

THE PENSIONS PRIMER

A GUIDE TO THE UK
PENSIONS SYSTEM

UPDATED AS AT JULY 2026



TABLE OF CONTENTS

About the Pensions Policy Institute (PPI)	5
About the Pensions Primer	6
An introduction to the UK pensions system	7
The current UK pensions system	8

Tier 1 provision	
The new State Pension: for people reaching State Pension age AFTER 6 April 2016	10
The basic State Pension: for people reaching State Pension age BEFORE 6 April 2016	13
Additional State Pension	14
Contracting out	15
State Pension age	16
Deferring new State Pension	18
Uprating of the State Pension	18
Means-tested benefits	20
Other forms of means-tested retirement income	22

Tier 2 provision	
Summary of Schemes	26
Defined Benefit and Defined Contribution Pension Schemes	27
Collective Defined Contribution schemes	30
Trust- and contract-based schemes	30
Workplace pension schemes	30
Group personal pensions and group stakeholder pensions (contract-based scheme)	31
Multi-employer pension schemes	32
Pension Schemes Act 2017 and master trust regulation	32
Additional Voluntary Contributions	32
Individual Arrangements	33

Automatic enrolment into pension schemes from 2012	34
Review of automatic enrolment	35
Individual Arrangements	35
Charge Cap	35
Environmental, Social and Governance investment regulations	36
Tax treatment of private pension provision	38
Withdrawing retirement income	40
People can now access DC pension savings flexibly from age 55	40



APPENDIX TABLE OF CONTENTS

Appendix 1, Eligibility for State Pension	44
Appendix 2, State Pension age	46
Appendix 3, Impact of indexation of the State Pension	47
Appendix 4, Categories of basic State Pension	50
Appendix 5, Pension Credit	52
Appendix 6, Housing Benefit	54
Appendix 7, Council Tax Reduction	56
Appendix 8, Other first tier benefits	58
Appendix 9, The Pension Protection Fund	59
Appendix 10, Pension fund regulatory framework	60
Appendix 11, Withdrawing retirement income	62

**A REFERENCE MANUAL
BY THE PENSIONS POLICY INSTITUTE (PPI).**

This version of a **guide to the UK pensions system** reflects the current position of, and legislated future changes to, the UK pensions system as at 1 June 2026. Any change in Government policy that may have occurred after that date is not included in this version.

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Common Abbreviations

Much of the common terminology used within the industry is frequently abbreviated. Throughout the Pensions Primer we use the full terminology at first mention in each section then abbreviate. A full list of common abbreviations can be found in the PPI's Pensions Glossary.

Listed below are the abbreviations you will find within the Primer.

AE	Automatic Enrolment	GAD	Government Actuary's Department	S2P	State Second Pension
AA	Annual Allowance	GC	Guarantee Credit	SC	Savings Credit
ACT	Advance Corporation Tax	GPP	Group Personal Pensions	SERPS	State Earnings-Related Pension Scheme
AMC	Annual Management Charge	GRB	Graduated Retirement Benefit	SIP	State of Investment Principles
ASP	Additional State Pension	GSP	Group Stakeholder Pensions	SPa	State Pension age
AVCs	Additional Voluntary Contributions	HMRC	HM Revenue & Customs	TCFD	Taskforce on Climate-related Financial Disclosures
bSP	Basic State Pension	IGC	Independent Governance Committee	TPR	The Pensions Regulator
CDC	Collective Defined Contribution	JSA	Income-based Job Seekers Allowance	UAP	Upper Accrual Point
COPE	Contracted Out Pension Equivalent	LEL	Lower Earnings Level	UFPLS	Uncrystallised fund pension lump sum
CPI	Consumer Prices Index	LTA	Lifetime Allowance	VfM	Value for Money
DB	Defined Benefit	NAE	National Average Earnings		
DC	Defined Contribution	NI	National Insurance		
ESA	Income-related Employment and Support Allowance	NICs	National Insurance Contributions		
ESG	Environmental, Social and Governance	nSP	New State Pension		
FCA	Financial Conduct Authority	PPF	Pension Protection Fund		
		RPI	Retail Prices Index		



ABOUT THE PENSIONS POLICY INSTITUTE (PPI)

The Pensions Policy Institute (PPI) is the UK's leading independent authority on pensions and retirement policy. We conduct rigorous, impartial research and analysis from an evidence-based, long-term perspective. Our work is used by government and across Westminster, industry and consumer groups. It informs major decisions that affect millions of people's lives in retirement. Our work is widely used by government, policymakers, regulators, industry, consumer groups and the media to support informed decision-making on complex and often long-term policy challenges.

The PPI's research examines how pensions policy affects individuals, employers and public finances, with a particular focus on retirement income adequacy, pension saving, demographic change, and the distributional impacts of policy reforms. Through detailed analysis and modelling, we help policymakers understand the potential consequences, trade-offs and opportunities associated with different policy choices.

Alongside our research programme, the PPI convenes discussions and events that bring together experts from across the pensions sector, government and academia. By fostering informed debate and providing trusted evidence, the PPI plays a central role in shaping the UK's pensions policy agenda.

The PPI is committed to maintaining the highest standards of independence and objectivity. Our funding comes from a broad range of Supporters, research sponsors, grants and donations, ensuring that no single organisation influences our findings or conclusions.

Through independent research, robust analysis and constructive engagement, the PPI seeks to support better pension policy and improve financial security in retirement for all.

[See our latest research and analysis.](#)

ABOUT THE PENSIONS PRIMER

As part of the Pensions Policy Institute's (PPI) core work, funded from donations received both from our Supporters and individuals, the PPI produces **The Pensions Primer: a guide to the UK Pensions system** annually. This highly anticipated annual update is aimed at a wide audience, and, for this reason, sections vary in complexity. The initial guide gives an outline of the UK pensions system and the influences of current policy. There are signposts throughout the Pensions Primer to the corresponding **Appendix**, which provides additional, more detailed explanations of past and present policies (clicking where it reads Appendix 1 will take you directly to the corresponding Appendix section in the PDF).

The guide is intended for people wanting to learn about, or update their knowledge relating to, current UK pensions policy. It covers both State and private pension provisions.

It should not be used to make individual pensions decisions.

This version, published in **July 2026**, reflects the current position of, and legislated future changes to, the UK pension system as of **1 June 2026**. Any changes in Government policy that may occur after this date are not included in this version.

Understanding the Pensions Primer can be assisted by referring to the [PPI Pensions Glossary](#), which provides additional explanation for the frequent terminology used throughout this guide.

To complement further learning, the PPI hosts **Knowledge Sharing Seminars** throughout the year which provide additional context beyond the Pensions Primer. These Seminars are delivered in an informal conversational format designed to cut through the jargon and help participants understand the landscape today, and how and why we arrived here, as well as coverage of recent policy developments.

[Further details of the Knowledge Sharing Seminars can be found here.](#)

AN INTRODUCTION TO THE UK PENSIONS SYSTEM

The first UK employer pension was the Chatham Chest in 1588, which provided a benefit for sailors injured in the line of duty. The State started to provide an income to older people in 1908, which was non-contributory, means-tested and paid only to people over age 70. The foundations of the current UK State Pension system were laid in the 1940s when male and female State Pension ages (SPa) were set at 65 and 60 respectively, and the contributory National Insurance Fund was introduced. Since the 1960s, successive Governments have made many changes to both State and private pensions, resulting in today's pension system, which is complex and multi-layered.

This document provides a description of the UK pensions system for the purposes of considering pensions policy. It should not be used as a basis for making individual financial decisions.

To explain the UK pensions system, this report uses a multi-tier framework. The UK pensions system possesses two tiers:

- **Tier 1** (Public) is provided by the State and consists of a basic level of pension to which almost everyone either contributes or has access, providing a minimum level of retirement income. The State Pension operates on an unfunded 'pay-as-you-go' contributory basis, through the National Insurance (NI) system. This consists of the new State Pension (nSP), which people who reach SPa from April 2016 receive, and the basic State Pension (bSP), or old State Pension, which people who reached SPa prior to April 2016 receive. Tier 1 also encompasses the Additional State Pension (ASP), an additional benefit paid people retiring before April 2016, in addition to the bSP. Previously, this additional State Pension was treated as a separate tier, leading to a three-tiered structure in the UK pensions system. However, as the ASP is no longer accrued, it can be consolidated into a single tier. Despite people no longer being able to accrue this entitlement, individuals who retired prior to April 2016 continue to receive retirement incomes that include it, so it will remain relevant for years to come. The nSP is covered in this document, the bSP is explained in detail in the [Pensions Primer Historical Annex Document](#).

