

Strategy, Information and Pensions

**State Pension Reform
Equality Impact Assessment**

Updated July 2009

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Overview

This impact assessment has been produced to coincide with the publication of two sets of regulations which form part of the legislative framework underpinning the reforms of the State Pension scheme which start to take effect in April 2010.

It provides an assessment of the overall State Pension reform programme in terms of its impact on race and disability equality and updates, where applicable, the gender impact assessment published in November 2006.

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1. Introduction

This chapter explains the context for this impact assessment; summarises the equality duties; provides background to the reforms of the State Pension scheme and describes the consultation that took place.

Context

- 1.1. In May 2006, the Government published its proposals for reforming the State Pension in the White Paper “Security in retirement: towards a new pensions system”. These proposals largely followed the recommendations made by the independent Pensions Commission in its second report entitled “A New Pension Settlement for the Twenty-First Century”.
- 1.2. The main components of this major package of State Pension reforms have been put into law by the Pensions Act 2007 and take effect from April 2010 or later. Some aspects of the reform package are also included in the Pensions Act 2008 (which mainly focuses on reform of workplace pensions and the introduction of a new, low-cost personal pension for people without a workplace pension).
- 1.3. As well as the two Acts of Parliament, the Government has also brought forward regulations that follow on from the Pensions Act 2007 and provide the detailed rules that underpin the changes made by that Act. Like the Act, these regulations also mainly take effect from 2010, although the measures which are linked to changes to the way in which additional State Pension builds up will take effect from a later date. This has not yet been fixed but is expected to be in April 2012.
- 1.4. These regulations are the Social Security (State Pensions and National Insurance Credits) Regulations 2009 which became law on 17 August 2009, and the Social Security (Contribution Credits for Parents and Carers) Regulations 2009, which are due to be laid before Parliament in draft in October 2009 and must be approved by Parliament before they can become law.
- 1.5. This equality impact assessment has been produced to accompany these two sets of regulations and provides the opportunity to review the impact assessments of the State Pension reforms that have already been published.
- 1.6. A gender impact assessment of pension reform, covering the Government’s proposals for reforming both the State and private pensions systems, was published in November 2006 alongside the publication of the first Pensions Bill. A Regulatory Impact Assessment, published at the same time as the White Paper, includes analysis of the impact of the State Pension reform proposals on women from different ethnic groups. These assessments are available on the

DWP website¹.

- 1.7. This assessment provides an overview of the whole State Pension reform package, updating the previous assessments and filling in gaps where applicable. It also takes account of recent changes to the arrangements for paying National Insurance contributions voluntarily, which were introduced in the Pensions Act 2008. These provisions extend the existing arrangements that allow people to make up gaps in their National Insurance record by buying extra years. They are intended to help those who reach State Pension age shortly before the implementation date of the reforms. They will also apply to those reaching State Pension age shortly after April 2010 who, although they will only need 30 qualifying years for a full basic State Pension rather than 39 (for women) or 44 (for men), may still not have had the opportunity to build up that number of years before reaching State Pension age.

The Equality Duties

Disability Equality Duty

- 1.8. Since December 2006, section 49A of the Disability Discrimination Act 1995 places a general duty on all public authorities to carry out their functions with due regard to the need to:
 - promote equality of opportunity for disabled people;
 - eliminate unlawful disability discrimination;
 - eliminate disability-related harassment;
 - promote positive attitudes towards disabled people;
 - encourage disabled people's participation in public life; and
 - take steps to take account of disabled people's disabilities, even if that requires more favourable treatment.
- 1.9. In addition, public bodies listed in regulations are subject to specific duties, which include a requirement to produce a Disability Equality Scheme that sets out arrangements for assessing the impact of policies, practices and procedures on disability equality.

Race Equality Duty

- 1.10. The Race Relations Act (RRA) as well as protecting against discrimination places a general duty on public authorities to:

¹ Gender Impact Assessment: <http://www.dwp.gov.uk/docs/genderimpactassessment.pdf> .
Regulatory Impact Assessment: <http://www.dwp.gov.uk/docs/pensions-bill-ria.pdf>

- eliminate unlawful racial discrimination; and
- promote equality of opportunity and good relations between people of different racial groups.

1.11. In order to help meet the Race Equality Duty public bodies have a specific duty to assess the likely impact of current and proposed policies and services.

Gender Equality Duty

1.12. Since April 2007, public bodies are required to promote gender equality. The obligation requires public bodies to carry out their functions, policies and services with due regard to the need to:

- eliminate unlawful discrimination;
- eliminate harrassment; and
- promote equality of opportunity between women and men.

1.13. The Gender Equality Duty requires public bodies to carry out impact assessments when considering new policy developments or changes to ensure that there will be no adverse impact on either women or men.

Other Diversity Impacts

1.14. In addition to the statutory equality duties, as a matter of good practice we have also considered the impact of these proposals for equality of treatment in relation to age, in so far as it appears to us to be relevant. We have provided no separate commentary on the impact on equality in relation to sexual orientation, religion or belief as we have no evidence that these factors are relevant to these measures. Similarly we have not provided separate commentary on the possible impact of these measures on transsexual people as we have no information to suggest that there would be impacts for this group distinct from the wider gender impacts.

Background to Pensions Reform

1.15. In November 2005, the Pensions Commission published the second of its two reports analysing pension provision for future pensioners and made recommendations for how the system could be reformed to better meet future needs.

1.16. Average pensioner incomes today compare well with those of previous generations and changes since 1997 have been targeted in particular at tackling pensioner poverty. But, as the Pensions Commission found, demographic and social trends create challenges for the future:

- life expectancy is increasing. This, along with lower birth rates, is resulting in older age groups becoming an increasing proportion of the population;
 - family structures are changing, with cohabitation and divorce now more common and many more people living in single households;
 - the trend of women's growing participation in the labour market is continuing;
 - as a result of the accumulation of 60 years of pensions legislation, the current pensions system is complex and difficult to understand;
 - problems with savings incentives could develop if, in the long term, a pensions system evolved in which a significant majority of pensioners were entitled to Pension Credit;
 - many millions of people across the United Kingdom are estimated to be under-saving for their retirement.
- 1.17. In May 2006, building on the analysis and recommendations made by the Pensions Commission, the Government published proposals for pension reform and the rationale for change in the White Paper "Security in Retirement: towards a new pensions system".
- 1.18. The White Paper explained the challenges facing the United Kingdom pensions system and presented proposals for a long-term, sustainable solution. Five key tests, against which pension reform outcomes would be measured, were set out:
- Personal responsibility: individuals should be responsible for their own plans for retirement.
 - Fairness: policies should protect the poorest and establish a new contributory principle with a system that rewards "something for something".
 - Simplicity: changes must make the pension system simpler and ensure the decision to save for retirement is more straightforward.
 - Affordability: the financial needs of the future pensioner population must be balanced with the financial capabilities of the taxpayer to fund those needs in a stable fiscal environment.
 - Sustainability: the roles and responsibilities of individuals, employers and the State must be clear; reforms must provide trust and confidence in a sustainable settlement for the long term.
- 1.19. The Pensions Act 2007, which received Royal Assent on 26 July 2007, sets out a package of reforms on:

- State pensions;
- simplification measures in private pensions; and
- the establishment of the Personal Accounts Delivery Authority to carry out preparatory work for the introduction of a new, low-cost personal pensions savings scheme.

1.20. The Pensions Act 2008 includes some further provisions relating to State Pensions but is chiefly concerned with the setting up of Personal Accounts.

