TRANSCRIPT OF CPSA LET'S TALK EPISODE TWO

OLD VS NEW STATE PENSION WITH CHRIS HASWELL AND LORD BRYN DAVIES

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Please note this is a transcript of a conversation, therefore reads as such and not as a structured article on the topic of pensions

***CHRIS:** Hello everyone. I'm Chris Haswell from CSPA and I'm the Pensions Official. Today we've got with us Lorn Bryn Davies, who is an expert on the pensions and has worked on the civil service pensions for a number of years before his elevation into the peerage.*

We asked Bryn to come to talk to us today about the state pensions, particularly about the older and the new pension differences, which many members as us about.

BRYN: I am happy to be here, it is worth saying I've been involved for a long time, the old Council of Civil Service Unions, I was the advisor and then PCS and other unions I've provided advice for.

We're going to be looking at the state pension. And the short takeaway is, it's complicated., There's no quick easy answers to what the issues are. It's one of those issues where I've been following it since Better Pensions, back with Barbara Castle, just to show you long I've been involved. And the scheme, the state scheme has developed since then. And the big change, obviously, we're going to talk about today was from 2016.

And the clear message is it's complicated. And the one this you need to take away from this discussion is some people gain other people lost. And it's not easy defining those two groups. It's not like everyone who retired or, takes the state pension after 2015 is better off and everyone I took it before 2015 is worse off. It's not that easy.

The key thing for people to understand is that this change was introduced, although it came into force in 2016, it was introduced by the Liberal Democrat conservative Coalition government. It was signed off by George Osborne when he was Chancellor of the Exchequer. Now just think, he signed it off because it was going to save money. Once of the explicit objectives of the new system was to save money overall. And if you're saving money on the cost of the state pension, then the state pension is going to be worse.

***CHRIS:** But I think our members that are listening, most of whom will have retired under the old system. There's two things that get flagged up. One is just the actual amounts, the weekly amounts of the difference between the old and the new. And the other thing is about the, because of the guaranteed minimum pension and contracting out, both of which are, I appreciate technical terms. It means that part of the pension that you a receiving in your civil service pension is technically part of the state pension, guaranteed minimum pension. And it doesn't increase in the same way that your civil service pension increases. So that when you get a civil service pension increase, that's different to the state pension increase, only a proportion of your civil service pension will not be increase by as much.*

So would you like, Bryn, to explain a bit more about that?

BRYN: The difference between the new system and the old system, the old one is the basic state pension and the new system is the new state pension, people can see quite plainly that the new state pension is bigger than the basic state pension. That's clear and people see that in their statement. However the state pension isn't only the basic state pension, it's not only the new state pension. Since 1978, people have been earning earnings related state pension, which is paid in addition to the basic state pension.

To judge whether you're doing better or worse, you have to take that into account. You can't just look at the new state pension compared to the basic state pension. You've got to look and see, well. What other state pension you're receiving. Now that might be very simple. In theory, in practice, it's massively complicated because of this process known as contracting out. Under the Barbour Castle scheme, there was what was originally called the State Earning Related Pension Scheme or SERPS and for some reason it was renamed as the State Second Pension.

But there was always this system of contracting out where people who were in good occupations schemes such as the civil service scheme, they didn't have to pay the extra money for their earnings related state pension, they go their earnings related pension from their occupations scheme instead. So only part of your occupations pension is in substitution for the earnings related part of the state pension. And that has to be taken into account. It's difficult but it has to be taken into account in judging whether you are better or worse off under the old system or the new system.

There is also this thing called COPE. It appears on your statement and it looks like they're taking something away from you. It is in effect a deduction from your state pension. But that is the pension that you should be receiving from your occupations scheme. It's calculated, it's very complicated. But it is the pension that if you hadn't been a member of the occupational pension scheme you'd have got from the state. But because you're a member of a good occupations a scheme you're getting it from your occupational scheme instead. They're contracting out pension equivalent or COPE.

Two things drive people's concern and even anger most. The new state pension is higher than the basic state pension and that's obvious but as well as the basic state pension, you're getting your second state pension as well. And that has to be compared to the new state pension plus the pension that you're getting from your occupations scheme instead of from the state. And that's the proper comparison, the fair comparison and it's true, somethings people are actually better off because their new state pension plus their COPE, ie the pension they're getting from the occupations scheme instead of from their state, is bigger than they would have got, or someone who's comparable who retired before 2016, whose pension is being calculated in a different way. Now the main reason for that is the issue you touched on of pension increases. If the first bit was complicated, the second bit is even more complicated.