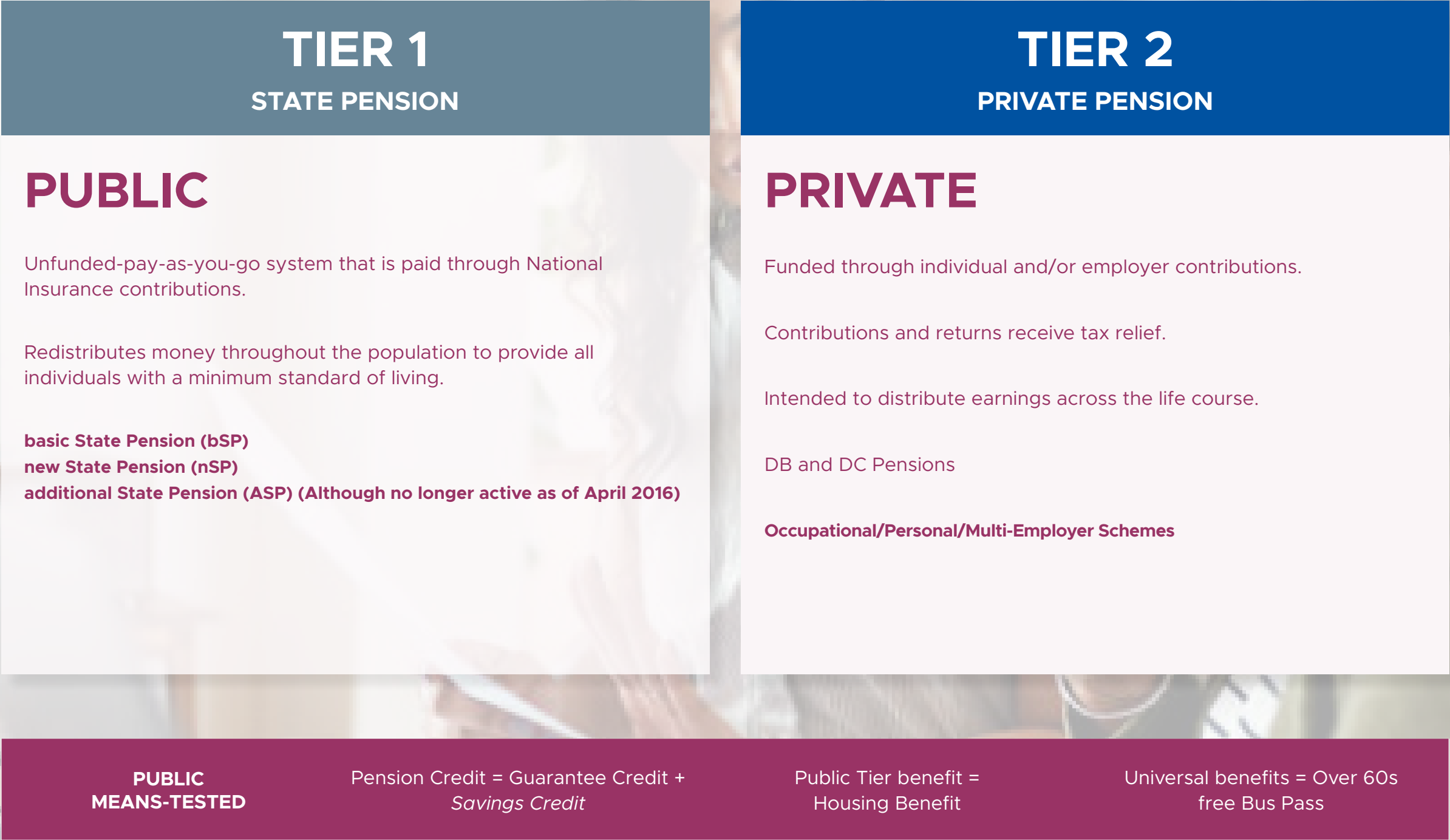
- **Tier 2** (Private) is voluntary private pension arrangements that are not directly funded by the State. This includes public and private sector occupational pension schemes, as well as any individual personal pension savings. Private pension contributions from the employer and/or the individual provide designated pensions for the individual. The primary aim of private pensions is to redistribute income across an individual's lifetime, and not to redistribute income from higher-income to lower-income people. Tier 2 includes pensions arising from automatic enrolment, a policy requiring employers to enrol eligible employees into a qualifying workplace pension scheme.

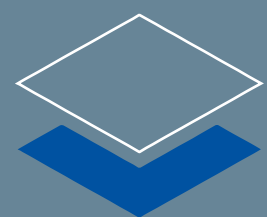
Figure 1 illustrates the two-tier UK pensions system as it stands today. This was previously a three-tier system, however, since the introduction of the "single-tier" nSP, the second State tier (which encompassed the now inactive ASP) is no longer accrued and exists only for people who reached SPa under the old system. The pension system will retain elements of the three-tier system while there are still recipients of the pre-2016 State Pension.¹

¹ Currently, in 2026, around 57% of State Pension recipients receive the basic State Pension. This is expected to fall to around 42% by 2030, then to around 24% by 2035. By the 2050s, the remaining recipients of the basic State Pension will each be over 100 years old.

The current UK pensions system

Figure 1





TIER 1

PROVISION



← Prev Next →

Tier 1 provision

Tier 1 is provided by the State and consists of a basic level of pension provision to which everyone either contributes or has access to, providing a **minimum level of retirement income**. Tier 1 also encompasses the Additional State Pension (ASP), an additional benefit paid people who retired before April 2016, in addition to the basic State Pension (bSP). Previously, this additional pension was treated as a separate tier, leading to a three-tiered structure in the UK pensions system. However, as the ASP does not accrue any more, the State Pension currently accruing is a single tier. Despite people no longer being able to accrue this entitlement, there are still individuals who continue to receive retirement incomes that include it, so it will remain relevant for years to come.

Included in this section are:

- The new State Pension (nSP),
- The basic State Pension (bSP) and additional State Pension (ASP),
- Means-tested benefits.

Tier 1 operates on a ‘pay-as-you-go’ basis, through National Insurance (NI) and general taxation. Pension Credit is funded through general taxation.

The new State Pension – For people reaching State Pension age on or after 6th April 2016

The nSP, introduced in April 2016, is a **contributory** pension in the sense that the final amount of nSP paid to an individual depends on the number of qualifying years attained before reaching SPa, through either NI

contributions (NICs) levied on workers’ earnings, or credited as a result of some qualifying activity. The nSP replaced the bSP and ASP in order to make the State Pension more streamlined, easier to understand, and to provide a more comprehensive basic level of income to pensioners above the level of means-tested benefits.

The nSP is designed to **redistribute** wealth across the population to provide all pensioners with a minimum standard of living, and to provide a base for saving into a private pension. It is a **flat-rate pension** payable once an individual reaches SPa. Subject to having made the same number of contributions, individuals will receive the same level of benefit, irrespective of the size of their contributions. An individual pensioner **with a complete NIC record of 35 years or more is eligible at their SPa to receive the full nSP of £241.30 a week (2026/27)**, although those who have contracted out may receive a reduced amount directly from the State.²

Qualifying years and NI contributions

State Pension entitlement is based on an individual’s NI contributions record. Any tax year in which an individual makes, or is credited with making, sufficient NICs is known as a **qualifying year**.

People can gain credits for the State Pension if, for instance, they are entitled to:

- Statutory Sick Pay (SSP),
- Statutory Maternity (SMP),

- Paternity or Adoption Pay,
- Child Benefit,
- Universal Credit (UC)
- or Carer’s Allowance.³

There are a number of ways in which NICs can be made or credited. For example, individuals who are self-employed pay a different level than individuals who are employed, and people can make voluntary contributions to fill gaps in their contribution record.

For people reaching SPa on or after 6th April 2016, 35 years of NICs are necessary to qualify for a full nSP. A minimum of 10 qualifying years are necessary to receive any nSP. Please refer to **Appendix 1** for more information on NI, what constitutes as a qualifying year and the different classes of NICs.

Starting Amount

When calculating the amount received under the nSP, a “starting” amount will be calculated for each individual, based on their entitlement built up under the State Pension system prior to 6 April 2016. This amount will be compared to the amount that the individual would have built up in the nSP system had it been in place. **Individuals will then take forward the higher of the two amounts (adjusted for time spent contracted out of the additional State Pension) into the new system.** Previously the starting amount was known as the “foundation amount”.

² Department for Work and Pensions (DWP) (2026) Benefits and pension rates 2026 to 2027

³ www.gov.uk/national-insurance-credits/eligibility



If the starting amount is higher than the nSP level, the amount above the nSP level will be paid on top of the nSP. This amount is called a “**protected payment**” and increases each year with the Consumer Prices Index (CPI). One in six recent recipients of the new State Pension also receive a protected payment.