Consultation

1.21. The formal White Paper consultation period ran from 25 May 2006 to 11 September 2006. As well as the approximately 350 responses that were received, Ministers and DWP officials engaged with stakeholders and members of the public in a range of other ways to widen the debate and increase people's understanding of the issues.

1.22. The consultation was supported by an online Pensions Forum on the DWP website. This provided a forum for online debates and web chats with Ministers, and updated the public on the meetings Ministers were having through a blog.

1.23. The forum featured a weekly key issue relating to pension reform and invited e-mails from the public on the issue, to which Ministers responded. In the week where pensioner poverty was the key issue being looked at, the then Minister for Pension Reform James Purnell, Age Concern and Help the Aged hosted a joint live web chat with members of the public.

1.24. A number of fact sheets explaining key issues in more detail to increase understanding were also published on the forum. In total, over 450 people participated in the Pensions Forum.

1.25. In addition, the Department held an employers' seminar and a carers' seminar where specific issues relevant to those attending were discussed. Ministers also attended a series of regional road shows to meet regional stakeholders and members of the public.

1.26. As well as formal responses to the White Paper consultation, the Department received around 800 letters relating to the State Pensions proposals in the White Paper. Some were concerned about the lack of provision in the White Paper for current pensioners but others gave positive feedback on the extra coverage for women and carers.

- 1.27. As part of this assessment we have reviewed responses to the White Paper consultation described above to identify issues of concern which have a direct impact on people with disabilities and people from ethnic minorities.
- 1.28. A key issue that emerged for both groups was disadvantage in the labour market – they were more likely to be in low paid employment and they were more likely to have broken work records – compared to the rest of the population.
- 1.29. In addition, we have also consulted extensively with interest groups since the passage of the 2007 Act to inform the development of the proposals for the new crediting arrangements for carers, contained in the Social Security (Contribution Credits for Parents and Carers) Regulations 2009. The original proposals did not provide protection for a person caring for someone for at least 20 hours a week, who was not receiving a qualifying benefit. Lobby groups were concerned that this would exclude carers of disabled people who were reluctant to claim a benefit related to their assistance needs. As a result, the Government agreed that this group of carers should be included by allowing a health or social care professional to certify that the disabled person needed the appropriate level of care. The detail of these proposals and guidance for certifiers and staff has been worked up in close consultation with representative groups.
- 1.30. The next chapter describes the individual elements of the State Pension reform package and assesses their impact in relation to the race and disability equality duties. An assessment of the gender impact of those elements of the package which have not already been examined in the assessment published in November 2006 (see paragraph 1.6, above) is also included in Chapter 2.

2. Impact of the reforms

This chapter looks at each component of the State Pension reform package and provides an assessment of its impact on race and disability equality (to the extent that evidence is available). It also looks at the gender equality implications of those elements not already covered in the gender impact assessment published in November 2006.

Summary of the changes

- 2.1. The key aims of the State Pension measures in the Pensions Act 2007 are to improve the coverage, generosity and sustainability of the State Pension while simplifying the scheme by:
- improving the entitlement to basic State Pension for women and carers by reducing the number of qualifying years for a full basic State Pension;
 - enabling more carers to build up both the basic State Pension and the State Second Pension by streamlining and extending the way caring responsibilities are recognised;
 - replacing the existing arrangements for crediting people into the State Second Pension with a weekly credit, so people are able to combine credits and earnings in the same tax year;
 - enabling a married person or civil partner to draw a pension based on the National Insurance record of a spouse or civil partner over State Pension age who has chosen not to retire;
 - abolishing adult dependency increases;
 - linking the uprating of the Pension Credit standard minimum guarantee and (in the longer term) the basic State Pension to earnings and breaking the link between the Lower Earnings Limit and basic State Pension;
 - flat-rating and simplifying the State Second Pension; and
 - gradually increasing the State Pension age for men and women from 65 to 68 between 2024 and 2046.
- 2.2. Further measures contained in the Pensions Act 2008 will:

- extend the time limits for payment of voluntary National Insurance contributions for certain people;
- provide for accrued additional State Pension rights to be consolidated for people reaching State Pension age from April 2020 (the working assumption is that this will apply in respect of rights accrued to 2012); and
- allow, for older Pension Credit customers, the set period during which increases in income which they would otherwise have to report are ignored to run on indefinitely, unless a review is triggered by another change of circumstances.

2.3. We now describe the individual measures in the reform package followed by consideration of their impact on people with disabilities and people from ethnic minorities. An assessment of the gender equality impact is also provided, in relation to policies not already covered in the assessment published in November 2006 (see paragraph 1.6 above).

Single Contribution Condition

2.4. The Pensions Act 2007 sets out provisions introducing a single contribution condition for qualification for a full basic State Pension. At present, two contribution conditions must be satisfied:

- firstly, a person must have actually paid Class 1 National Insurance contributions on employed earner's earnings of at least 52 times the weekly lower earnings limit for one tax year since 1978 (between 1975 and 1978, the threshold was 50 times the lower earnings limit) or have paid 50 flat-rate National Insurance contributions at any time before 6 April 1975. An equivalent number of Class 2 (self-employed), or Class 3 (voluntary) contributions will also count; and
- secondly, to qualify for a full basic State Pension a person must have paid, or been credited with, that amount of National Insurance contributions for around 90 percent of the years in his or her working life, normally 44 for men and 39 for women. A reduced rate basic State Pension is payable if the second condition is not met in full, but a person must have at least 25% of the qualifying years needed for a full basic State Pension (that is, 11 for a man and 10 for a woman, based on a full working life), or no basic State Pension can be paid. .

2.5. For people reaching State Pension age from 6 April 2010, the two contribution conditions will be replaced by a new, single contribution condition. The number of qualifying years required for a full basic State Pension will be reduced to 30 years for men and women alike. A person who has fewer than 30 qualifying years will be entitled to one-thirtieth of the full basic State Pension for each qualifying year they have built up. The 25% rule is abolished.

- 2.6. These measures will increase the number of people who will qualify for a full basic State Pension (and the number qualifying for any basic State Pension) while maintaining the basic principle underpinning a contributory system – the concept of “something for something”. A person will no longer need at least one year of paid contributions - a record may be composed solely of credited contributions. This means that someone with a lifetime of caring responsibilities will be treated in the same way as someone who has had a lifetime of paid work.

Equality Impact

- 2.7. Replacing the existing two contribution conditions with the new, single, 30 year contribution condition will be of clear benefit to the chronically sick and disabled who may have a broken, or possibly minimal National Insurance contribution record. Some disabled people, such as those in receipt of Severe Disablement Allowance, may never have made a paid contribution as an employee and so be unable to pass the first contribution condition (unless they paid voluntary National Insurance contributions for a year) but could have amassed at least 30 qualifying years of National Insurance credits. These people would go from no basic State Pension entitlement to 100% entitlement if reaching State Pension age after 2010. There are around 200,000 people currently in receipt of Severe Disablement Allowance (although it is accepted that not all will benefit from these measures because of the interaction with the income related benefits).
- 2.8. It will also benefit those people who arrive in the UK later in life and would not have the full, or nearly full working life, that would have been required to build a full basic state under the pre-reformed scheme. We have estimated that around 70,000 people in Great Britain reaching state pension age in 2020 will be entitled to some basic state pension due to the abolition of the first qualifying condition and the removal of the 25% rule.
- 2.9. The changes will be of particular benefit to women from ethnic minority communities. As set out in the DWP’s report on women and pensions² women may face potentially multiple economic disadvantages in later life, which could adversely affect their pension accrual. These are:
- gender pay gap implications in general;
 - discrimination and disadvantage faced by ethnic minority populations as a whole; and
 - issues specific to ethnic minority women affecting their participation in paid work.
- 2.10. There is no single explanation for the generally higher economic inactivity rates and lower employment rates of some ethnic minority women compared with their

² Women and pensions The evidence (DWP November 2005)

white counterparts. Patriarchal family structures and the perception of the role of women may well play a role. In addition, with the possible exception of Chinese women, ethnic minority women tend to plan for larger families than their white counterparts. Consequently they are likely to have longer absences from the labour market with the additional responsibilities that come with larger families. Furthermore, the importance of the intergenerational contract reinforces their role as elder carers.

