Single-tier, but many layers

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

When the Department for Work and Pensions (DWP) launched its White Paper on the single-tier state pension in January, it said the new scheme would begin "in April 2017 at the earliest." Given the Government's patchy record on implementing major IT projects, the four years-plus timeframe looked understandable, if not slightly optimistic.

It was therefore 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. It took a couple of days for the DWP to catch up with Mr Osborne and issue a press release confirming the revised date. Some experts reckoned the change had more to do with bringing forward the Treasury's increase in income from national insurance contributions (NICs) than from any desire to rationalise the current pension system.

Either way, the basic legislation for the new single-tier pension is now working its way through parliament in the Pensions Bill 2013. At the same time, more information is emerging about how it 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 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. These are designed to take account of the state pension you have accrued to April 2016 and, if you were contracted out of the additional state pension (SERPS and/or S2P), the replacement pension you earned as a result.

The DWP has supplied only limited information about how the contracted out adjustment 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 if they have a 35-year plus 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. The older you are, and the longer you have been a member of SERPS/S2P rather than contracted out, the more likely such a situation is.

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 if you have had two increases to your SPA as a result of legislative changes, you should benefit from the single-tier pension.

It is not possible to circumvent the April 2016 date by deferring the start of your state pension: what counts is your SPA, not when your pension payment begins.

The new single-tier pension is not a 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.

Nudge, nudge…

The auto-enrolment regime for pensions is now well underway, with over 300,000 employees enrolled in pension arrangements by the end of March. Auto-enrolment is a product of behavioural finance, which offers insights into the psychology behind investment. In the context of pensions, behavioural finance has shown that by nudging people to join schemes, take up – and ultimately retirement benefits – can be significantly improved. Once auto-enrolled, inertia will often mean people do not opt out, even though they can do so at any time. Government policy is looking to use behavioural finance in other areas too, for example chasing up unpaid tax.