If the starting amount is less than the nSP level, each qualifying year accrued after April 2016 will be added on top of the starting amount until reaching SPa or the full nSP amount. Each year adds £6.89 a week to retirement income (£241.30 divided by 35, as of 2026/27).⁴

Under the nSP, people who “contracted out” (see section on additional State Pension) of State Earnings-Related Pension Scheme (SERPS) and/or the State Second Pension (S2P) are treated as having built up less State Pension

rights than similar individuals who did not contract out. **Part of the ‘State’ pension for those who contracted out will be delivered through a private pension scheme, so an equivalent value is deducted from their ‘starting’ amount at the time the nSP is introduced.** This means that an individual who has been contracted out will have a lower starting amount than an identical individual who has not been contracted out.

People who contracted out and reached SPa on or after 6 April 2016 can receive an estimate of the ASP they would have built up if they did not contract out. This is known as the **contracted out pension equivalent (COPE)**.

If people who contracted out are close to retirement, then they are likely to receive a lower nSP than an individual who has not contracted out. However, if these people have a number of years still to go to SPa, then the contracted out individual may receive a similar or equivalent nSP at SPa to the individual who has not contracted out, as long as they continue to add further qualifying years to their NI record.

⁴ <https://www.gov.uk/new-state-pension/how-its-calculated>

Case study

Max is a median-earning **man who has never been contracted out**. At age 45 in 2016, his foundation amount is £127 a week. This is made up from £87 of bSP entitlement, and £40 of SERPS/S2P (from his 22 qualifying years). When he retires at 67 in 2038, he will have had additional qualifying years and, as he will have exceeded the required 35 years, will receive the full nSP (£241.30 a week in 2026/27), which replaces his bSP and ASP.

Ibrahim is a median-earning **man who has been contracted out for his entire career prior to 2016**. At age 45, in 2016, his foundation amount was £87 a week from bSP entitlement (from his 22 qualifying years). As he had contracted out of the ASP, he has not accrued the additional entitlement and has paid less in NICs. When he retires at 67 in 2038, he will receive the full nSP amount (£241.30 a week in 2026/27), as he will have exceeded the required 35 years and has enough qualifying years on top to overcome his contracted out deduction. He will also receive the contracted out private pension equivalent of £40 a week in 2016 earnings terms.

Mala is a median-earning **woman who has been contracted out for her entire career prior to 2016**. At age 59 in 2016, her foundation amount was £119.30 a week. Her foundation amount is the higher of her entitlement under the old State Pension system of £119.30 a week from bSP entitlement (from having full qualifying years already), compared to an nSP entitlement of £105.65 (£155.65 full nSP (in 2016) minus a £50 contracted out deduction).

When she retired at 66 in 2023, she received her foundation amount plus she had been able to accrue 7 further qualifying years on top, bringing her total pension, in 2026/27 terms, to £233.21 (£184.95 revalued foundation amount plus $7/35 \times 241.30$). She also received the contracted out private pension equivalent of £50 a week in 2016 earnings terms.



The basic State Pension – For people reaching State Pension age before 6th April 2016

The basic State Pension was the flat-rate element of the State Pension for people who reached State Pension age before 6 April 2016. There are various differences between the bSP and the nSP. **Table 1** provides a comparison of the State Pension systems **before and after 6th April 2016**.

Table 1: The differences between bSP and nSP

	Basic State Pension (for those reaching SPa before 6th April 2016)	New State Pension (for those reaching SPa on or after 6th April 2016)
Full amount	The full amount of bSP is £184.90 a week (2026/27 rate).	The full amount of the nSP is £241.30 a week (2026/27 rate).
Qualifying years	People retiring between 6 April 2010 and 5 April 2016 needed 30 qualifying years to receive a full bSP. There was no minimum number of qualifying years required during this period.	People retiring on or after 6 April 2016 need 35 years of National Insurance contributions or credits to receive a full rate of pension. People will also need a minimum of 10 qualifying years to qualify for any State Pension.
Pension Credit	People reaching SPa before April 2016 were eligible to receive Guarantee Credit (GC) and Savings Credit (SC) if they met certain criteria.	SC is unavailable to people who reach SPa on or after 6 April 2016. Means-tested support will continue to be available through the GC element of Pension Credit. For a transitional period of five years (until April 2021), support was retained for those people who may have been eligible for SC under the old system. ⁵
Additional State Pension and contracting out	Prior to April 2016, members of some pension schemes could contract out of the ASP and pay less in NICs.	Under the nSP, further entitlements to the ASP have been abolished. Schemes are no longer able to contract out , meaning NICs may increase for those who were contracted out prior to April 2016.
Deferral	Before April 2016, individuals could defer bSP and receive either an enhanced pension or a taxable lump sum. For each five weeks of deferral, people could receive an increase of 1% in their pension. This was an equivalent of 10.4% for each year people deferred.	From April 2016, individuals who defer can only receive an enhanced pension. For each nine weeks of deferral, people can receive an increase of 1% in the pension. This is an equivalent of just under 5.8% for each year people defer.
Up-rating	bSP was uprated by a triple lock of the greater of the growth in the Consumer Prices Index, average earnings or 2.5%, for 2026/27. The ASP is uprated by the growth in CPI.	nSP continued to be uprated by the triple lock for 2026/27. The protected payment is uprated by the CPI. ⁶
State Pension based on partners contributions	Before April 2016, some people received a State Pension based on their partner's NICs. These included individuals who were expecting to receive a pension based on their spouse or civil partner's NICs and married women who paid reduced rates of NI on the assumption that they would receive a derived pension based on their husband's contributions. For more details on the categories of bSP, please refer to Appendix 4 .	The NI record of an individual's spouse or civil partner will only be relevant up to and including the tax year 2015/16 to calculate any entitlement. Under the measures set out in the Pensions Act 2014 those who reach SPa under the nSP will not be able to claim derived entitlement based on their partner's State Pension entitlement. However, women who paid reduced rates of NICs at any point during the 35 years before their SPa will be able to claim an amount equivalent to the full rate of the 'married woman's' basic pension rate.

⁵ Pensions Act 2014

⁶ Department for Work and Pensions (2016) Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP www.gov.uk/government/uploads/system/uploads/attachment_data/file/482871/impact-of-new-state-pension.pdf

Additional State Pension

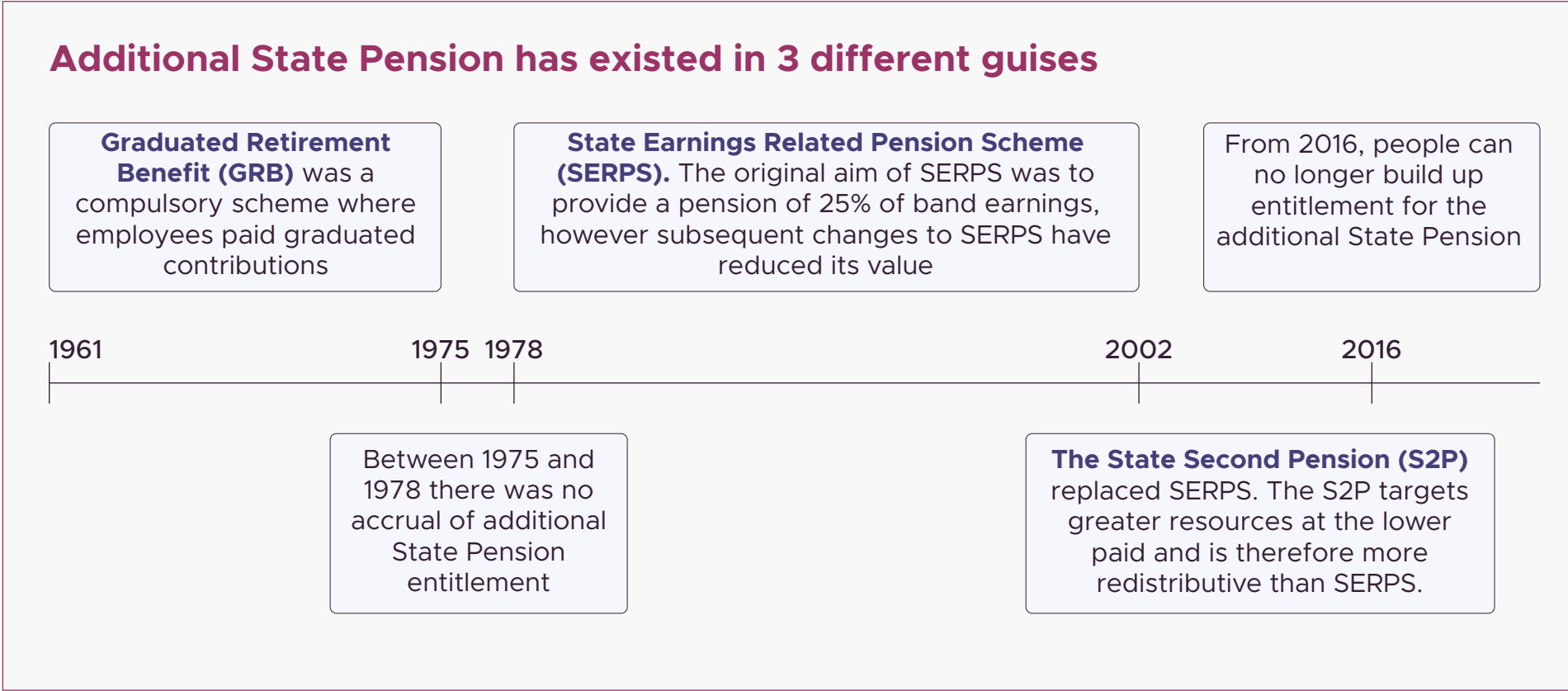
Additional State Pension (ASP) was an additional element of the State Pension accrued through payment of NICs, which provided an earnings-based pension income within the State Pension framework. The ASP provision in the UK has existed in three different guises (**Figure 2**):

- **Graduated Retirement Benefit (GRB)** (GRB: 1961 to 1975)
– For more information, go the **Pensions Primer Historical Annex Document**.
- **State Earnings-Related Pension Scheme (SERPS)** (SERPS: 1978 to 2002) – For more information, go the **Pensions Primer Historical Annex Document**.
- **State Second Pension (S2P)** (S2P: from April 2002 to April 2016) – For more information, go the **Pensions Primer Historical Annex Document**.