- 2.11. The changes to the contribution conditions deliberately targets the disadvantage suffered by these groups by valuing social contributions on an equal basis to paid contributions.

Voluntary National Insurance Contributions

- 2.12. People who have gaps in their contribution record are able to buy back missing years by paying voluntary National Insurance contributions to fill in these gaps. Under the normal rules, such payments have to be made no later than six years after the end of the year in question. In response to concerns that the pension reforms – and in particular, the reduction in the number of years needed for a full basic State Pension – will only apply to people reaching State Pension age on or after 6 April 2010, the Government decided to make it easier for some people with a deficient record to buy more years towards their basic State Pension.
- 2.13. For a limited period, and only in specific circumstances, people will be able to buy up to 6 extra years back to 1975, in addition to the 6 years they can buy back under the normal rules. This will apply to people who reached, or who will reach, state pension age between 6th April 2008 and 5th April 2015, provided they have already built up 20 qualifying years including any years for which they qualified for home responsibilities protection. It will help to provide better outcomes both for those who reach state pension age shortly before 6 April 2010 (so too early to benefit from the reduction in qualifying years), as well as those who may not have the opportunity to build up the 30 years needed for a full basic pension under the reforms in the time left before they reach state pension age.

Equality Impact

- 2.14. Of the total of 110,000 people who we estimate will make additional payments for past years under the new rules, 70,000 (64%) are likely to be women. We do not hold enough detailed information from which we could identify ethnicity or disability. Given that this is effectively a one-off exercise designed to deal with past events we do not propose any special arrangements to gather any further information.

Credits for Parents and Carers

- 2.15. Under the pre-2010 arrangements, parenting and caring responsibilities are recognised through a combination of credits and Home Responsibilities Protection (HRP).
- 2.16. A parent of a child under 16, and a foster parent, is eligible for HRP to protect their basic State Pension. Since April 2002, HRP has also been available to protect a parent's additional State Pension, but only where their youngest child is under six. (Additional State Pension built up since April 2002, when it was reformed to make it more generous for those on lower earnings and to extend access to certain other groups, is referred to as "State Second Pension".)
- 2.17. A carer qualifies for credits towards their basic State Pension and State Second Pension if they are entitled to Carer's Allowance. A carer who is providing the equivalent level of care but is not entitled to Carer's Allowance (this may arise because another person receives the allowance for caring for the same individual) is able to qualify for HRP for both basic and State Second Pension.
- 2.18. HRP and credits operate differently for basic and State Second Pension. For basic State Pension purposes, the number of qualifying years a person needs for a full basic pension is reduced by complete years of HRP (although it cannot reduce this number to fewer than 20). Credits for basic State Pension can be awarded for each week the condition is satisfied, and may be combined with earnings to build up a qualifying year.
- 2.19. For State Second Pension purposes, a person is treated as if they had earnings of £13,900 (April 2009 rate) for each complete year of HRP, or for each complete year they qualify for credits. In State Second Pension, credits and earnings cannot be combined in the same tax year.

Changes from April 2010

- 2.20. From 6 April 2010, HRP will be replaced by a system of positive weekly credits for:
 - parents (and guardians) who are awarded Child Benefit for children up to the age of 12;
 - approved foster parents; and
 - people caring for a disabled person or persons for at least 20 hours a week.
- 2.21. The new parent's and carer's credit will help build entitlement to both basic State Pension and State Second Pension, and certain bereavement benefits (Widowed Parent's Allowance and Bereavement Allowance).
- 2.22. For those people reaching State Pension age, or (in relation to bereavement benefits) who die on or after 6 April 2010, each complete year of HRP will be

converted into a qualifying year for the basic State Pension, up to a maximum of 22 years for state pension purposes and half the working life for bereavement benefits.

- 2.23. In addition, from 6 April 2010, credits for State Second Pension will be available for each week a person meets any of the relevant conditions, and it will be possible to combine earnings and credits in the same tax year.

How the changes will affect parents and foster parents

- 2.24. The new system will provide weekly credits for a parent awarded Child Benefit for children up to the age of 12, which will count for both basic State Pension and State Second Pension (and bereavement benefits for a surviving spouse or civil partner). Although HRP is currently available until the youngest child is 16, the reduction in qualifying years needed for a full basic State Pension will more than make up for limiting eligibility for the new credit in this way, and the system of weekly credits makes the system simpler and easier to understand. (As with HRP, if the Child Benefit recipient does not need the credit to enable a year to qualify for pension or benefit purposes, for example because they are working, the credit can be transferred to the other parent.)
- 2.25. The new credit will also help parents build up State Second Pension for longer than under the current arrangements. Parents will be credited into the State Second Pension until their youngest child reaches age 12 as opposed to age 6 under current rules. Approved foster parents, who under the current arrangements qualify for HRP for basic pension purposes only, will qualify for the new credit and will, for the first time, also be able to accrue State Second Pension.
- 2.26. The switch from whole year to weekly crediting in State Second Pension so that a person will be able to combine earnings and credits in the same tax year also reduces the risk of a parent on low earnings “losing” a year of accruals if they have to stop work early in the tax year to care for a new baby.

How the changes will affect carers

- 2.27. As explained above, the existing arrangements apply to people who are providing care for 35 hours a week or more.
- 2.28. The new credit will extend access to basic State Pension and State Second Pension (and bereavement benefits) accrual to people who care for one or more severely disabled people for 20 hours or more a week, rather than 35 hours. Additionally, where the cared-for person is not claiming a disability benefit to help with the extra costs associated with their condition, the carer will still qualify for a credit provided a health or social care professional certifies that the disabled person needs care of at least 20 hours a week. This will ensure that carers of people who, for example because of mental health problems, are resistant to

claiming benefits they would otherwise be entitled to, will still be able to protect their State Pension position. Removing the restriction on combining credits and earnings from paid work for State Second pension accruals will also benefit people on low earnings whose caring responsibilities do not start and end in line with the tax year.

Equality Impact

- 2.29. These provisions will be of significant benefit for people with the care of children and for people who care for others with disabilities – we expect over 1 million additional people will accrue State Second Pension under these new arrangements, of whom over 90% will be women.
- 2.30. Replacing HRP with a positive credit, coupled with removing the first contribution condition and the de-minimus rule, is also likely to be of benefit to women from some ethnic minority groups (in particular, Pakistani and Bangladeshi) who, as explained in the Pensions Bill Regulatory Impact Assessment ³ are likely to derive a larger proportion of basic State Pension from HRP than from work outside the home. Under the reformed scheme, a woman who, for example, spent a total of 22 years looking after children until they reached the age of twelve would, even if she did not build up any other qualifying years, be entitled to a basic State Pension in her own right worth 74% of the full amount. Under the current rules she would not qualify for any basic State Pension of her own; instead she would be dependent on her husband's National Insurance record which would provide her with a basic pension worth 60% of his basic State Pension once they had both reached State Pension age.
- 2.31. The changes will only have a marginal direct impact on people with disabilities. However, by providing more protection for carers, and by providing greater flexibility over the mix of credits and paid employment, it is another step in promoting more positive outcomes for carers and, by extension, the people they care for.
- 2.32. The changes, combined with the introduction of the single contribution condition will, in particular, be of significant benefit to women from ethnic minorities who tend to have larger families than their white counterparts and the additional caring responsibilities this brings.

