the poorest pensioners.

The proposed new pension for *future pensioners would be funded by ending the State Second Pension, Savings Credit and introducing a seven-year minimum qualifying rule*. It is also likely that the Graduated Pension would be ended.

Separate proposals have been made for ending the arrangements for contracting out from the Second State Pension for members in occupational pension schemes, such as the public sector schemes. So, people still in employment would pay higher contributions for the new state pension.

Therefore, it is clear that, if we were to claim the proposed new pension for existing pensioners, the Government would claim a quid pro quo from our occupational pensions.

So, on closer inspection, the Green Paper does not hold out the prospect of the bonanza which some newspapers might lead us to believe.

Your Executive Council will be examining the fine print very closely before deciding how to respond to the Green Paper.

Yours sincerely

John Amos

John Amos
Deputy General Secretary