How additional State Pensions were accrued

Prior to abolition, the pattern of accruing benefits under S2P was based on two earnings bands and two accrual rates.⁷ For low earners, a flat rate of S2P benefit was accrued, while higher earners accrued an additional earnings-related benefit alongside the flat-rate accrual. Disabled people, and some individuals with caring responsibilities, could be credited into the flat-rate part of S2P. For more information on S2P accrual, please refer to **Appendix 11**.

Figure 2 - How additional State Pensions were accrued



Prior to 6th April 2016, people paid NICs in order to accrue entitlement to bSP, and also towards the ASP.

As members of Defined Benefit (DB) schemes had accrued private pension provision, they could opt-out of

contributing to the ASP. This means they paid lower NICs but did not receive ASP income from the State. Instead, their employer was responsible for providing an actuarially assessed equivalent value of private pension. This is known as **contracting out**.

⁷ Earnings between the Lower Earnings Limit and the Upper Accrual Point. Before 6 April 2010, there were three bands accruing benefits at 40% 10% and 20%. Following provisions in the Pensions Act 2007, the former second and third bands have been merged into a single band accruing benefits at 10%.

CONTRACTING-OUT



DB pension schemes could choose for their members to forgo ASP entitlement, provided that the scheme promised to pay benefits that were at least as valuable as the ASP benefits. Individuals who contracted out paid lower NICs, and so did their employers, since they were considered to be contributing the equivalent amount into the private pension scheme.⁸ The reduction in the level of NICs was known as the **‘contracting out’ rebate**.

Prior to April 2012, members of Defined Contribution (DC) pension schemes were also able to contract out of S2P. The size of the rebate was set every five years, with advice from the Government Actuary’s Department (GAD) and acted as an incentive or disincentive to contract

out depending on whether the return on the rebate was perceived to be of higher or lower value than the benefit payable under S2P.

For additional elements associated with contracting out, please refer to [Pensions Primer Historical Annex Document](#).

The nSP replaces the bSP and the ASP. Between 1978 and 2016, it was possible to contract out of the ASP. Where employees were contracted out, both employees and their employers paid lower NICs (through a rebate) on the condition that the pension scheme provided pensions broadly in line with, or better than, the future State benefits

that the individual was giving up by contracting out. In 2015/16, this meant that contracted out employees paid NICs at a rate of 10.6% instead of 12%, and their employers paid at a rate of 10.4% instead of 13.8% up to the Upper Accrual Point (UAP) of £40,040. In turn, employees who were contracted out did not accrue entitlement to additional State Pension or State Earnings Related Pension Scheme (SERPS) or State Second Pension (S2P) during those years.

With the introduction of the nSP in April 2016, further accrual for the additional State Pension was abolished. People who had contracted out now have to pay the full NICs.

⁸ The exception to this is with money purchase or Defined Contribution schemes, where the level of NI contribution remains unchanged, but the Government later pays a rebate into the scheme

State Pension age

The State Pension age (SPa) is the minimum legal age at which a State Pension can be claimed and depends on an individual’s birth date.

SPa for both men and women increased incrementally from age 65 to age 66 in a staged process until October 2020 (Pensions Act 2011).⁹ Refer to **Appendix 2** for a table on SPa increases.

Under previous legislation, SPa was scheduled to increase to age 67 between 2034 and 2036, and to age 68 between 2044 and 2046. However, the Government has brought forward the rise to age 67 to now take place between 2026 and 2028.¹⁰ This change was included in the Pensions Act 2014 and was judged to still be appropriate in the conclusions of the State Pension Age Review published in March 2023.

Bringing forward the SPa rise to 68 and the mechanism for determining future rises

The Pensions Act 2014 sets out the Government’s plans for the SPa in the future (**Figure 3**).¹¹ This includes a review of the SPa at least once every six years, to date there have been two reviews. The reviews are based around the principle that people should expect to spend a third or less of their adult life in receipt of State Pension (based on analysis provided by the Government Actuary’s Department and an independently led body). For this purpose, adult life is defined as starting at age 20.¹²

In March 2017, the final report of the Independent State Pension Age Review was published. The report recommended that the SPa should increase to age 68 over a two-year period, starting in 2037 and ending in 2039, to reflect changes in life expectancy. The report also recommended that SPa should not increase by more than one year in any ten-year period, unless there are exceptional changes to the underlying data (e.g., costs or life expectancy projections).¹³

In March 2023, the second State Pension Age Review was published. The Independent Report recommended that the increase from age 66 to 67 between 2026 and 2028 was appropriate and the Government confirmed that this will go ahead as scheduled. The Report also recommended that SPa should increase from age 67 to 68 between 2041 and 2043.¹⁴ The Government announced that no decision on changes would be made regarding the planned increase to 68 until a further review, in light of more up-to-date data on the long-term impact of COVID-19.¹⁵

The third State Pension Age Review is underway. Dr Suzy Morrissey FCA was appointed to prepare an independent report considering the merits of linking SPa to life expectancy, the role of SPa in managing long-term sustainability of the State Pension, and the international experience of Automatic Adjustment mechanisms for making decisions about SPa.¹⁶ The Government will make a decision on the implications for future changes to the State Pension age drawing on the findings of the independent report and the Government Actuary’s report.

⁹ Department for Work and Pensions (2013) State Pension age timetable www.gov.uk/government/uploads/system/uploads/attachment_data/file/310231/spa-timetable.pdf

¹⁰ Announced in the Chancellor’s Autumn Statement, 2013: www.gov.uk/government/topical-events/autumn-statement-2013

¹¹ Pensions Act 2014 www.legislation.gov.uk/ukpga/2014/19/contents/enacted

¹² DWP (2013) The core principle underpinning future State Pension age rises: DWP background note

¹³ Independent Review of the State Pension Age: Smoothing the Transition (2017) www.gov.uk/government/uploads/system/uploads/attachment_data/file/611460/independent-review-of-the-state-pension-age-smoothing-the-transition.pdf

¹⁴ The Independent Report also recommended setting a cap on the cost of State Pension at 6% of GDP, this could increase the speed at which State Pension age rises occur. The Office for Budget Responsibility puts the cost of State pensions at 5.1% of GDP in 2023/24 increasing to 8.6% of GDP by 2072/73 (Fiscal Risks and Sustainability 2023), however the Government has said it will not be adopting this recommendation at this time.