Credits for people who are long-term sick or disabled

- 2.33. People who are unable to work (or whose ability to work is restricted) due to ill-health or disability build up entitlement to the basic state pension by way of a credit for each week of incapacity. These arrangements are not changing.

³ For link, see footnote on page 5

- 2.34. Since April 2002, people have also been able to build up State Second Pension if they are entitled to long-term Incapacity Benefit (or they would be entitled to it, if they had met the contribution conditions for that benefit) and they meet an additional condition, called the labour market attachment test. This requires the person to have paid National Insurance contributions as an employed earner for at least a tenth of the years in their working life falling after 1978, not including any years during which they were a carer or in receipt of Child Benefit for a child under six.
- 2.35. On 27 October 2008, Employment and Support Allowance was introduced, to replace Incapacity Benefit and Income Support for people incapable of work due to sickness. Initially just for new claimants, those currently receiving Incapacity Benefit and Income Support will gradually be moved on to the new benefit. The new structure of Employment and Support Allowance allows for a more targeted approach to crediting people into the State Second Pension.
- People entitled to the Work Related Activity Component (most people claiming ESA will fall into this group) will become entitled to State Second Pension credits at week 53 of their entitlement (this effectively mirrors the current arrangements for people claiming long-term Incapacity Benefit which is payable after 52 weeks).
 - People entitled to the Support Component (those with more severe, limiting conditions) will be credited into Second State Pension at the end of the Assessment Period which is usually at week 14 of their entitlement.

Changes from 6 April 2010

- 2.36. In order to be credited into State Second Pension currently, a person has to have met the relevant condition for the full tax year. This means that a person who came off long-term Incapacity Benefit and started work in January 2010 (for example) would not build up any State Second Pension for the tax year 2009/10, unless their earnings from their job between starting work and 5 April 2010 came to more than the annual earnings threshold for that year (£4,940). This is because the period they were on benefit could not count as it was for only part of the tax year. If they had stayed on benefit until 5 April, that year would have counted for State Second Pension.
- 2.37. From 6 April 2010, credits for State Second Pension will be available for each week a person meets any of the relevant conditions. So, this would mean that a person in a similar situation to the example described above, would, after 6 April 2010, be able to have any tax year during which they were both receiving a relevant benefit, or benefits, or working, count towards their State Second Pension.
- 2.38. Also, from 6 April 2010, the labour market attachment test will be abolished.

Equality Impact

- 2.39. As explained above, credits for basic State Pension are provided at the outset of incapacity for work through illness or disability. Credits for State Second Pension are provided at the point when entitlement to long-term Incapacity Benefit arises (that is, after 52 weeks' incapacity). These basic arrangements will continue with the introduction of Employment and Support Allowance apart from the beneficial change in respect of people with more severe conditions who will start to build up State Second Pension at the point they enter the support group, normally after 13 weeks.
- 2.40. The abolition of the Labour Market Attachment Test will ensure that the most severely disabled people who have had no, or only limited, opportunity to work will benefit from State Second Pension.
- 2.41. More significant are the changes that will allow credits to be mixed with earnings. These changes will provide all disabled people with greater flexibility in considering labour market opportunities without having a negative impact on their pension accrual.

Restructuring the State Second Pension

- 2.42. In addition to the changes to the crediting arrangements described above, the Pensions Act 2007 reforms and simplifies the way that the State Second Pension builds up. From April 2010, all earnings above the low earnings threshold (currently £13,900) up to the upper accrual point (the point at which a person's earnings cease to build up State Second Pension) will accrue at 10% instead of being split into two bands that build up State Second Pension at different rates. Accruals to this earnings-related element will be phased out by around 2030, so that State Second Pension becomes fully flat rate. Under a further change instead of building up State Second Pension on the first band of earnings at 40%, people will build up State Second Pension on this band of earnings at a fixed amount (£1.60 per week for each year of qualification in 2009/10 terms). This will apply to earnings between £4,940 and £13,900 per year (at April 2009/10). State Second Pension already accrues on a flat-rate basis on this part of a person's earnings (as all earnings falling into this band are treated as being at the band maximum to boost the State Second Pension accruals of those on very low earnings) but the change to a specified amount will make it easier for people to understand how much State Second Pension they are building up. We expect to introduce this change at the same time as the earnings link for basic State Pension is introduced.
- 2.43. The Pensions Act 2008 introduces measures to simplify the three additional State Pension schemes (Graduated Retirement Benefit, the State Earnings Related Pension Scheme and State Second Pension) that today's workers may have contributed to in the past and in which they will have a stake for many

years to come. At the moment these pension accruals are only notional and cannot be given a firm cash value until a contributor retires.

- 2.44. The intention is to consolidate the existing additional State Pension rights, and contracted-out equivalents, currently being built up by people of working age. All additional State Pension rights for this group up to the tax year before the introduction of the new flat rate amount will be converted into a cash valuation. This valuation will be based on the rules and calculations that would have been normally applied to the accruals in a contributor's account at the point they reached State Pension Age. Only those reaching State Pension age after 5 April 2020 will have their additional State Pension consolidated in this way. The cash valuation would be posted onto contributor's accounts and revalued in line with average earnings growth up to State Pension age.

Equality Impact

- 2.45. These measures represent a significant simplification of the additional State Pension which is extremely complex because of the number of changes that have been to it since it was first introduced in 1978. Taking the 2007 Act and 2008 Act measures together, we will in future be able to provide today's workers (and potential savers) with a much clearer and more accurate indication of their overall State Pension in retirement. The changes to the crediting arrangements will extend the coverage of State Second Pension to a wider group of carers, people with children up to the age of 12 and people with more severe levels of impairment (ie. those eligible for the support component in Employment and Support Allowance who will start to build up State Second Pension after 13 weeks rather than 52), and ensure that credits for part-years will count. These reforms will benefit all contributors and people who are credited into the system, but with the targeted nature of State Second Pension, low earners will particularly see the value of these measures.
- 2.46. Analysis of the Family Resources Survey suggests that following the implementation of the reforms, around two-thirds of people with a disability will be accruing State Second Pension in any given year, compared to around three-quarters of the non-disabled population.⁴ (However, without the arrangements for crediting people into State Second Pension which have been extended under the 2007 Act reforms, only around 30% of the disabled working age population would be building S2P entitlement compared to around two-thirds of the non-disabled population.) A key reason for this difference is higher levels of economic inactivity among the disabled working age population – the Labour Force Survey⁵ shows that around 45% of people with a work limiting disability are economically inactive compared to around 16% of the non-disabled population, hence the greater reliance on the crediting arrangements among

⁴ Family Resources Survey, 2005/6-2007/8.

⁵ ONS Labour Force Survey Historical Quarterly Supplement Q2 2007

disabled people.

