

Many layers to single-tier pension

The new state pension system is now less than three years away.

Given the Government's patchy record on implementing new IT projects, it was a surprise when the Chancellor revealed in an interview on the Sunday before the Budget that the start date for the new single-tier pension would be April 2016.

Until then, the Department for Work and Pensions (DWP) had said "2017 at the earliest." In any event, the basic legislation is now before Parliament and more information is emerging about how the scheme will operate.

'£144 a week' The single-tier pension is often described as being a £144 a week flat-rate pension (at least in 2012/13 terms), earned if you have a satisfactory national insurance contributions (NICs) or credits record covering 35 years. However, matters are not that simple. There are complex rules covering the transition from the current pension regime to the new system.

The DWP has supplied limited information about how transitional adjustments will be made, but it does look as if contracting out will mean many people close to retirement may not receive a £144 a week single-tier state pension, even with a 35-year NICs record.

NICs for nothing The end of the state second pension (S2P) will mean that once you have accrued a single-tier pension of £144 a week, you will continue to pay full NICs but earn not a penny extra in state pension benefit. This could happen immediately from April 2016 if the transitional calculation deems you to have accrued £144 or more.

Women and the state pension age (SPA)

If you are a man born on or after 6 April 1951 you will reach your SPA under the single-tier regime. If you are a woman, the earliest date of birth to reach SPA under the new rules is two years later – 6 April 1953.

This does at least mean that you should benefit from the single-tier pension if you have had two SPA increases because of legislative changes.

It is not possible to circumvent the April 2016 date by deferring the start of your state pension.

The new single-tier pension is no retirement panacea – because it is designed to cost no more than the current system, it cannot be more generous to some without being meaner to others. Private provision is still needed for a comfortable retirement.