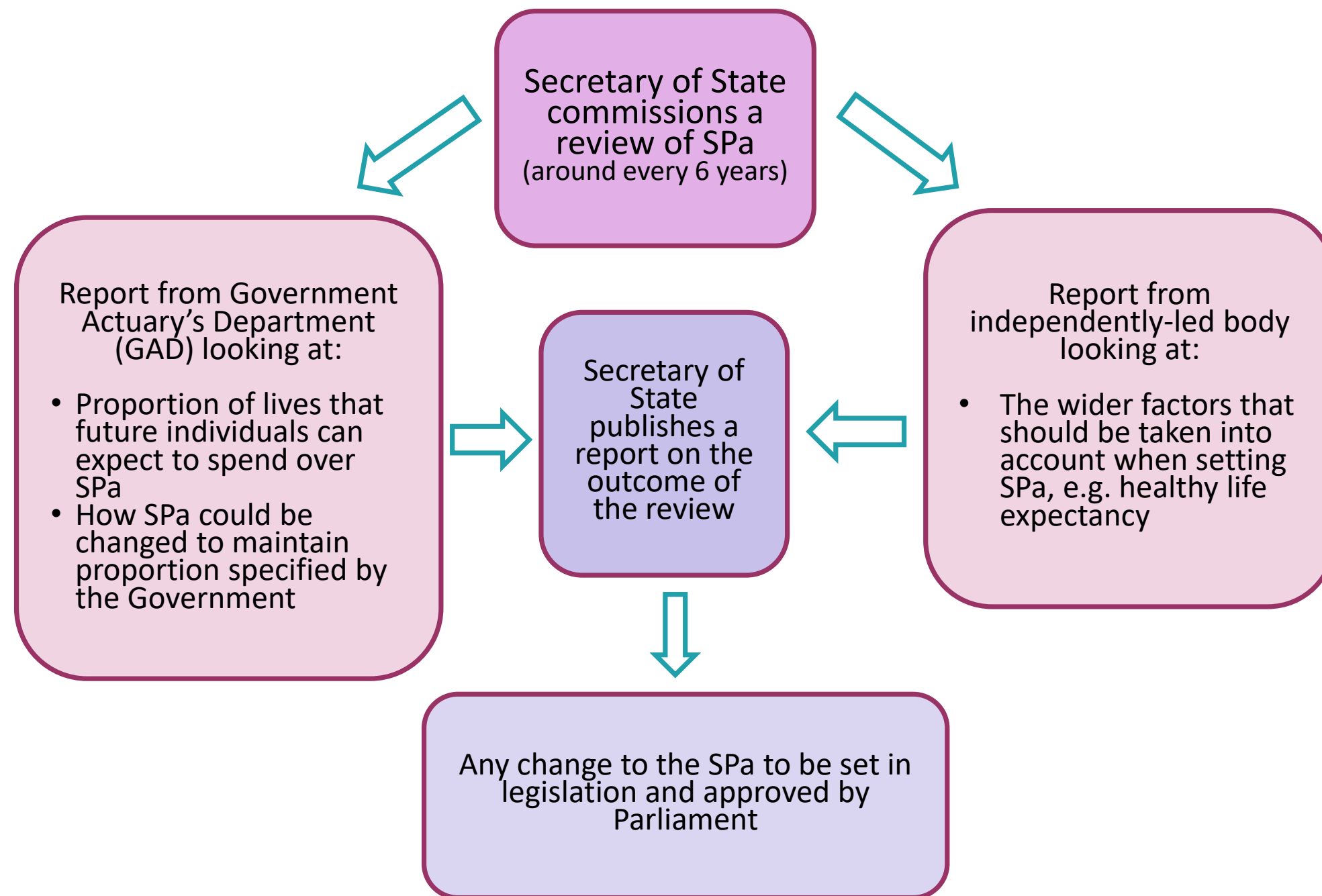
¹⁵ www.gov.uk/government/publications/state-pension-age-review-2023-government-report/state-pension-age-review-2023

¹⁶ www.gov.uk/government/calls-for-evidence/third-state-pension-age-review-independent-report-call-for-evidence



Figure 3

Review process for setting SPa



Casestudy

At **Amara's** SPa of 66 in May 2025 she had 35 qualifying years, so would have been entitled to receive a full nSP of £230.25 a week.

She decided to defer receiving her nSP for a year until May 2026. From then, when she started to receive her pension, the rate of nSP is £241.30 a week. Amara is entitled to receive the full current rate of nSP plus an enhancement resulting from the deferment of £13.94 a week ($£241.30 \times 1\% \times 52 \text{ weeks}/9$).

Amara's total state pension in 2026 is £255.24 ($£241.30 + £13.94$).



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Deferring new State Pension

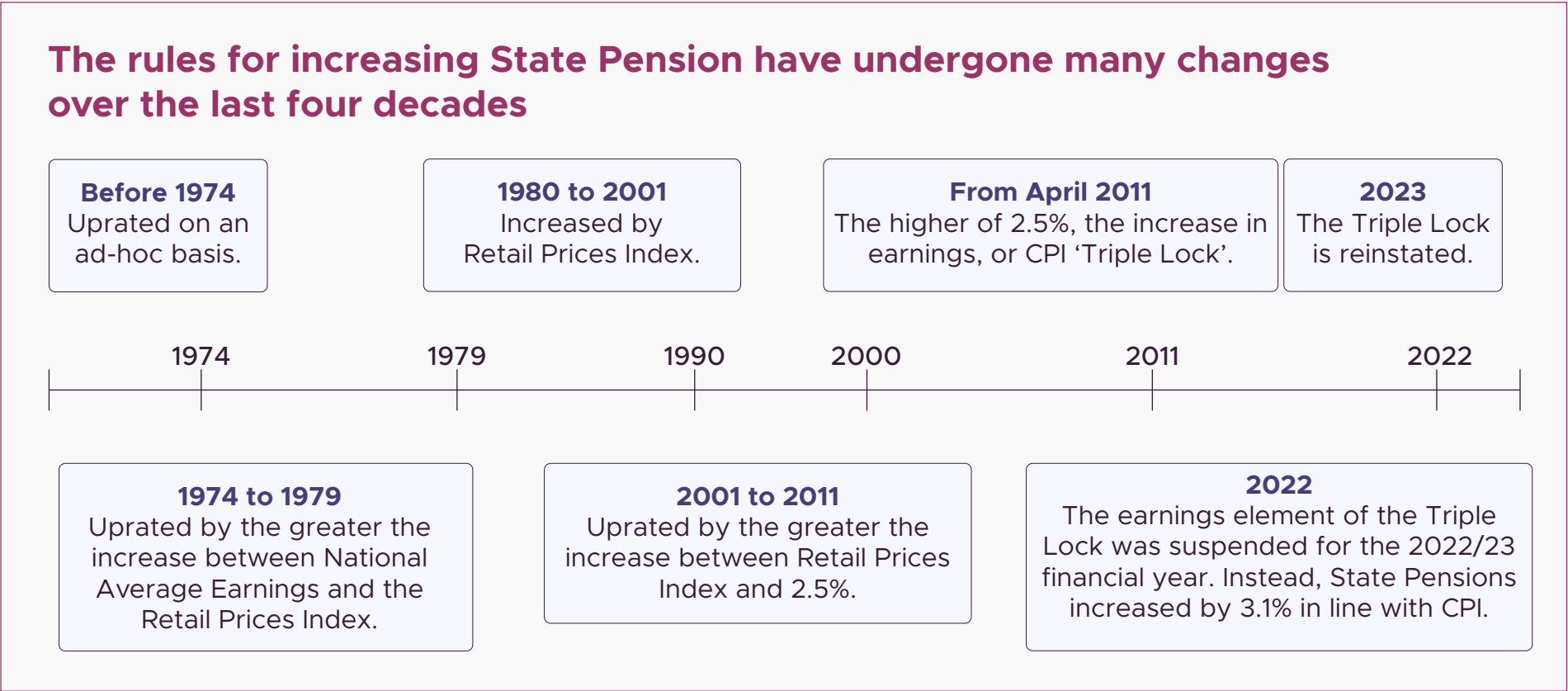
Individuals can choose to defer the commencement of their nSP after reaching SPa in return for an increase in the level of State Pension payments, also known as an **enhanced pension**.

For each nine weeks of deferral, people can receive an increase of 1% in their pension. This is an equivalent of around 5.8% for each year people defer.¹⁷ After claiming, the extra amount will increase in line with growth in the Consumer Prices Index (CPI).

Uprating of the State Pension

Between 1974 and 1979, the State Pension increased annually by the greater of the increase in National Average Earnings (NAE) or the increase in the Retail Prices Index (RPI) (**Figure 4**). Between 1979 and 2001, annual increases have generally been linked to RPI.¹⁸ The net effect of past uprating has been that, although the value of the full bSP has increased in price terms since the 1970s, it has reduced relative to average earnings from 24% of NAE in 1974, to an estimated 16% of NAE in 2009.¹⁹

Figure 4



¹⁷ www.gov.uk/deferring-state-pension/what-you-get
¹⁸ Thurley, D (2010). Pension uprating – background. House of Commons Library
¹⁹ PPI estimate; Department for Work and Pensions (DWP) (2009) Abstract of Statistics 2008 Section 5 - Rates of Benefit research.dwp.gov.uk/asd/asd1/abstract/abstract2011.pdf and Office for National Statistics (ONS) (2009) Annual Survey of Hours and Earnings 2009 www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2009-revised/index.html

Between 2001 and April 2011, the State Pension was increased by the greater of 2.5% or the RPI. The net effect is that, although the value of the State Pension increased in price terms, when compared to average earnings its value has gradually eroded since 1979 (**Table 2**). The nSP, introduced in April 2016, provides 24.8% of mean full-time earnings, improving the value relative to earnings in comparison to the bSP, (though full entitlement to bSP plus some ASP may be above 24.8% of average full-time earnings).

From April 2011, the bSP has been uprated by the higher of the increase in earnings, the CPI or 2.5%.²⁰ The Government has named this mechanism the “**triple lock**”.²¹ However, legislation only provides that the increase in the State Pension must be at least at the rate of the increase in the general level of earnings, therefore the bSP or nSP may be re-indexed at some point in the future, unless the triple lock becomes enshrined in legislation.