- 2.47. These figures provide a snapshot in time only. Over the lifetime individuals may engage with the labour market at different ages. The onset, type and severity of disability varies significantly for individuals and this will also have implications for when, how long and to what extent an individual will interact with the National Insurance system.
- 2.48. Among the non-white working age population, following the reforms around a third are estimated to be not accruing S2P at a given point in time compared to around a quarter of the white working age population. A similar proportion of white compared to non-white are estimated to accrue S2P through credits, so this difference is primarily driven by lower levels of economic activity among the non-white population (69% compared to 81% for the white population)⁶. However, this is an aggregate figure that masks significant differences between groups of ethnic minorities and by gender. For example Indian men and women have similar activity rates (85% and 68% respectively) to White men and women (85% and 77% respectively) but, while Pakistani men have a economic activity rate of 78%, Pakistani women have an economic activity rate of only 32%.⁶
- 2.49. People who are registered unemployed (or who have been registered sick for less than 12 months, unless they are in the support group for Employment and Support Allowance) are not credited into State Second Pension. The basic rationale for the State Second Pension is to enable people in low-paid work (or who are contributing in other recognised ways) to build up some second-tier provision; people whose poor health excludes them from participation are also protected, provided they meet the conditions for relevant benefits. Taking account of the fact that the earnings threshold to qualify for State Second Pension is deliberately low (£4,940 in 2009/10) intermittent unemployment is not likely to significantly affect a person's accruals over their working life (although long-term unemployment will reduce State Second Pension accrual alongside a person's capacity to save more generally). Only 130,000 (less than 0.5% of the working age population) of the 1.5 million people in GB had been claiming Job Seeker's Allowance for more than a 12 month period in June 2009.⁷ An individual who qualifies to accrue BSP and S2P for 43 years of their 52 year work life (around 80%) would expect to receive around £165 a week at State Pension age.
- 2.50. Earnings from self-employment do not count for State Second Pension purposes. Although the rates of self-employment among ethnic minority groups overall is no higher than among the white population, the incidence is markedly higher among Pakistani and Bangladeshi workers.

⁶ Labour Force Survey, Q2 2008 to Q1 2009.

⁷ Office for National Statistics: Claimant Count June 2009 from Nomis July 2009

- 2.51. In drawing up the proposals for State Pension reform, we looked at ways in which the self-employed could be brought into the State Second Pension on a voluntary basis. However, we concluded that it was not possible to devise a workable scheme that would have attracted sufficient contributors from both younger and older age groups to enable the rate of additional National Insurance contributions to be set at a level people would be willing to pay.
- 2.52. People who move between employment (or periods of credited contributions) and self-employment are likely still to have the opportunity to build up a decent State Pension.

Category B Retirement Pension – removal of restriction on entitlement

- 2.53. A married woman who is not entitled to any basic State Pension on her own National Insurance record (or who is entitled to less than 60% of the full basic State Pension) is entitled to a State Pension based on her husband's National Insurance record when he claims his own State Pension. This pension is called a Category B pension (as opposed to a Category A pension based on a person's own National Insurance record). Currently, the Category B pension is not payable if the husband decides to defer claiming his own State Pension. A full-rate Category B pension is currently worth £57.05, as at April 2009; roughly 60% of a full-rate Category A basic pension (£95.25). (Under earlier legislation passed in 1995 and 2004, married men and civil partners will also qualify for a Category B pension if their wives or civil partners were born on or after 6 April 1950 and have reached state pension age.)⁸
- 2.54. From 6 April 2010, a person's entitlement to a Category B retirement pension will cease to depend on their spouse or civil partner claiming his or her own State Pension (although the spouse or civil partner will still need to have reached State Pension age and have met the contribution conditions for a Category A State Pension). This measure will enable an individual to make an independent decision about when to claim any State Pension they are due. It also means that a person will be able to decide whether or not to defer his or her State Pension without the concern that his or her spouse or civil partner would have to wait until they finally claimed before they could draw any pension based on his or her record.
- 2.55. The new provision will apply to married women who reach State Pension age before 6 April 2010 as well as to those who reach State Pension age on or after that date. Consequently, married women who are at present subject to the less advantageous conditions of the present scheme will benefit from the reforms.

⁸ This means that married men and women in civil partnerships could start to qualify for a Category B pension from May 2010 and men in civil partnerships from April 2015, taking account of the earliest date on which a man or woman born in April 1950 will reach State Pension age.

Equality Impact

2.56. This measure ensures that people will have the freedom to claim their Category B State Pension independently of the decisions made by their spouse or civil partner about whether to defer or start claiming their own State Pension. We have no information on the extent to which this may benefit people from minority ethnic groups or disabled people specifically, since overall the numbers of people who could potentially benefit from this change are not likely to be significant. This is because a) the total numbers of married men who choose to defer taking their State Pension are relatively low and b) because the introduction of the single contribution condition described above will deliver better outcomes for many people based on their own history of contributions and credits. This means that there will be fewer people needing to rely on the Category B pension provisions for all, or part, of their basic State Pension entitlement.

Abolition of Adult Dependency Increases

- 2.57. As we mention in the preceding section, a married woman over State Pension age is able to claim a Category B State Pension based on her husband's contribution record, if her own contribution record is deficient. This type of dependency also arises where a wife is under State Pension age. Here, provision exists for a husband over State Pension age to claim an Adult Dependency Increase (ADI) in respect of his wife. The ADI is payable at the same rate as the Category B pension (so any ADI in payment for a dependent wife stops once she claims her State Pension). ADIs are not payable if the dependent has a benefit income in their own right, or earnings above a certain amount (in most cases, £64.30 a week). An ADI can also be claimed by a man or woman for someone looking after their child or children and by a married woman who was drawing an ADI of Incapacity Benefit for her husband before she reached State Pension age.
- 2.58. Under legislation introduced in the Pensions Act 1995, as part of the package of changes that include gradually equalising the State Pension age starting in 2010, women in receipt of basic State Pension would be able to claim an ADI in respect of their husbands from April 2010. Under separate legislation, provisions are in place for civil partners to claim ADIs from the same date.
- 2.59. The Pensions Act 2007 introduces legislation to remove ADIs altogether for all new claims made from 6 April 2010, including the new rights extended to married women and civil partners by the earlier legislation. Currently, we estimate that around 45,000 people (predominantly married men) benefit from ADIs. We estimate that by 2020 this could have increased to up to 600,000 without this rule change, mainly due to the increase in female State Pension age from 60 to 65 between 2010 and 2020. (Currently, a married man must be at least five years older than his wife to claim an ADI for her with his State Pension, since the ADI

stops once she starts claiming her State Pension. The increase in women's State Pension age would therefore potentially bring more couples within the scope of the ADI rules.)

Equality Impact

- 2.60. The abolition of ADIs payable with the State Pension could have a bigger impact on ethnic minority groups compared to the white majority if the trend for lower levels of labour market participation in those groups continues in the future (although this effect will take some time to mature, as the ethnic minority population is, on average, younger and therefore a much lower proportion has reached the age for claiming an ADI). Relatively lower rates of employment are also experienced by disabled people although the impact of ADI abolition will have no effect where the disabled person is receiving a benefit in his or her own right, since the ADI would not be payable in that case.
- 2.61. ADIs in payment at the point of change will not be reinstated if the conditions for payment stop after that date, but they will otherwise continue until April 2020. Where the ADI is payable for a dependent aged 55 or over at the date of change, it could therefore continue until they became eligible for their State Pension. The loss of the ADI (or future non-availability of the ADI) will, for the least well-off households claiming income-related benefits, be either fully or mainly offset by a corresponding increase in income-related benefit. (A couple claiming Pension Credit, who would have had other income above the savings credit threshold if the ADI was payable would receive less savings credit as a result of this change.)
- 2.62. The savings from this measure will be re-invested in improving the coverage of the basic State Pension, which will particularly benefit women who have interrupted working patterns due to responsibilities at home. The Government believes that these measures will help modernise the state pension system by removing a benefit that is predicated on dependency and we have no evidence that they will have a disproportionate impact on members of ethnic communities or on disabled people.

