

## Retirement Pension

The State Retirement Pension was first introduced on 1 January 1909. The foundation of a universal contribution-related basic Retirement Pension was laid in the 1940s.

There are two main types of Retirement Pension: **contributory** and **non-contributory**. Contributory Retirement Pension consists of any combination of a Basic Pension (BP), Additional Pension (AP) or Graduated Retirement Benefit (GRB). Non-contributory pension consists of a Basic Pension plus any Graduated Retirement Benefit that is due.

The two categories of contributory retirement pension are:

- Category A-based on a person's own National Insurance contributions, and
- Category B-dependant on the contributions paid by a spouse.

The two main conditions for payment are that:

- the person has reached State pension age (presently 65 for men, 60 for women), and
- the contribution conditions are satisfied.

People who meet the contribution conditions get a flat rate basic pension at the standard rate. If the conditions are only partly met, the basic pension is paid pro rata. To get the minimum basic pension payable (25 per cent) a person normally needs approximately 10 qualifying years. From April 1978, a person's contribution record can be protected, if their opportunities to work are limited because of responsibilities at home, such as bringing up a family or looking after a sick or disabled person.

Extra money for dependant children can be paid with Category A or B pensions. Extra money can also be added to a Category A pension for a dependant spouse or someone who looks after the children.

The Categories of non-contributory retirement pension are:

- Category C-payable to people over State pension age on 5 July 1948. The widow of a man who was over 65 in July 1948 can also get a category C pension.
- Category D-is awarded to people who
  - reach the age of 80
  - satisfy certain residency conditions, and
  - failed to qualify for a category A or B pension, or
  - receive less than the non-contributory rate.

If a person does not take their retirement pension until after State pension age, or cancels their claim, they can earn increments. The amount of the increment is approximately 7.5% per year of deferred retirement on the basic rate.

The results contained in this publication are derived from a 100% validated extract of 'live' cases taken from the Pensions Strategy Computer System (PSCS).



## Glossary of terms and Conventions

### Glossary of terms

#### *Age Addition*

All pensioners over 80 years old get an age addition of 25p a week.

#### *Additional Pension (AP)*

This is the earnings-related benefit element of the state retirement pension; contributions are made via the State Earnings Related Pension Scheme (SERPS). The amount payable is based on the earnings between the lower and upper earnings limit for National Insurance contributions in tax years from April 1978 up to the final relevant year. The final relevant year is the last complete tax year before a person reaches state pension age. Earnings for the years before the final relevant year are revalued in line with the growth in average earnings. A widow or widower may inherit some or all of their deceased spouse's additional pension. The maximum proportion that can be inherited is to reduce in line with occupational schemes to 50% for contributors who reach pension age on or after 6 October 2010. For contributors who reach state pension age on or after 6 October 2002, the change will be phased in using a sliding scale. Men may also inherit AP if their wife dies and both of them are over state pension age or if they qualify for one of the new Bereavement Benefits from 9 April 2001.

#### *Additional Pension Only*

Additional Pension can be paid even when the person has no entitlement to a basic pension. A person can build up a small amount of entitlement to AP if they earn above the annual lower earnings limit for National Insurance Contributions in just one year. However, in order to receive the basic pension a person would normally need to have approximately 10 qualifying years (see Introduction).

#### *Basic Pension (BP)*

This is a flat rate pension paid for each of the 4 categories listed below. Please note that for statistical purposes the tables also show two sub categories, ABL and BL (see notes below).

#### *Category A Pension*

This is based on a person's own National Insurance contributions. A composite pension, Category ABL, based on both the personal and spouse's contributions, can also be paid up to a maximum amount of 60% of the standard category A rate.

#### *Category B Pension*



This is based on the spouse's National Insurance record. It is paid when a widow or widower is not entitled to a category A pension in his or her own right. Any category A entitlement would be topped up by the spouse's contributions before a category B pension would be considered. The maximum is the same as the standard category A rate. A Category BL pension is payable when a married person is not entitled to a category A pension but their spouse is. It is currently paid at approximately 60% of the standard category A rate.

### *Category C Pension*

A category C pension is non-contributory. It is payable to people over State pension age on 5 July 1948, and are therefore excluded from the National Insurance scheme. The widow of a man who was over 65 in July 1948 can also get a category C pension. The amount paid is equal to approximately 60% of the standard category A rate. There are a small number of cases still in payment.

### *Category D Pension*

A category D pension is non-contributory. It is awarded to people who reach the age of 80, satisfy certain residency conditions, and failed to qualify for a category A or B pension, or who receive less than the non-contributory rate. The amount paid is equal to approximately 60% of the standard category A rate.

