Scheme Member Zone

State Pension Age

One of a series of Factsheets and Quicknotes in the Module:
Drawing my Benefits

Information
Education
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Preserved Members

State Pension Age – Preserved Members

This Factsheet discusses some of the most common issues that you should be aware of in respect of **State Pension Age** and how these can affect your pension benefit from your employer's pension scheme.

It is written for people with a **preserved benefit** held within a **defined benefit scheme**.

- Introduction
- What is State Pension Age?
- Why is State Pension Age important to me?
- Why could my pension benefit change at State Pension Age?
- What sort of changes to pensions are there?
- Why could there be changes to any increases I get on my pension?
- Do I get the same increases to the whole of my pension in payment?
- Will State Pension Age rise in the future?
- Why should a rise in State Pension Age bother me?
- Summary & Key Points

Introduction

This Factsheet looks at the major issues about State Pension Age that YOU should be thinking about when it comes to retirement planning. It is designed to make you think about various aspects of how State Pension Age could affect your pension benefits.

Some of the points are more obvious than others, but they are all important.

If you have paid (or been credited as having paid) National Insurance contributions, State Pension Age is the date when you would receive retirement income from the State. You may become entitled to benefits arising from the:

- Graduated Retirement Scheme
- Basic State Pension
- State Earnings Related Pension Scheme
- Second State Pension (S2P)

So take a while and think about State Pension Age. If you are intending to get advice from a Financial Adviser these are the types of issues you should expect to be asked to consider (and often many more).

For more information see our Factsheets State Pensions.

What is State Pension Age?

State Pension Age is the age at which you will become entitled to receive any pension benefit that you have been credited with from the State Pension schemes.

State Pension Age has historically been 65 for males and 60 for females.

However, European legislation demands that pension provision does not discriminate on the grounds of sex so the State Pension Age is being equalised at age 65 for men and women.

The change is being phased-in over a 10-year period from 6th April 2010.

After this date, State Pension Age for women will increase.

- Women born before 6th April 1950 are not affected by the change.
- Women born between 6th April 1950 and 5th April 1955 will have a State Pension Age which gradually rises from 60 to 65 (see our Table of female State Pension Age).
- Women born after 5th April 1955 now have a State Pension Age of 65.

Why is State Pension Age important to me regarding my defined benefit scheme?

The obvious answer is that at State Pension Age you will become entitled to receive any pension benefits that you have been credited with from the State Pension schemes. You might therefore expect to receive both your state pension and your employer’s pension benefits at State Pension Age. This may well be the case but the two benefits may also affect one another in ways that you don’t expect.

For example - if your employer’s pension scheme starts paying your benefits before State Pension Age, the amount they pay may change once you reach State Pension Age.

So, if you are due to start receiving your employer’s pension before State Pension Age, you should check now to see whether it will change once you reach State Pension Age.

When planning for your retirement you need to be aware of any changes to your employer’s pension benefits which may affect your lifestyle. If you don’t know about it, any change for the worse (such as a reduction to your pension benefit) could come as an unwelcome surprise. If you do know about it, you can plan ahead.

Your pension Scheme Rules should explain the reason for any changes.

Not all pension schemes make changes to pensions in payment but it is important to identify whether yours does, and if it does, whether it will apply to your benefits.

Don’t rely on information from old scheme booklets which may be out of date. Write to the trustees or scheme administrators of your pension scheme.

Why could my pension benefit change at State Pension Age?

There are a number of reasons why your employer's pension benefit may change at State Pension Age. The Rules of your employer's pension may be designed to adjust your pension benefits simply because you are due to receive your State Pension. It may also depend, for example, on how your employer's scheme deals with:

- equalising pension benefit for males and females (See our Factsheet on Equal Treatment for more detail),
- any company takeovers or scheme mergers that have happened or
- any transferred-in pension benefit you may have made from another employer or pension arrangement.

Is this likely to happen to me?

If you start to receive your employer's pension before State Pension Age it is possible that a change could occur when you reach that age:

- to *the amount* of pension you receive (e.g. as in an increase or Decrease to your pension) or
- to *any pension increases* you receive afterwards.