Uprating State Pensions in line with Earnings

- 2.63. Linking the basic State Pension to increases in average earnings will, in time, be one of the most significant of all the reform measures in terms of State Pension outcomes.
- 2.64. Over the long-term it will maintain the value of basic State Pension (which in earnings terms would otherwise continue to decline, and be worth less than £45 in 2050) and, with State Second Pension, will provide people with a solid foundation for making private provision. The objective, subject to affordability and

the fiscal position, is to uprate the basic State Pension in line with earnings growth from 2012, but in any event by the end of the next Parliament at the latest. The standard minimum guarantee in Pension Credit will continue to increase at least in line with average earnings in the longer term and provide a safety net for the poorest pensioners unable to build up pension provision.

- 2.65. At the same time that the earning link is introduced, the legal tie between the amount of full basic State Pension and the weekly Lower Earnings Limit in National Insurance will be broken. A person starts to build up State Pension once their earnings have reached the Lower Earnings Limit, currently £95 a week. If we maintained the current linking arrangements after the earnings uprating of basic State Pension is introduced then the Lower Earnings Limit would also have to increase by earnings which could disadvantage some people on low wages.

Equality Impact

- 2.66. Linking the uprating of basic State Pension to average earnings will apply to all pensioners who are entitled to some basic State Pension, regardless of when they reached State Pension age. While the measures to improve coverage are designed to directly benefit those groups who have historically not had the opportunity to build up a decent State Pension, the earnings link is key to ensuring that in the future, the basic State Pension will maintain its value.
- 2.67. Breaking the link between basic State Pension and the Lower Earnings Limit could have a beneficial impact on some people who work part-time. For instance, increasing the lower earnings limit in line with prices rather than earnings would over time enable more part time workers to build up State Pension entitlement.

Increasing the State Pension age

- 2.68. Between 6 April 2010 and 5 April 2020, measures introduced in the Pensions Act 1995 will bring about the gradual equalisation of the State Pension age at 65 for both men and women. Over the same period, the age entry point for Pension Credit will also be increased from 60 to 65 for men and women, in line with the phased increase in women's state pension age.
- 2.69. The Pensions Act 2007 introduces further increases in the State Pension age, so that by the middle of the century it will have increased from 65 to 68. This will affect everyone born on or after 6 April 1959. Starting in April 2024, it will increase from 65 to 66 by April 2026, and will then increase from 66 to 67 between April 2034 and April 2036, and from 67 to 68 between April 2044 and April 2046.
- 2.70. The increases in State Pension age are a necessary part of ensuring the affordability of the long-term State Pension settlement. The measure helps strike a balance between the increasing number of pensioners, the need to provide a

firm State Pension underpin for voluntary saving and the demand on the taxpayer. However, if average life expectancy increases in line with the current projections, this will simply mean that the number of years that men and women will draw their State Pension for will stay about the same, rather than continuing to increase, as would be the case without this change. Thus women reaching State Pension age in 2020 will, on average, be able to draw their State Pension for around 25 years as will those reaching their State Pension age at 68 in 2050. Similarly, men on average can expect to receive their State Pension for around 23 years after reaching State Pension age in both 2020 and 2050.⁹

- 2.71. It should also be noted that the White Paper acknowledged the Pensions Commission's suggestion that the age entry point for Pension Credit could remain at age 65 instead of being aligned with the future increases in State Pension age. The Government believes that the question of whether to increase the qualifying age beyond 65 should be considered nearer the time, taking account of the evidence available then about inequalities in life expectancy.

Equality Impact

- 2.72. A key issue for both people with disabilities and people from ethnic minority communities is that they face disadvantage in the labour market. Compared to the majority of the population they are more likely to be in low paid employment and they are more likely to have broken work records. We also know that people with these characteristics are more likely to be in the socio-economic groups that have below-average life expectancies.
- 2.73. Reliable projections of life expectancy are important for establishing the impact of increasing the State Pension age. Unfortunately we are still some way off being able to establish reliable projections of life expectancy for groups with disabilities or people from ethnic minorities.
- 2.74. The Office for National Statistics currently provides estimates of disability-free life expectancy which estimate the amount of years an individual can expect to live free of a long-standing limiting illness. These show that if trends from the last two decades persist then there should be no reduction in the average number of years after the age of 65 which an individual spends without a limiting long-standing illness due to the rise in State Pension age. On average the number of years that somebody could expect to live without a long-standing limiting illness has increased by around a year per decade since the 1980s.
- 2.75. The evidence around life expectancy and ethnicity is more limited. However we are aware that some ethnic groups are more likely to be in manual and unskilled social classes¹⁰, which we know, on average, have lower life expectancies. This

⁹ Based on the Government Actuary Department's 2006 projections; median cohort measure of life expectancy.

¹⁰ Estimates derived from 2001 census data show that in England and Wales around 40% of people of White British origin are in manual social classes (classes IIIM, IV & V) compared to 47% of Pakistani and

suggests that there may be some variation in life expectancy according to ethnicity.

- 2.76. However, some ethnic groups are more likely than the white population to be in social classes with higher life expectancies so it is important to recognise that the picture is not uniform. Recently produced academic work¹¹ supports the idea that life expectancy may vary according to ethnicity, although the methodology is experimental and at an early stage of being refined¹². Again, without projections of future trends in life expectancy it is not possible to fully assess the impact of increases in State Pension age.
- 2.77. It can also be noted that life expectancy for all social classes has been improving over the last decades. Data from the Office of National Statistics Longitudinal Study show that had the State Pension Age increased from 65 to 67 between 1981 and 2001, all social classes of men and most women would still have seen an increase in the number of years spent in retirement.
- 2.78. The Government has acknowledged these deficiencies in data and the real risk that some groups may be disadvantaged by these changes. As set out in the White Paper¹³ it will periodically commission reviews, drawing on expert advice that could, amongst other issues, provide detailed analysis of disparities in life expectancy between social groups and the relative effects on these groups of increases in State Pension age.
- 2.79. As a consequence of these changes, people will have different State Pension ages depending on when they were born. We consider that this difference in treatment is justified, firstly, because it is accepted by most commentators that raising the State Pension age is an appropriate response to increasing life expectancy; secondly, the increases are in proportion to the projected increases in life expectancy and thirdly, not to increase the State Pension age would result in an unfair and unsustainable cost being passed to younger generations. People affected by the changes will have had at least 15 years to adjust their plans for retirement by the time they reach their new State Pension age.
- 2.80. State Pension age will be equalised at age 65 over the period from 2010 to 2020 as a result of the Pensions Act 1995. (The Department is in the process of undertaking equality impact assessments of policies that were already in existence before April 2006. We plan to complete this work by the end of 2009).

51% of Bangladeshi. However these are not national statistics and should be treated with extreme caution.

¹¹ Rees, P. and Wohland, P. (2008) *Estimates of Ethnic Mortality in the UK*. Working Paper. The School of Geography, The University of Leeds.

¹² Ibid. The report suggests that individuals from Pakistani and Bangladeshi ethnic backgrounds may have lower life expectancy on average than individuals from White British backgrounds whilst those from Chinese and Black African backgrounds may have higher life expectancy.