The Government suspended the triple lock for the financial year 2022-2023 due to pandemic-related distortions in NAE. For 2022-23, a ‘double lock’ was implemented, removing earnings inflation from the equation. The Government re-established the triple lock from 2023 onwards.²²

Uprating of the State Pension

The ASP is uprated by the CPI. The annual increase in CPI was 3.8% to September 2025, therefore the ASP increased in line with this in April 2026, with the maximum amount of ASP increasing from £222.10 (2025) to £230.54 (2026).²³

Table 2: Uprating of bSP and nSP in relation to National Average Earnings

	Weekly Amount		Adjusted to April 2026 prices		Weekly NAE ²⁴	As a percentage of NAE	
	bSP	nSP	bSP	nSP		bSP	nSP
Oct-72	£6.75		£98.35		£32.00	21.1%	
Nov-77	£17.50		£119.71		£70.20	24.9%	
Nov-82	£32.85		£129.06		£136.50	24.1%	
Apr-87	£39.50		£126.06		£198.90	19.9%	
Apr-92	£54.15		£130.75		£304.60	17.8%	
Apr-10	£97.65		£165.73		£598.60	16.3%	
Apr-11	£102.15		£165.93		£602.90	16.9%	
Apr-12	£107.45		£169.45		£607.80	17.7%	
Apr-13	£110.15		£169.64		£620.20	17.8%	
Apr-14	£113.10		£171.05		£620.80	18.2%	
Apr-15	£115.95		£175.71		£627.00	18.5%	
Apr-16	£119.30	£155.65	£180.25	£235.17	£644.90	18.5%	24.1%
Apr-17	£122.30	£159.55	£179.93	£234.73	£661.10	18.5%	24.1%
Apr-18	£125.95	£164.35	£180.91	£236.06	£685.20	18.4%	24.0%
Apr-19	£129.20	£168.60	£181.78	£237.21	£703.40	18.4%	24.0%
Apr-20	£134.25	£175.20	£187.32	£244.46	£708.10	19.0%	24.7%
Apr-21	£137.60	£179.60	£189.20	£246.95	£726.60	18.9%	24.7%
Apr-22	£141.85	£185.15	£178.96	£233.58	£755.60	18.8%	24.5%
Apr-23	£156.20	£203.85	£181.34	£236.66	£811.10	19.3%	25.1%
Apr-24	£169.50	£221.20	£183.09	£238.94	£867.20	19.5%	25.5%
Apr-25	£176.45	£230.25	£184.50	£240.76	£920.80	19.2%	25.0%
Apr-26	£184.90	£241.30	£184.90	£241.30	£954.93	19.4%	25.3%

²⁰ Earnings growth considered for the triple lock is the annual growth in average weekly earnings up to July of the previous year, CPI is assessed as the annual growth up to September of the previous year, leading to some inconsistency of time periods and a lag in the State Pension uprating compared to growth in prices or earnings.

²¹ Thurley, D (2018) State Pension uprating – 2010 onwards commonslibrary.parliament.uk/research-briefings/sn05649/

²² www.gov.uk/government/speeches/annual-review-of-state-pension-and-industrial-death-benefit-rates Accessed 27.04.2022

²³ Department for Work and Pensions (DWP) (2026) Benefit and pension rates 2026 to 2027

²⁴ Mean full-time earnings from Annual Survey of Hours and Earnings. This represents the average amount of income to a full-time employee. The earnings growth considered in determining the uprating of State Pension tends to be in line with a different measure, the growth in all earnings. It is lower because it includes part-time workers at their lower rate of pay. As a comparison of the State Pension level to the general level of earnings in the UK, we use the full-time-only measure. Rates comparing to the total average weekly earnings, used in the definition of the uprating are presented in **Appendix 3**.

Refer to **Appendix 3** for a more detailed table on the historic uprating figures, and for the projected level of bSP and nSP compared to average earnings.



Means-Tested Benefits

In addition to the State Pension, there are several means-tested benefits that pensioners may be eligible for, depending on their circumstances.

Pension Credit has two components:

- **Guarantee Credit (GC)** - It is currently payable from age 66. The minimum age for receiving GC is increasing in line with increases in SPa (as introduced by the Pensions Act 1995), with further increases to age 67 from 2026.²⁵
- **Savings Credit (SC)** - SC is no longer available for people retiring after 6 April 2016, but is still paid to those already in receipt.

Guarantee Credits

GC is the main means-tested benefit currently paid to those aged 66 and above. People (or households) become eligible for GC if other sources of income do not reach a certain level. **If claimed, GC provides a safety net of a minimum level of income.** Its effect is redistributive – the benefit is paid from taxes that are related to income and only paid to those on low income.

In 2026/27, GC provides a minimum income of £238.00 a week for single people and £363.25 a week for couples.²⁶ GC entitlement can be higher for disabled people, people with caring responsibilities or people with a mortgage.²⁷

The Pensions Act 2007 requires the GC to be increased by a percentage at least equal to the increase in the general level of earnings. For 2026/27, the Government increased the GC by 4.8%, in line with the increase in the rate of earnings.²⁸

Savings Credit

With the introduction of the nSP and the removal of the mechanism for accruing entitlement to ASP, **SC is no longer available for people reaching SPa after 6th April 2016.** SC was designed to ensure that those who made some private provision for retirement, or had entitlement in excess of the State Pension, including SERPS and S2P, were better off than those who had made no provision.

The maximum amount payable under SC is £17.96 a week for a single person and £20.10 a week for a couple from April 2026 for those already in receipt. For every £1 of income received²⁹ above the level of the SC threshold (£208.07 for single pensioners and £329.75 for couples, in 2026/27),³⁰ but below the level of GC, SC pays an additional benefit of 60p. The credit is then ‘tapered down’ for additional income above the GC level.

Case study

Ayisha retired under the old State Pension system. She is entitled to a bSP of £172.57 a week (from her 28 qualifying years), which is £12.33 below the maximum entitlement for a single person.

She also receives an occupational pension of £40.00 a week giving her a total weekly income of £212.57.

She is entitled to a guaranteed element of Pension Credit of £25.43 (to increase her income to the Guarantee Credit level of £238.00 a week).

She also receives Savings Credit of £2.70 a week. This is worked out as it is 60% of her weekly income above the Savings Credit threshold of £208.07, giving her a total weekly income of £240.70.

²⁵ The State Pension Credit Act 2002 sets the qualifying age for the Guarantee Credit to be the same as the State Pension age for women.

²⁶ Department for Work and Pensions (DWP) (2026) [Benefit and pension rates 2026 to 2027](#)

²⁷ Not everyone with a mortgage will be entitled to GC. Support is available in specific cases, such as for leaseholders paying ground rent (if the property is a leasehold) or service charges. [Pension Credit: What you'll get - GOV.UK \(www.gov.uk\)](#)

²⁸ House of Commons Library (2025) [Benefits Upating 2026/27](#)

²⁹ From ongoing employment, SERPS, Graduated Retirement Benefit, occupational schemes, personal pensions and assumed income from capital savings.

³⁰ Department for Work and Pensions (DWP) (2026) [Benefit and pension rates 2026 to 2027](#)



On January 14, 2019, the Government implemented a section of the Welfare Reform Act 2012, making changes to the age at which some people could claim Pension Credit.

Before May 15, 2019, people in mixed-age couples (where one person is above SPa and one below) were able to claim Pension Credit based on the age of the older person. After this date, claims could only be made based on the age of the younger person.

As well as mixed-age couples where one reaches or has already reached SPa, the following people will also be unable to claim Pension Credit.

- Single pensioners who start living with a partner who has not reached the qualifying age on or after 15 May 2019.
- People whose circumstances change and become entitled again at any time on or after 15 May 2019, but their partner has not reached the qualifying age.

The Government defines a partner as “a person you live with as if you were a married couple”, regardless of whether or not they are married or in a civil partnership.

It is expected that people in mixed-age couples who would have claimed Pension Credit will have to instead claim Universal Credit (UC), or that existing claims for UC will continue until the younger partner reaches SPa.

Universal credit

Universal Credit (UC) was introduced in 2013 and has brought a number of legacy benefits into one system. These are;

- Child Tax Credit
- Housing Benefit
- Income Support
- Income-based Jobseeker’s Allowance (JSA)
- Income-related Employment and Support Allowance (ESA)
- Working Tax Credit

It is designed specifically for people who are out of work or on a low income, and was explicitly created to encourage claimants to take up and/or increase paid work. To this end, its unique feature is that for every pound earned while working and claiming UC, the claimant can keep 45p up until the point that their allocated amount is met or exceeded. The allocated amount (maximum UC rate) in 2026/27 for a couple aged over 25 is £666.97 a month. The allocated amount was temporarily raised during the COVID-19 pandemic but has since returned to pre-pandemic levels.³¹

To read about these benefits in more detail, please refer to **Appendix 5.**

³¹ Universal Credit is paid monthly rather than weekly and is therefore presented as a monthly amount. The weekly equivalent for the maximum couple’s payment (both over age 25) in 2026/27 of £666.97 would be around £153.49 per week.

