

# Evidence submission

## Age UK's evidence to the Work and Pensions Committee's Inquiry into Understanding the new State Pension

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## About Age UK

Age UK is the country's largest charity dedicated to helping everyone make the most of later life. The Age UK network includes around 165 local Age UKs reaching most of England. Each year we provide information and advice to around 4.5 million people through web based and written materials, and individual enquires by telephone, letter, email and local face-to-face sessions. We work closely with Age Cymru, Age NI and Age Scotland.

## Summary

- Even if people are aware that the State Pension system is changing, many do not fully understand how this will affect them. People often have limited knowledge about pensions, and upbeat political messages and the way the issue has been reported in the media, have given some people a misleading impression of what they will receive.
- The DWP should regularly publish tracking information and also carry out more in-depth research on people's awareness and understanding of the changes.
- The DWP has been undertaking a range of activities to communicate the changes and has produced a series of materials. These are generally well written and presented although we would like to see more detailed information for some specific groups, and materials aimed at advisers.
- In addition to web based information there should be materials in hard copy and some people need the opportunity to talk over their position in order to understand the changes.
- Current pensioners need information to understand that they are not affected and this is an opportunity to highlight other support that may available. But for many who are not in the new system it is the policy not the communications that is their concern.
- Groups who may have planned their retirement income based on the current system and could be worse off due to the reforms should be the priority for communications. The DWP should contact people with gaps in their record directly to highlight the changes and explain any options to increase their entitlement.
- Information and communications about workplace pensions should highlight State Pension changes and encourage people to ask for a statement.

## **Introduction and background**

1. Age UK welcomes the opportunity to respond to the Work and Pensions Committee's inquiry into the way the Government has communicated the new State Pension changes and the issues people are facing in understanding the transition. We support the aims of a fairer, simpler State Pension system, although we have raised concerns about groups who could receive less as a result of the reforms. We also believe that the Government should consider how to bring those who are already pensioners, or will reach State Pension age before 6 April 2016, into the new system without loss of current rights. Having said that, we appreciate that this inquiry is looking at communication and understanding, rather than policy, and that is the focus of our response.

## **Knowledge and understanding about pensions**

2. Many people have only limited understanding of state and private pensions. For example the latest annual survey by Scottish Widows notes that public understanding of financial concepts and products 'remains very low'.<sup>i</sup> Qualitative research commissioned by the DWP found 'the current State Pension system was generally found to be complex and confusing. There was very little idea about the current value of the State Pension, how it was calculated, or how much people might receive when they retire.'<sup>ii</sup>
3. One of the key aims of the new State Pension is to produce a simpler system and, in time, everyone with at least 35 years of NI contributions or credits will receive a flat-rate State Pension of around £151 a week (in today's terms). However there will be a lengthy period of transition. To fully understand how their new State Pension is worked out, someone may need to know about the current very complex system, the new system, and how the transition works. It is therefore unsurprising that in June 2015 the DWP tracking survey found 46 per cent of people reaching State Pension age within five years of April 2016 said their knowledge of the State Pension was basic to non-existent and a smaller proportion (38 per cent) felt they knew how the changes affected them.<sup>iii</sup>
4. Age UK has been contacted by many people in different circumstances so we have a good picture of the range of issues and questions people have. Many are already pensioners or will reach State Pension age before the introduction of the new system. Some are unsure if the changes will affect them, while others are unhappy that they will not be in the new system, sometimes under the impression that it

represents a rise in the basic State Pension. We have also been contacted by people who are concerned they will lose benefit because they have heard that Pension Credit will be abolished.

### ***Enquiries to Age UK***

*I am a 68 year old male and I am having difficulty finding out how the new pensions will affect me. Will my state pension remain at the same level or will I get the new pension (approximately £150) in April 2016?*

*I am in cohort that loses out on new single tier pension rate as I was born in March 1953. Is there any flexibility on this, can I defer receiving pension and obtain higher rate?*

*It is so unfair for people like my husband and I who are just in our sixties but will stay on the current system potentially missing out on up to 30k each.*

5. For those who are in the new system, the most difficult aspect to understand is the impact of contracting out. People do not necessarily know that they were contracted out and, even when this is explained, can find it difficult to understand why paying into a private or public sector pension should affect their State Pension.

### ***Enquiries to Age UK***

*I have just discovered that my NI contributions were opted out since 1985 .... This means that I will be over £30pw short of the new state pension amount in Nov 2017. What can I do to increase my weekly pension?*

*A man contacting the Age UK advice line was angry because he had been told his pension under the new State Pension rules was £60 when he had expected £154. Even when it was explained he would get the equivalent of the basic pension he still felt this was unfair as he had not chosen to contract out and he wanted to know how he could retrospectively contract back in.*

6. Other issues we are asked about include:

- the position if people are widowed or divorced (from couples who are both in the old system, both in the new system, or are in different systems)
- the impact for women who have not worked
- entitlement for people living abroad
- how means-tested benefits will be affected
- ways to increase entitlement
- deferment
- information about updating of the different elements.