¹³ Security in retirement: towards a new pensions system

Pension Credit simplification

- 2.81. The Pensions Act 2008 introduced changes to the “assessed income period” in Pension Credit. An assessed income period is a specific period, normally of up to five years (up to 7 years under transitional provisions) during which time the Pension Credit customer’s or partner’s retirement provision (broadly, income from capital, annuities and non-state pension) is deemed to stay the same. Those customers aged 65 and over can have an assessed income period if they satisfy the relevant qualifying conditions.
- 2.82. The assessed income period is a fundamental part of the design of Pension Credit. It was introduced to reduce the level of intrusion normally associated with an income-related benefit. During the assessed income period the customer is not required to report changes to their retirement provision.
- 2.83. When the assessed income period ends there is a requirement to then consider the setting of another assessed income period. At this point the customer is asked to provide information and evidence of their current circumstances. This process is similar to what the customer would have needed to provide at the outset of their claim.
- 2.84. To reduce the level of intrusion further and to simplify procedures, the 2008 Act removes the limit of five years on the assessed income period for those customers aged 75 or over who would have been given a full assessed income period on or after 6 April 2009 and for those customers who already have an assessed income period of five years or more which expires when they are aged 80 or over. This means that the assessed income period will continue to run-on unless brought to an end by certain specific circumstances such as where the customer ceases to be the member of a couple or where a single customer enters a care home on a permanent basis. This will therefore remove the need for the Pension Service to review the case and the customer to provide detailed information every five years.

Equality Impact

- 2.85. The change will affect those pensioners aged 75 or over who are given a full assessed income period on or after 6 April 2009 and those aged 80 who already have a full assessed income period at that date or whose assessed income period spans their 80th birthday (and effectively removes this group from further means-testing).
- 2.86. As older pensioners are more likely than those in younger age groups to be disabled it is reasonable to expect that a change such as this one, which is targeted at older customers, would have a disproportionately positive impact for disabled people. Our analysis indicates that of the 700,000 awards that include an additional amount for severe disability, around 500,000 have an assessed

income period and meet the age requirements for the assessed income period run-on.

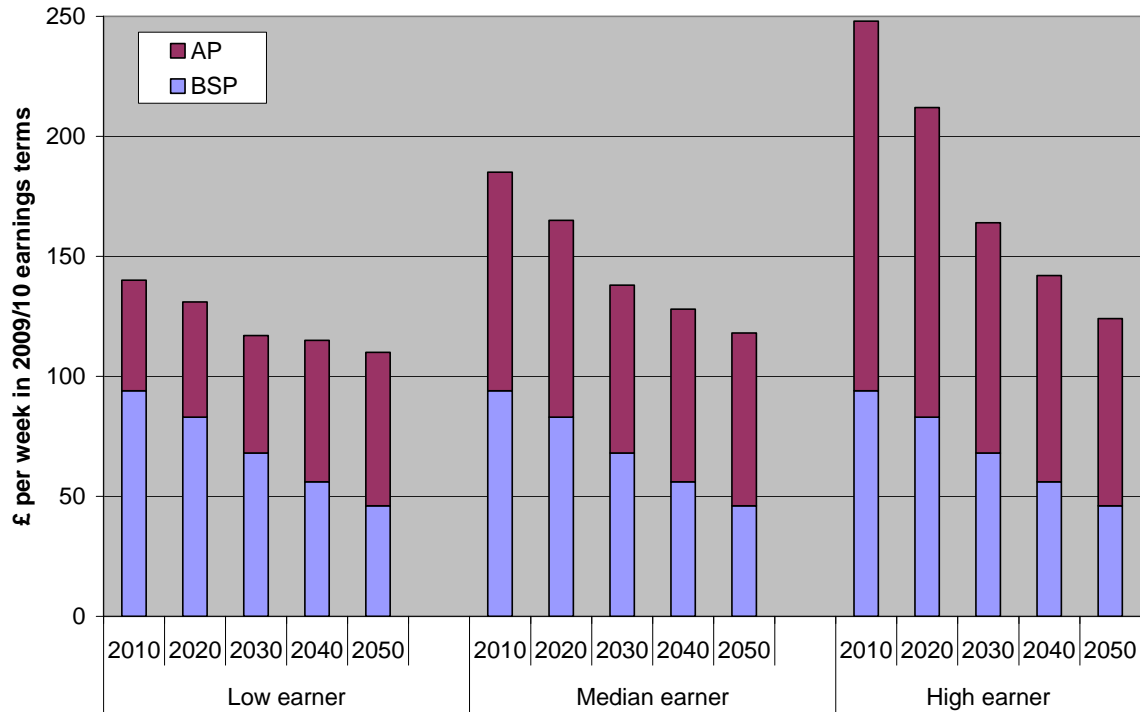
- 2.87. We have no information on the extent to which this may benefit people from minority ethnic groups, but the change applies to those with a full assessed income period who meet the age criteria irrespective of ethnic group.
- 2.88. The change would affect those pensioners aged 75 or over who are given a full assessed income period on or after 6 April 2009 and those aged 80 who already have a full assessed income period at that date or whose assessed income period spans their 80th birthday. The effect is dependant upon age and whether an assessed income period is in place. It would therefore apply equally to men and women alike.
- 2.89. However, given that nearly 60% of all Pension Credit recipients are single women and that they tend to be older, it is reasonable to expect the change will have a positive impact on more single women. Our analysis indicates that around one million claims from single women will meet the requirements for the assessed income period run on, this represents around two thirds of all those benefiting from the run on.

Overview of the outcomes of State Pension Reform

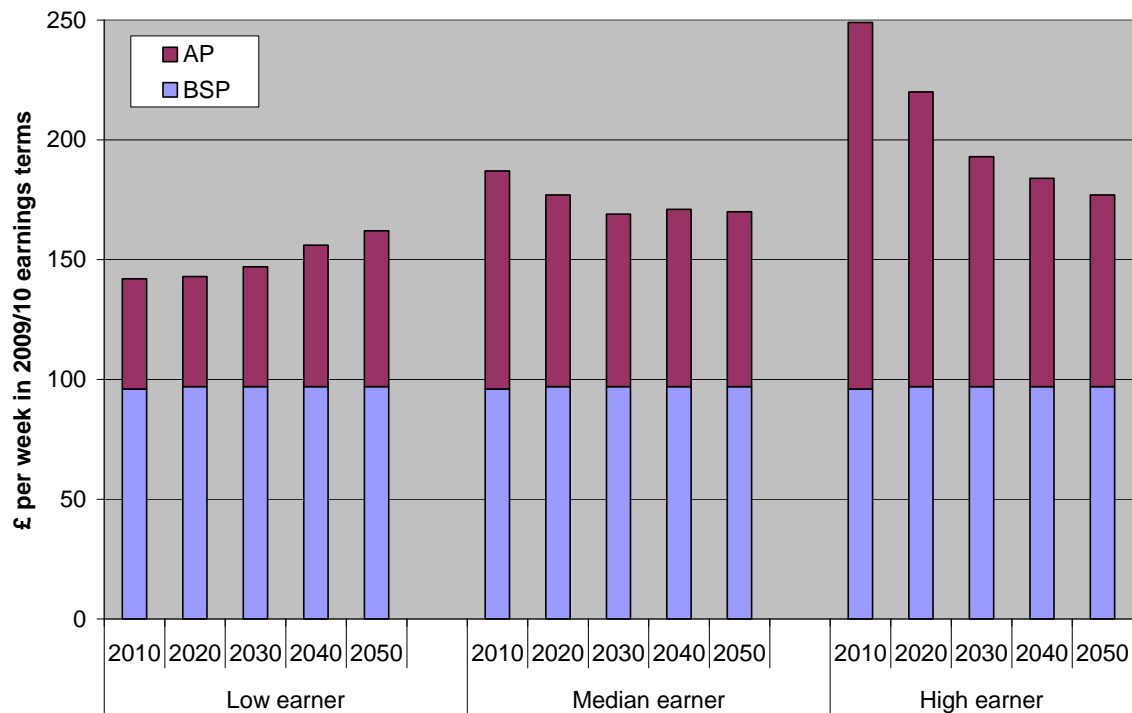
- 2.90. We know that people with disabilities and people from ethnic minority communities are more likely to be in lower paid employment and have disrupted work patterns compared to the general population. At the heart of the reforms described here is a design intended to have the greatest beneficial effect on those groups who face disadvantage in the labour market. The charts on the next page show State Pension outcomes in the long-term for people who have low lifetime earnings and/ or high levels of caring responsibilities, compared to those on median and high earnings.