This might happen to you if:

- your pension age or Normal Retirement Date (NRD) is earlier than your State Pension Age (e.g. your pension age or NRD is 60, but your State Pension Age is say, 65)
- your employer's scheme has allowed you to take 'early retirement' so you start to receive your scheme pension benefits earlier than your pension age or Normal Retirement Date (e.g. you want to take early payment at say, age 58, but your employer's scheme pension age or NRD is 60, and your State Pension Age is later still)
- your employer's scheme benefit starts being paid early on the grounds of ill-health, as ill-health benefits are paid before pension age or Normal Retirement Date (e.g. you received an ill-health pension from age 49 but your State Pension Age is later)

What sort of changes to pensions are there?

Many pension schemes make amendments to pensions at State Pension Age and for a variety of reasons.

So, if you are going to receive your pension benefit before State Pension Age, you should check to see whether any changes will occur at State Pension Age. Your pension scheme should explain the reason for any change.

Not all pension schemes make changes to pensions at State Pension Age but it is important to identify whether yours does, and if it does, whether it will apply to your benefits.

Changes to look out for include:

- a reduction to your pension
- an addition to your pension
- changes to your pension increases

Here are three examples of common changes that occur to employer's pension schemes when pensions are in payment.

Example 1:

Payment of a 'temporary' or 'bridging' pension

In addition to your pension you may be granted an *additional* temporary pension – paid between two dates but which then ceases altogether -

e.g. £5,000 p.a. pension at age 60
plus £600 p.a. paid from age 60 but ceasing
at State Pension Age (e.g. 65)

The thinking behind this may be that because you cannot take your State Pension until State Pension Age your employer's scheme is providing financial assistance until then.

Example 2:

Payment of an ‘additional’ pension

An additional employer’s pension paid when you reach a particular age –

e.g. £6,300 p.a. pension at age 60
plus an additional £500 p.a. pension paid
from State Pension Age (e.g. 65)

This employer’s pension scheme provides an extra reward to its pensioner members.

Example 3:

A ‘reduction’ to the pension you receive from your employer’s pension scheme

Where your pension reduces at a certain age –

e.g. £8,300 p.a. pension at age 60
reducing by £640 p.a. at State Pension Age
(e.g. 65)

This is similar to a temporary pension, but may differ in the method of calculation or the way increases are made.

Remember that once your employer’s pension starts being paid, if any changes are made at State Pension Age those changes could also affect any dependants’ benefits on your death.

Why could there be changes to any *increases* I get on my pension?

Once your scheme starts to pay your pension, regular increases or growth of your pension is called ‘inflation protection’ or ‘escalation’.

Whether you receive any escalation will depend upon the Scheme Rules, although there are some pension increases that are statutory (must be paid by law) – but these depend upon the type of pension scheme and the dates when you built up your pension benefit. (This is explained in more detail in our Factsheet Pension Increases).

Many pension schemes choose to alter the way pension increases are granted to pensions in payment when a member reaches State Pension Age.

Example:

The Rules of Jim’s pension scheme grants pension increases of 5% p.a. on the whole of his pension where payment starts before State Pension Age. On reaching State Pension Age it then amends the method of calculation so that only a *part* of the pension receives the 5% p.a. increases thereafter.

Jim can take his pension at age 60 when he will receive £10,340 p.a.

The *whole* of his pension will increase by 5% p.a. until his State Pension Age (65 in Jim’s case).

At age 65 his pension will have grown to £13,196 p.a.

but his pension scheme will then only provide increases to certain ‘slices’ of his pension – in his case totalling £10,390 p.a. The remaining £2,806 p.a. won’t increase at all from age 65.

This will make quite a difference to Jim’s pension over a period of time. If Jim had known earlier, he could have made additional financial arrangements.

You should find out if this could apply to you because depending upon the amount of the pension concerned it may affect your standard of living in retirement.

Unfortunately, changes to pensions in payment can be very confusing, mainly due to all the legal rules but often because of the different terminology used which can be inconsistent between pension schemes, administrators and advisers.

Typical terminology for the main types of changes that occur to a pension once in payment include ‘temporary’ pension, ‘supplementary’ pension, ‘bridging’ pension, pension ‘offset’ and pension ‘reduction’. Some of these terms mean the same thing, others are very similar with subtle, but important differences.

If in doubt, ask for an explanation in writing of how any change would affect your pension benefits.

Do I get the same increases to the whole of my pension in payment?

One of the most common changes to pension benefits is the way that a pension scheme grants increases to pensions once they start being paid.