### **Getting the wrong impression**

7. Some of the media coverage has not helped. Particularly when the changes were first announced, reports have included phrases such as ‘a more generous pension’, ‘everyone entitled to a standard rate of £144 a week in today's terms’ or referred to the full amount being ‘a sharp increase’ on the current level of basic pension. The impression that the changes are wholly beneficial in part reflects the generally positive messages from Ministers and DWP press statements. Understandably their focus has been on a new system that is simpler and fairer, and on those who will be better off due to the changes.
8. More recently there has been media coverage highlighting those who will not receive the full amount – for example a recent article ‘reveals millions won't get State Pension they were promised’.<sup>iv</sup> Individuals have also been receiving individual State Pension statements and some are surprised and disappointed that they are not on track for £151 a week – generally because they have been contracted out.

### **Information and communications**

9. We believe that the following types of communications are needed:
- General publicity to raise awareness that the system is changing next April to encourage people to request a State Pension statement and get further information.
  - Information about the changes in different levels of detail, in different formats, and covering a range of circumstances.
  - Information and messages targeted specifically at people who may receive lower pensions than they might be expecting, and/or may be able to take action to increase their future entitlement.

10. We set out the Committee's questions and our views below, although we are not in a position to comment on administrative readiness.

*Does the current campaign to raise awareness adequately prepare individuals for the upcoming changes?*

11. The DWP campaign has included: media work, social media, marketing materials and online videos – with a new drive launched in September. The DWP also runs a State Pensions Communications group which has members from organisations representing consumers, the pensions industry and others. Age UK is part of this group and welcomes the opportunity to have regular feedback about activities and the opportunity to feed into the work.

12. While we are not in a position to measure the impact of the campaign, it is likely that it has made a positive difference to awareness. However given cost constraints, it has not included high profile national advertising, so inevitably will not reach everyone in the target group. And it remains a challenging task to encourage people to take action to find out about their State Pension if this is not a priority at present, or if they assume they know what they will receive.

*How should the Department measure the effectiveness of the campaign?*

13. The national tracking survey on knowledge and awareness of the new State Pension, commissioned by the DWP, is a good way to judge changes in awareness over time. Some of the findings have been presented to stakeholders but we would like to see full findings published on a regular basis. We believe there should also be regular in-depth research because, while it is useful to monitor the proportion of people who say they understand the changes, we also need to know whether their understanding is correct.

*Is the additional information provided to those approaching State Pension age (those aged over 55) sufficient?*

14. People's information needs depend on their levels of knowledge, interests and financial understanding. Many will simply want to know what their State Pension will be, others will want a brief explanation, while a minority will want very detailed information relevant to their circumstances. The DWP has produced a range of information materials which are generally clearly written and well presented. Recently there has been more of an emphasis on explaining contracting out and this is covered in a series of blogs by the Minister for Pensions. However we would like to see some more detailed information covering specific circumstances and information aimed at advisers including references to relevant legislation.

15. Information and promotional resources are brought together as the online State Pension Toolkit. However different online resources are not always linked up. For example a search for 'new State Pension' takes you to GOV.UK pages giving an overview of the new system, but these do not provide direct links to the more detailed materials in the toolkit.
16. The materials referred to above are all online. There should also be materials in hard copy. While most people aged 55 to 64 use the internet, around one in six do not, and this proportion rises to around a third among those in socio-economic group DE<sup>v</sup>. Even if people have access to the internet, they may prefer written information on complex subjects.
17. Finally, some people will want to talk over their position. The DWP Future Pension Centre can provide information over the telephone and it is important that it is able to meet demand which may increase in the next few months. We have had very limited feedback from people who have spoken to the DWP about their State Pension statement, but the reports we have had are generally positive.

*Is targeting the over 55s for more additional information about the State Pension reforms sufficient or should this be expanded to include a wider age range and/or other groups?*

18. At this stage it is probably right that the priority is those aged 55 and over. While ideally everyone should be aware of their likely State Pension and the importance of financial planning for retirement, for many younger people this is not a priority. However messages about State Pensions should be part of other communications around finance and pensions, and also part of information aimed at groups who could be missing out on building up their NI record such as carers.

*To what extent are Department communications addressing the needs of specific groups who are affected differently, such as women born between 6 April 1951 and 5 April 1953?*

19. The impact of the new State Pension depends on a number of factors including: when someone reaches State Pension age, their NI record before April 2016, whether they have been contracted out, and whether they have the opportunity to increase their starting amount after April 2016.

### **Those in the current system**

20. As referred to earlier, Age UK has been contacted by many people who are already pensioners or will reach State Pension age before the introduction of the new system. Often people in this situation contact us from a policy perspective and one

group who feel particularly badly affected are women born between 6 April 1951 and 5 April 1953 who are not in the new system, whereas men with the same date of birth will be.