Other forms of means-tested retirement income

Housing Benefit (HB) and Council Tax Reduction (CTR) are means-tested benefits available to both pensioners and people under SPa, though working-age people will receive support for housing costs from UC if they are new claimants. Winter Fuel Payments (WFP) (which became means-tested from winter 2024/2025, with revised eligibility from 2025/26) and the free TV License for over 75s (means-tested from August 2024) now operate on the same principle: they are generally limited to households where someone receives Pension Credit or another qualifying income-related benefit. Although they are not part of **Tier 1** pension provision, they are included here because they are important benefits that make up a retirement income for many older people.

Housing Benefit (HB) is paid to people on low incomes who rent their home. There is no set amount a person may receive, though there are caps on different household types. It is designed to help with housing costs, including rent and some accommodation-related service charges, and is paid to renters who claim the benefit once they have been assessed as being eligible.

Not everybody that is eligible claims HB. Official estimates show that, in 2024, 15% of pensioner households who were eligible did not take up their benefit.³² For a more detailed description of HB, please refer to **Appendix 6**.

Council Tax Reduction (CTR) is a rebate scheme to provide help with up to 100% of an individual's Council Tax. Local councils design their own scheme.³³

There are no national data regarding the take-up of CTR, however, estimates of take-up for its precursor, Council Tax Benefit, were relatively low; in 2009/10 between 31% and 38% of pensioner households who were eligible did not take up their benefit.³⁴

Since then, the provision of CTR has been devolved to Local Authorities, and there is currently no more up-to-date data on levels of take-up. For a more detailed description of CTR, please refer to **Appendix 7**.

Winter Fuel Payments (WFP) are annual, tax-free lump-sum payments designed to help people over SPa meet their winter heating costs. WFP were made subject to means-testing for the winter of 2024/25, which limited eligibility to households where at least one person received Pension Credit or another income-related benefit. In June 2025 the Government announced a further change to WFP, where everyone over SPa would receive the WFP, but with it being reclaimed by His Majesty's Revenue & Customs (HMRC) from pensioners with an income above £35,000 a year.

First introduced in 1997, the standard award has usually ranged from £200 to £300, depending on the age of the

oldest person in the household. Altogether, about 11.6 million people in 8.5 million households in Great Britain received the WFP for winter 2023/24, of whom 10.8 million people in 7.6 million households were in England and Wales. The WFP in Scotland was devolved to the Scottish Government under a new Pension Age Winter Heating Payment for winter 2024/25 but made a similar change in eligibility requirement. The policy change for winter 2024/25 cut the number of recipients by over 85% in England and Wales, leaving only about 1.5 million eligible people in 1.3 million households.³⁵ The Government, in their announcement of the revised policy for 2025/26 onward, estimated that their revised rules would extend eligibility to benefit from the WFP to around 9 million pensioners.³⁶

The **Free TV License** for people aged 75 and over exempts eligible households from paying the standard licence fee. From August 2020 the free TV license was similarly limited to households that receive Pension Credit.

Pensioners receive other, non-pension benefits that could be considered as part of **Tier 1** provision:

- Benefits individually assessed for specific purposes, for example, Attendance Allowance.
- (Near) Universal benefits for all or most people at a certain age, such as free bus passes for individuals over 60.

Please refer to **Appendix 8** to see a complete list of other non-pension benefits pensioners may receive.

³² Department for Work and Pensions (DWP) (2025), [Income-related benefits: estimates of take-up: financial year ending 2024](#)

³³ www.gov.uk/government/uploads/system/uploads/attachment_data/file/14787/LCTS_Q_A.pdf

³⁴ Department for Work and Pensions (DWP) (2012) [Income Related Benefits Estimates of Take-up in 2009-10](#)

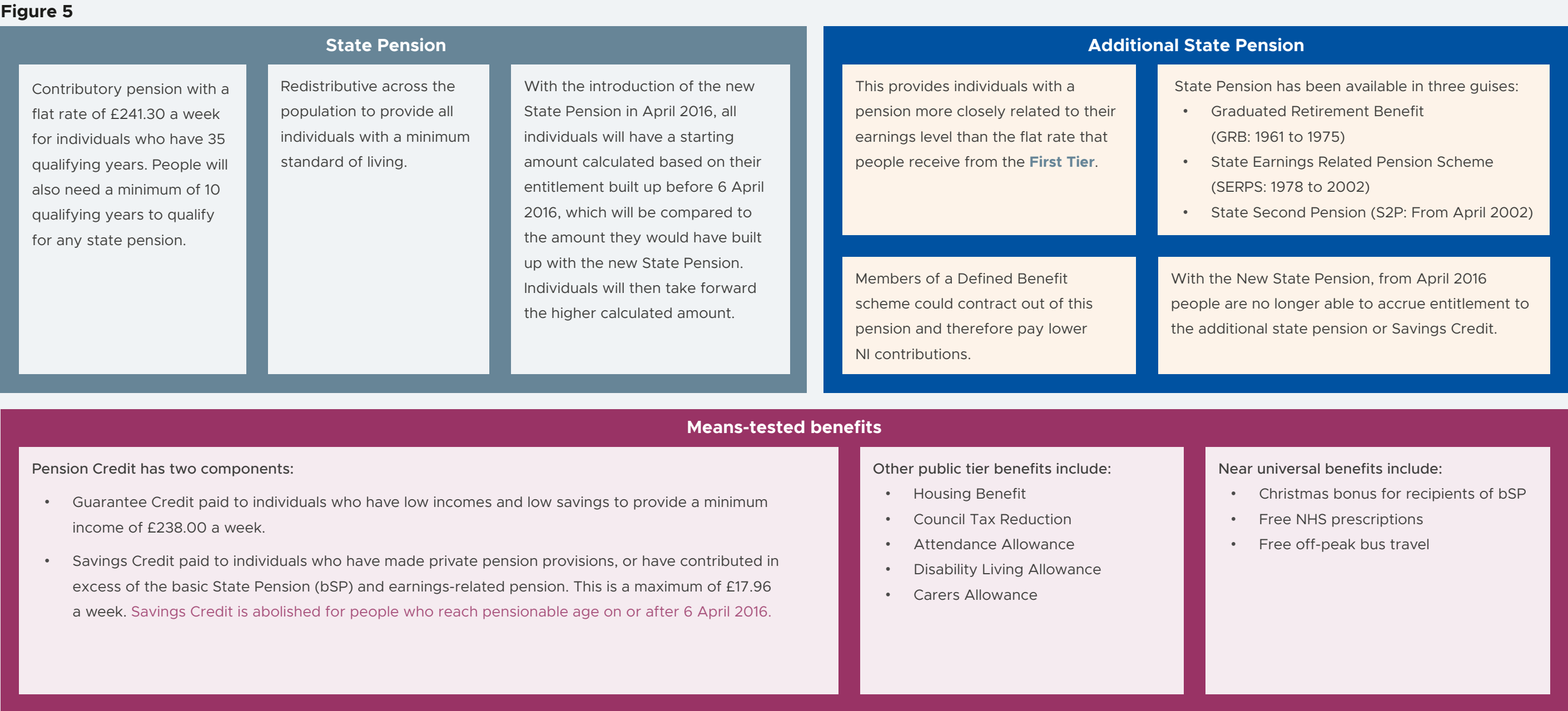
³⁵ Mackley, A., Kennedy, S. & Hobson, F. (2025). Changes to Winter Fuel Payment eligibility rules. House of Commons Library. Available at: <https://commonslibrary.parliament.uk/research-briefings/cbp-10094/>

³⁶ HM Treasury (2025) [Press Release - Nine million pensioners to receive Winter Fuel Payments this winter](#)



Summary of the State Pension

The following (Figure 5) gives a summary of the State Pension system that has been discussed. This includes the nSP, the ASP and means-tested benefits. As the additional State Pension can no longer be accrued, it has been shaded out to reflect this change.





TIER 2

PROVISION



← Prev Next →

Tier 2 provision

Tier 2 is **private pensions**, including workplace pensions and those that are not directly funded by the state. Private pensions are generally provided through the workplace, though an individual, (for example, someone who is self-employed) can take out a private pension directly with a pension provider.

Unlike State Pension contributions, private pension contributions are voluntary for individuals, though there is an element of soft compulsion through the system of automatic enrolment. Private pension contributions, from the employer and/or the individual, fund designated pensions for the individual. The primary aim of private pensions is to **redistribute (or smooth) income across an individual's lifetime**.

As with state provision, private pension provision is complicated. The legislative framework has been altered over time, adding layers of new arrangements to those already in place. In addition, because individuals have varied employment histories, many will retire with a number of pensions arising from both employer-sponsored schemes and individual arrangements. The benefits from private pension schemes vary depending on scheme rules and structure.