State Pension Outcomes for individual contributing from 25 to State Pension age, reaching State Pension age in 2010 to 2050 (2009/10 earnings terms):

Before reform:



After reform:



Source: Department for Work and Pensions modelling using the I-Pen model, 2009/10

3. Measuring Progress Under the Duties

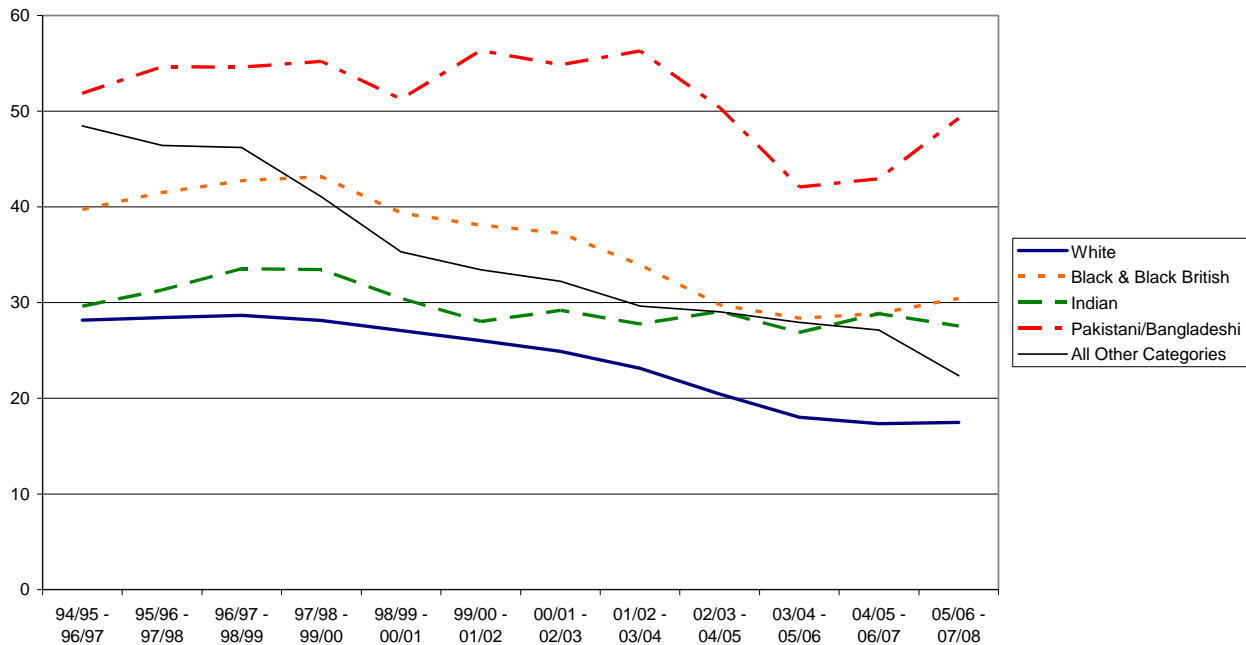
This chapter explains how we propose to monitor the impact of the changes; the limitations imposed by the data currently available to us and what steps we are taking to improve the data to enable us to provide more detailed information in the future

- 3.1. For disabled people receiving the qualifying benefits (ie. with actual or underlying title to Employment and Support Allowance or long-term Incapacity Benefit) we can be reasonably assured that their State Pension position (both for basic State Pension and State Second Pension) is protected under the reforms. Equally, for those who work any more than very modest hours, we know that their position will be protected if they earn over £4,940 (or £95 a week) (at April 2009 rates).
- 3.2. We know that disabled people are more likely to be unemployed than non-disabled people. The reforms should ensure that a person will end up with a full, or near-full basic State Pension even if they experience lengthy spells of unemployment, provided they are registered as unemployed. Disabled people are more reliant on the crediting arrangements for their State Second Pension accruals than non-disabled people. The extension of the existing arrangements to bring in parents of children under 12 rather than six, and those providing care of 20 hours a week or more should help to improve their State Second Pension outcomes. We do not, as yet, have sufficiently robust data relating to disabled people who are not receiving relevant benefits to accurately monitor outcomes by impairment type.
- 3.3. In a similar way, people from ethnic minorities who have broken work records, or those who have not been in the country long enough can still have positive outcomes from a reasonable period of labour market participation or through caring. In an ideal situation we would want to monitor accruals during working life for all ethnic groups to establish if accruals into basic State Pension and State Second Pension were distributed equally. However, there are formidable difficulties in collecting this information. The key difficulty would be to establish if all groups who worked were covered proportionate to the overall size of the particular group in the population. This would of course require employers to collect and return information on ethnicity. There are no plans to require this.
- 3.4. Similarly, if DWP were to collect information regarding ethnicity to ensure that the crediting systems in basic state Pension and State Second Pension covered ethnic groups equally, this would require all of the credit entry point systems – for example, Child Benefit or Carer’s Allowance - to collect information about ethnicity. We already know that in those systems where details of ethnic group are collected – for instance, new claims to Jobseeker’s Allowance – that the collection systems are not robust. Enforcing the collection requirement across

systems is likely to cause many difficulties with no assurance that the information collected will be any more robust than the information collected now.

- 3.5. For the time being we propose to use survey data and focus on information already collected on ethnicity through the Family Resources Survey with Household Below Average Incomes (HBAI) currently reporting on the position of ethnic minorities. HBAI publishes the percentage of pensioners in households below 50, 60 and 70 per cent of contemporary median household income before and after deducting housing costs, together with information on the quintile distribution of income for pensioners, by ethnic group.
- 3.6. It will be possible to use this data to provide a broad overview of progress in ensuring that the Pensions Act 2007 reforms in particular improve the contributory pensions and equalise outcomes across all ethnic groups. The approach lacks refinement – for instance, the small statistical size makes it difficult to provide a robust time series in any more detail than the broad groups shown even when using three year averages. It is also difficult to disaggregate the different factors – the outcomes are for the whole of the pensioner group (rather than more contemporary information on, say, the newly retired).
- 3.7. That said, the information should provide a dynamic account of changes in pensioner incomes across the groups. The chart below shows how outcomes have changed since 1994/95 against the 60 per cent contemporary median income threshold.

Percentage of Pensioners below 60% of contemporary median household income after housing costs by ethnic group 1994/95-1996/97 to 2005/06-2007/08



Source: Households Below Average Income

Notes:

1. The ethnic group categories used by HBAI changed in 2000/01. It is not possible to separate out definitional and real effects.
2. Date up to 2001/02 corresponds to Great Britain, while data from 2002/03 corresponds to the United Kingdom
3. Pensioners are classified to the ethnic group of the household reference person
4. A three year average is given, as robust single year estimates cannot be produced because of small sample sizes.

3.8. In the long-term there is potential for more refined approaches. Both the English Longitudinal Study of Ageing and the UK Household Longitudinal Survey will aim to use data linking between survey data and administrative data (with the permission of the survey participant). Under this method characteristics collected via survey data can be linked to administrative data. The outcome could be much more reliable information about individuals, their working life histories and the impact this has on their income in retirement. The UK Household Longitudinal Survey in particular has a large sample size which will enhance the analysis of people from ethnic minorities.

3.9. It may be that over time these new approaches could provide a much more targeted way of gathering information on both people with disabilities and people from ethnic minorities.