21. Communications for current pensioners should make clear that they will not be affected, but also highlight the range of other support available. While there has been promotional material about the State Pension top up scheme, we know that millions of pounds of benefits go unclaimed each year and this is an opportunity to encourage people to check their entitlements. And if general messages emphasised that the new system is different, but not overall more generous, people may feel somewhat less aggrieved that they are excluded. However it remains the case that many, particularly women, would be better off in the new system and are concerned about the policy, not the communications.

### **Incomplete contribution records and options to increase entitlement**

22. A priority for communications should be to reach groups who may have planned their retirement income based on the current system but could be worse off due to the reforms. While for some there may be little they can do, others may be able to make up gaps in their contribution record, or make different decisions about their retirement. Examples of people potentially in this situation are given below. There are DWP materials highlighting credits and ways to increase the State Pension, but people need to know they may be affected. We believe the DWP should contact people with gaps in their record individually to highlight the changes and explain options.

- **People expecting to rely on their partner's contribution.** The loss of derived and inherited rights to the basic pension will reduce entitlement for some people, mainly women. In the most extreme situation, a woman with no entitlement in her own right, who is widowed, could end up with no State Pension compared to an expected £115.95 under the current system. Most will have some contributions in their own right so will not lose this much, but they could still receive significantly less than they are expecting. Couples in this situation need to be made aware of the changes as they may be able to review their retirement plans.

*A woman contacted Age UK's advice line recently because she had just found out that she could not rely on her ex-husband's NI contributions she retires. She wanted to know if this is correct and if so, should she make up her own contributions?*



- **Fewer than 10 years of contributions.** Under the new system people will need a minimum of 10 years contributions to receive any State Pension. If people are aware of this they may be able to take action, for example by paying voluntary 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...thanks. (Email to Age UK from UK citizen living abroad with 9 years of contributions)*

- **Fewer than 35 years of contributions.** Some people under State Pension age who are no longer working have 30 years of contributions and assume this is the maximum they need. While they are unlikely to be worse off under the new system, they might still be able to increase their entitlement.

### **Lower incomes as a result of the reforms**

23. There are others who may receive a lower income as a result of the changes to the State Pension and benefits, but not due to incomplete NI records. How someone is affected will depend on their circumstances. We would like to see further analysis of the impact of the changes for different groups.

24. Given the complexities of the systems, many people affected are not aware of their entitlement under the current system and will therefore not be making plans based specifically on their expected entitlement. However some have a good understanding of the current system and it is important that there is information to explain the changes and their impact, for individuals, providers and advisers.

- **Abolition of savings credit** This element of Pension Credit is not well understood but its abolition will mean that some people with modest pensions will have lower incomes than under the current system.
- **Abolition of additional pension** Rights accrued before April 2016 are protected, but the abolition of the additional pension will mean that some people will receive a lower State Pension in the future following the reforms. Under the current system the combined basic and additional State Pensions can be considerably higher than £151, but people will no longer be able to build up further entitlement to additional pension from April 2016 onwards. There are also people who were contracted out between 1978 and 1997 who have a guaranteed minimum pension (GMP) as part

of their workplace pension who, going forward, could receive less under the new system due to the way this interacts with the additional pension. The GMP, in the form of a contracted out deduction, reduces the amount of additional pension paid. Because the additional pension is increased annually in line with prices, while GMPs are not updated in the same way, the effect is that the additional pension provides inflation proofing for the GMP.<sup>vi</sup> This protection will be lost once the new system is introduced.

*How could workplace pensions be used to signpost people to information about their State Pension?*

25. Messages about State and private pensions need to be joined up as for many people the State Pension is an important part of income. Nearly half of newly retired people receive at least 50 per cent of their income from the State Pension and benefits.<sup>vii</sup> Communications about workplace pensions from schemes, employers or HMRC should highlight the changes and encourage people to get an individual statement.

26. Age UK supports the concept of the 'Pensions Dashboard' which would bring information about all someone's private pensions together alongside their State Pension entitlement. The dashboard could also be used to help engage and prepare consumers for decisions about their retirement income.

*Should employers of those in contracted out pension schemes be providing their employees written information about the state pension reforms when contracting out ends in April 2016?*

27. Yes, this will help people understand the changes and, if someone's starting amount is less than £151 whether, and if so how, they can increase their new State Pension.

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<sup>i</sup> <http://reference.scottishwidows.co.uk/docs/46273-2015.pdf>

<sup>ii</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/221220/rrep787.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221220/rrep787.pdf)

<sup>iii</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/463899/new-state-pension-communication-presentation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/463899/new-state-pension-communication-presentation.pdf)

<sup>iv</sup> <http://www.thisismoney.co.uk/money/saving/article-3235966/SPECIAL-REPORT-millions-Britons-never-151-week-new-state-pension.html>

<sup>v</sup> *Adults' Media Use and Attitudes Report* Ofcom 2015 and additional table provided to Age UK

<sup>vi</sup> GMPs accrued between 1978 and 1987/88 are not increased by schemes, and from 1988 to 1996/97 are updated by schemes by inflation capped at 3 per cent.

<sup>vii</sup> <https://www.gov.uk/government/statistics/pensioners-incomes-series-financial-year-201314>