



Single-tier or No-tier pensions?

The Department for Work & Pensions (DWP) is writing to over 100,000 people with bad news about their state pension.

The new single-tier state pension was launched in April of this year, but the way in which it was introduced has drawn much criticism. The heavy emphasis given in DWP publicity to the flat amount of about £155 a week in DWP publicity meant that some of the downsides of the new pension system received little, if any, attention. This prompted the House of Commons Work and Pensions Select Committee to say in a recent report that government communications were “contributing to confusion about the new system.”

The DWP has now announced that it will be sending individual letters to over 100,000 people telling them that they will not qualify for *any* state pension, never mind £155 a week. Their loss is the result of a change to the qualifying requirements for a state pension. Under the previous system, only one full year’s National Insurance contributions/credits was required to accrue some (albeit small) entitlement to state pension. Under the single-tier system, there is no entitlement until ten years’ contributions/credits have been clocked up.

The ten year qualifying period is just one example of how some people have been disadvantaged by the move to the single-tier system. If you were a member of a final salary pension scheme between 1978/79 and 1987/88 you could also be on the losing side because under the old rules your guaranteed minimum pension (GMP) would have been inflation-proofed by the state, but it is not under the single-tier.

These two examples are a reminder of the importance of obtaining a state pension projection – particularly if you are 50 or over – and understanding what it means. There may be ways to counter any loss, but as ever in the world of pensions, expert advice is necessary to avoid potentially costly pitfalls.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.