### *Contracted Out Deduction (COD)*

The Additional Pension accrued between 6 April 1978 and 5 April 1997 is reduced when someone has been a member of a contracted out scheme or personal pension used in place of SERPS. Contracted out salary related schemes provide a Guaranteed Minimum Pension (GMP) worth about the same as the Additional Pension payable under the state scheme. In the state scheme this is now termed the Contracted Out Deduction. The Additional Pension is reduced by the contracted out deduction to prevent double provision. With contracted out money purchase schemes, and personal pensions, there is no guaranteed minimum but the Additional Pension is reduced in a similar way. A widow or widower is entitled to half of the GMP of their spouse. This will result in an appropriate contracted out deduction being made.

### *Dependency Addition*

This is extra money paid for dependant children, a spouse or someone looking after the children. The rate paid for a child is always at the full rate provided there is some basic pension in payment. The amount paid for a wife or someone looking after the children is reduced in proportion to the amount of basic pension due. The maximum payable for a dependant wife is 60% of the category A rate.

### *Graduated Retirement Benefit (GRB)*

This is paid to those people who paid into the graduated pension scheme that ended on 5 April 1975. The entitlement is based on each unit of graduated contributions paid (£7.50 for a man, £9.00 for a woman). A pensioner can delay claiming and earn increments in the same way as for other parts of the pension. A widow or widower can get half of any graduated retirement benefit for which their spouse had qualified.



### *Graduated Retirement Benefit Only*

Provided they have earned entitlement under the GRB contribution conditions, GRB can be paid even when the pensioner does not satisfy the contribution conditions for a basic pension.

### *Gross Additional Pension*

This is the amount payable before the Contracted Out Deduction has been applied to the Additional Pension.

### *Increments (Incs)*

If a person does not take their retirement pension until after State pension age, or cancels their claim, they can earn increments. They get the increments with the pension they get on their own National Insurance Record, either when they do claim or five years after they have reached State pension age. The amount of the increment is about 7.5% per year of deferred retirement on the basic rate, including invalidity allowance and additional pension. The minimum deferment is 42 days. A married woman can earn increments whether her pension is based on her own or her husband's National Insurance Record or both. Increments on her husband's National Insurance Record can only be earned if the couple are both over State pension age. A widow can have increments earned by her husband added to her own subject to inheritance rules.

### *Invalidity Addition (IVA)*

This is paid to a person who was entitled to Invalidity allowance, as an increase of invalidity pension, at any time during 8 weeks before they reach State pension age. The amount they get is the rate of invalidity allowance they were entitled to when they reached State pension age. The rate of invalidity pension is reduced by the notional rate of additional pension.

### *Net Additional Pension*

This is the entitlement to Additional Pension after reduction for Contracted Out Deduction earned between 6 April 1978 and 5 April 1997.

### *Overseas Pensioners*

People living outside the UK will not get annual increases in Retirement Pension except in EEA countries or one of the countries covered by the appropriate legislation.

### **Conventions**

£pw	Pounds per week	Incs	Increments
AP	Additional Pension	IVA	Invalidity Addition
COD	Contracted Out Deduction	-	Numbers less than 5 not disclosed
BP	Basic Pension		due to DSD customer
GRB	Graduated Retirement Benefit		confidentiality policy
PSCS	Pensions Strategy Computer System		



## Effects of the new Tax Credits

Figures in this and future publications are affected by the introduction of Child Tax Credit (CTC) in April 2003. The main changes are:

- Child dependency increases paid with non-income related benefits are abolished for new claims to State Pension, Bereavement Benefit, Incapacity Benefit and Carer's Allowance from April 2003.
- CTC will replace the child elements of Income Support and Income-based Jobseeker's Allowance (JSA(IB)). This will happen from April 2004 onwards.

Dates when there may be particular changes in the figures are:

- April 2003, when Child dependency increases paid with non-income related benefits are abolished for new claims.
- October 2003, when it is planned that families on Minimum Income Guarantee (MIG) with children will have child elements migrated to CTC.
- Financial year 2004/05, when families on Income Support and Income-based Jobseeker's Allowance will have child elements migrated to CTC.

A small number of IS/JSA(IB) recipients will no longer be eligible once CTC is in payment. This is because CTC payments will raise total income above the IS/JSA(IB) threshold, or other income exceeds the threshold once child allowances are removed. We therefore advise that customers exercise caution when performing year on year comparisons, or when comparing the previous quarter.