The point about state pension increases, everyone talks about the triple lock, but remember the triple lock only applies to the basic state pension or the new state pension. The rest of your state pension, that's your second state pension, some extra pension that you get form deferring your retirement, that part of the state pension goes up in line with CPI. Which in many years will be significantly less that the triple lock.

And people see this, to be honest you have to be a little bit of an anorak to really pick this up.

CHRIS: *But we do, we do know that our members do pick this up because they then contact us.*

BRYN: Well without trying to be rude to your members, clearly have a good number of pension anoraks who check their statements.

CHRIS: *We do have a lot of members who used to work int DWP and HMRC so they tend to be pretty good on, as well as other people obviously.*

BRYN: Quite right, absolutely right, that's what we should all do. So people do see this and people have lost out because post 2016 people with the new state pension all of that goes up in line with triple lock. Whereas pre 2016 retirees, it's only the basic state pension that goes up.

Over years it makes a material difference to what people receive. I think it's also worth reminding everybody that of course, post 2016 people have got different state pension ages.

CHRIS: *Currently it's 66, and it will shortly be 67. And you know it's likely to be 69. It certainly is going to go up after that, hopefully not for long. And I would rather it didn't go up at all. In all likelihood, given the demographics of the country, it is likely to go up so whether they get more of less, people in the new system are waiting longer.*

So, I think we all agree that both the state pension, either the old one or the new on are generally inadequate for a decent standard of living. And that brings us into the pension credit.

Do people on the second state pension get pension credit?

BRYN: One of the stated aims of the change, came into effect in 2016, on of the stated aims was to lift pensioners above pension credit level. That was one of the explicit objectives of the policy. You'll see there's a certain amount of crossed purpose here. They're aiming to save money, but they're also aiming to get people above pension credit. There's a sort of gravity defying element to what they were trying to so. So the new state pension was deliberately set just above the pension credit level in order to reduce the number of people claiming pension credit. So in theory, in principle, if you get the full benefits under the new state pension, no, you won't get pension credit. That was an objective. It wasn't a side, mischance. It was a deliberate act of policy. And in some ways we don't want people to be on pension credit. Well in many ways that is a reasonable objective as long, and this is the problem, as long as pension credit is set at a good enough level.

If all you get is the new state pension, you're still in poverty in my view. And so, but you're not entitled to pension credit. But that's a problem with the level of the new state pension, it is a problem with the level of pension credit.

CHRIS: *Yes I think we know from work done by poverty campaigners that one of the biggest groups in poverty are people in their 60s who have not yet reached state pension age but have had to finish work earlier than that age because of various reasons.*

And they often fall into poverty through no fault of their own. It's very difficult and then once they hit state pension age, that doesn't necessarily lift them out of poverty because of the level of the state pension.

There is quite a difference, there are rich pensions and poor pensions, the same as there are with all other groups in society. And the relationships between work and pension, the relationship between national insurance and pensions, state pension remains complicated even in the post 2016 world.

BRYN: Yes I think there's one point there that does need mentioning that the period that you needed to pay national insurance contributions in order to get e full state pension have changed over the years. There's a number of your members who will have got the full state pension after paying national insurance contributions for only 10 years. The there was period when it was 30 years. For people retiring after 2016 it's 35 years. So a lot of people because they didn't get credits, so they have less than 35 years national insurance contributions, they get less than the full new state pension and I think that's is a reason a lot of people end up on lower amounts. Because they haven't paid the requirement of 35 full years.

CHRIS: *On saying that, of course there a lot of people who have paid well over 35 years. I know when I've checked, although I am not yet at state pension age. I have completed my 35 years and although I am still paying national insurance, there's no more, nothing else that can build up.*

BRYN: Well that's how the system works. You're right, people do get annoyed with that, feel we're paying these extra contributions and getting nothing for it. But it's how the system has worked ever since.

CHRIS: Thanks very much for listening everyone and I hope that answers some of your questions.

BRYN: I think It's probably raise a lot more as well.

CHRIS: Well is you do have any more questions you can contact us at CSPA and we'll do our best to answer them.