Your employer's pension benefit may be made up of different elements – like slices of a cake, a typical example of this would be:

GMP pre 4/1988	GMP post 4/1988	Section 9(2B) Rights	Non - GMP

(Don't be too worried about the names of the slices)

What *is* important is that you understand that:

- each slice could be treated independently when it comes to your employer's pension scheme granting you any pension increase
- you may be automatically entitled to increases to certain slices of your employer's pension as a result of legislation (often called 'statutory increases' or 'statutory escalation').

What is equally important to grasp is that if your employer's pension benefit starts being paid before State Pension Age (whether as a result of taking benefits at pension age, Normal Retirement Date, early payment or ill-health) your employer's pension scheme may grant *different* increases after State Pension Age to those you received beforehand.

For a more detailed explanation about this section, see our Factsheets Pension Increases before Retirement, Pension Increases after Retirement and GMP.

Will State Pension Age rise in the future?

In the UK, State Pension Age has been a discussion point in more than one report commissioned by the Government in the past. There is little doubt that it will continue to be a point of some considerable debate in the future, given that we are living longer.

In May 2006, the Government issued its White Paper on pension reform entitled Security in retirement: towards a new pensions system. Within the document it states that Government intends to increase State Pension Age to age 66 from 2024, 67 by 2034 and 68 from 2044. Each rise will be phased in over two years.

Comment:

From time to time the Government Actuary's Department (GAD)* produces tables of projections showing the life expectancy of males and females born in the UK. Previous surveys have revealed:

- at the beginning of the last century the 1901 GAD tables showed life expectancy at birth to be 49 years for females and 45 years for males.
- based upon the data for the years 1980-1982, the GAD tables showed life expectancy at birth had increased to 77 years for females and 71 years for males.
- the trend continues and the 2001-2003 tables show that at birth life expectancy was 81 years for females and 76 years for males.

*Source: Interim Life Tables, Expectation of Life – Copyright, Government actuary's Department.

With more people living longer into retirement and with a general Decline in working population, in future there will be less people paying tax and more people drawing State Pension. The question that this poses is whether there will there be enough money being 'paid into the pot' to cover the amount of pensions being paid out?

In the USA, State Pension Age is being raised for males and females to age 67 by 2027.

Why should a rise in State Age bother me?

Increasing life expectancy has an effect on the economy and this weighs heavily on Government finances. The UK State Pension system is based upon a pay-as-you-go basis so today's taxes provide today's State Pensions.

No future provision has been made for subsequent generations and the likelihood is that State Pension Age will be revised from time to time.

State Pension Age is often taken for granted but any increase can have a major impact on your retirement planning – particularly if you have set your financial planning to coincide with State Pension Age.

One option, available since April 2006, is to promote flexible retirement where people continue to work whilst drawing some but not all of their pension benefit.

You have the option to defer drawing your State Pension benefits beyond State Pension Age and there are generous incentives to do so. For more information on this subject see our Factsheet Deferring your State Pension.

Summary & Key Points

When making enquiries about your **pension benefit** it is very important that you make it clear that you are a **preserved member** rather than an **active member** or **pensioner member**. Active, preserved and pensioner are different classes of membership of a pension scheme and any definitions and paragraphs contained within your Scheme Rules or scheme literature relating to any benefit may differ considerably between these categories.

On average, people change jobs every 5 to 6 years. It is possible therefore, that you will have more than one pension benefit. For each pension benefit you need to consider the following items:

- State Pension Age is changing for women born since 5^{th} April 1950. Does this affect you?
- State Pension Age is set to increase in the future. Would this have an impact on you, your retirement planning and your pension benefit?
- If you draw your pension benefit beforehand, is there any change to your pension at State Pension Age. Such as:
    - an additional pension (e.g. commencing at State Pension Age)?
    - a temporary pension (e.g. payable between two dates but finishing at State Pension Age)?
    - a reduction to your pension (e.g. a Decrease to your pension at State Pension Age)?
- If you draw your pension benefit beforehand will there be any change to any pension increases you receive once you reach State Pension Age?
- Keep informed. Your scheme may modify benefits and Rules. Legislation may change. Your circumstances may alter.
- Rules differ from scheme to scheme and are wide and varied in content. Don't assume that what applies to one of your pension schemes will necessarily apply to others that you may have.
- **HMRC** impose rules which **registered pension schemes** must conform to.

People seldom have identical pensions and you should avoid drawing comparisons with colleagues whose circumstances may at first appear the same but could emerge as having significant differences.

This is not an authoritative document. Seek professional advice from an appropriately experienced and qualified adviser.

State Pension Age v1.6 Preserved
Last updated 09/01/2007

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