This section will first give a summary of Defined Benefit (DB), Defined Contribution (DC) and Collective Defined Contribution (CDC) schemes. These are the overall structures of almost all private pensions. The difference between contract- and trust-based schemes are highlighted, then the different schemes for workplace and individual schemes are explained.

Figure 6 simplifies the hierarchical structure of pension provision.

A scheme is different from a pension provider. One pension provider may offer thousands of different schemes, as each employer will generally be offered a single “scheme” designed individually for its workforce. Therefore, two employees at different organisations may have pensions provided by the same provider while also being in separate schemes.

Summary of Schemes

Figure 6

PENSIONS POLICY INSTITUTE
PPI

Workplace Pension Schemes

A pension scheme accessed through an employer. The employee and/or employer make contributions to the pension and this money is invested until retirement.

Individual Pension Schemes

A pension scheme contract taken out directly with a provider.

Trust-Based Schemes

A pension scheme governed by a board of trustees who have a fiduciary duty towards scheme members. The board of trustees manage investments on the members behalf.

Traditionally these schemes were set up & run by employers.

Contract-Based Schemes

A pension scheme governed by a provider and an independent governance committee (IGC) where a contract exists between the individual scheme member and the provider.

Defined Benefit (DB) Schemes

Trust based pension schemes run by an employer which offers pension benefits based on salary during working life.

Collective Defined Contribution (CDC) Pension Schemes

Legislated in 2022.

A trust-based pensions scheme where contributions are pooled in a collective fund. Provides members with an income in retirement that can go up and down based on investment performance.

Defined Contribution (DC Schemes)

Trust or contract-based pension schemes run by a third party in which pension contributions are invested individually & benefits depend on pot size at withdrawal & method of accessing savings (e.g drawdown v's annuity).

Final Salary or Career Average Schemes

Trust-based pension schemes run by an employer which offers pension benefits based on salary during working life.

Royal Mail Scheme

The Royal Mail Scheme launched in **October 2024**.

Master Trust Schemes

Trust-based DC pension scheme run by a pension provider & open to multiple employers.

DC Trust Schemes

Trust-based DC pension scheme run by a single employer.

Group Personal Pension Schemes

Contract-based, DC pension scheme run by a pension provider, designed for a group of employees working for a single employer (includes Stakeholder Schemes).

(Individual) Personal Pension Schemes

Contract-based, DC pension scheme run by a pension provider, designed for a single individual.



Defined Benefit and Defined Contribution Pension Schemes

Table 3 explains the differences between Defined Benefit (DB) and Defined Contribution (DC) schemes, as well as the CDC alternative model.

Table 3	Defined Benefit (DB)	Defined Contribution (DC)	Collective Defined Contribution (CDC)
How much do members contribute?	Contributions are varied in order to ensure that the level of promised benefits are reached.	Contributions are usually expressed as a percentage of salary or total earnings. The rate of contribution could be a flat rate, or could be tiered by age and/or length of service and/or seniority and/or level of earnings.	Contributions are usually expressed as a percentage of salary or total earnings. The rate of contribution could be a flat rate, or could be tiered by age and/or length of service and/or seniority and/or level of earnings.
How much do members receive in retirement?	A DB pension scheme promises a specific level of benefit when an individual retires. Employers make the promise and are responsible for deficits in scheme funding. The Pension Protection Fund (see Appendix 9) was set up in April 2005 to protect members in DB schemes.	A DC scheme operates on the money-purchase basis with a specified rate of contributions being paid into the scheme, but with no guarantee as to the level of the benefit that will be paid out. When an individual reaches retirement, the accrued benefit is withdrawn and may be used to buy a retirement product. This means the scheme member themselves often bear the risks of having a low retirement income in later life.	A CDC scheme provides members with an income for the entirety of retirement, similar to that provided by a DB scheme, rather than a pension pot that can be accessed flexibly. Unlike DB incomes, however, CDC income levels are not guaranteed and can be subject to increases and decreases during both the accumulation phase and after retirement, depending on the scheme’s funding position.
Where do the contributions go?	DB schemes operate on a pooled fund basis; all contributions are paid into a common fund, which is invested to provide all retirement benefits. In unfunded public sector schemes, contributions are used to pay the benefits of current scheme pensioners, the balance between contributions and payments is covered by the Government.	The contributions are invested. Often there is a choice of investment funds – managed, equity, property, gilts, and overseas – and with some schemes a choice of investment manager.	Contributions to CDC schemes are invested collectively for members in both accumulation and decumulation. It is argued that this will allow CDC schemes to take a longer-term approach to investment than individual DC schemes.

What age can a member start taking their pension?	Schemes usually have a normal pension age of 60, 65 or State Pension age (SPa), but a member can generally retire early with a reduction in benefits. DB schemes are subject to the same minimum pension age as DC schemes.	DC members can access their pension pot at the minimum pension age. This is 55, rising to age 57 in 2028.³⁷ Before age 55, people can withdraw DC pension savings but will incur a tax charge of 55%.	As with DB schemes, CDC schemes are expected to have a normal pension age of 60, 65 or SPa, with the option to retire early with reduced benefits (after the statutory minimum age of 55).
How does investment performance affect entitlement at retirement?	In the normal course of events, the investment performance of the scheme assets has no or minimal impact on the benefits an individual receives, as it falls to the scheme provider to fill the shortfall.	At retirement, the pension will depend on the accumulated fund, the amount deducted from the fund as a tax-free lump sum (which is usually up to 25% of the total fund) and the method of accessing savings. The size of the pot depends on contributions, length of saving, employer contributions, investment performance, charges, and the choice of retirement product or means of access. If investment returns or retirement income product rates are poor, then the resultant pension will be lower.	A CDC scheme's investment performance determines the level of income that members will receive in retirement. Schemes use investment performance to calculate scheme funding position annually, and determine the adjustments that need to be made to future pension entitlements and current pensions in payment in order to rebalance the funding position. This means that, even after retirement, entitlements can be adjusted down as well as up.

³⁷ Budget 2014

How popular are these schemes?	DB schemes are losing popularity due to the risk placed on the employer; however, they are still provided to public sector employees. In 2025, 3% of private sector DB schemes were open to new members and 79% were closed to all benefit accruals (including the 5% of schemes winding up). ³⁸	Automatic enrolment into DC schemes has resulted in 89% of all eligible employees as active members of pension schemes by 2024. ³⁹	CDC schemes are a new addition to the UK pensions landscape, introduced by the Pension Schemes Act 2021. The first scheme of this type, the Royal Mail Collective Pension Plan, launched in October 2024. The CDC framework has since been extended through regulations to allow multi-employer CDC schemes, subject to authorisation and supervision by The Pensions Regulator. ⁴⁰ Additionally, the Pension Schemes Act 2026 provides the legislative basis for the development of “decumulation-only” CDC, but implementation will require secondary legislation. ⁴¹
Can members opt out of any portion of the scheme?	DB schemes were able to contract out of paying National Insurance contributions (NICs) in respect of State Second Pension (S2P) up until April 2016. The Pensions Act 2007 abolished contracting out in DC schemes from April 2012. Employees can also choose not to be automatically enrolled into a DB workplace pension.	Employees can choose not to be automatically enrolled into a workplace pension. This is called “opting out” .	As with other types of pension scheme, employees are entitled to opt out of being automatically enrolled into a CDC scheme.

³⁸ TPR (2025) [Occupational defined benefit \(DB\) landscape in the UK 2025](#)
³⁹ DWP (2025) [Workplace pension participation and savings trends of eligible employees: 2009 to 2024](#)
⁴⁰ TPR (2026) [Explanatory Memorandum to The Pensions Regulator Code of Practice](#)
⁴¹ [Pension Schemes Act 2026](#)

Collective Defined Contribution schemes

Trust- and contract-based schemes

Private sector pension schemes can have either a trust- or contract-based governance structure.

- In a **contract-based arrangement**, the scheme is managed and governed by the contract provider, generally an insurance company.
- In a **trust-based scheme**, a board of trustees runs the scheme in the interests of its beneficiaries.

Private sector DB and CDC schemes must be trust based, DC pensions could be either trust based or contract based.

In the public sector, pension schemes are statutory schemes, with their regulations set out in statutory instruments. They are run by pension boards who act in a similar way to trustees.

Workplace pension schemes

Pensions provided through the employer are called **workplace pensions**. Workplace pension schemes can be structured as DB, DC, or hybrid/risk-sharing schemes such as CDC.

Most private pension arrangements are employer-sponsored personal pensions, or multi-employer schemes. The employer usually contributes to these schemes, and, in the case of a scheme used for automatic enrolment requirements, the employer must contribute. More often than not, an employee contribution is also required.

The employer link may be **very strong**; for example, some employers set up, fund and administer their own trust-based pension scheme, or the link may be **weak**; for example, the employer may only give access to a scheme run and administered by a pension provider. Many schemes are arranged through single employers, although multi-employer schemes are becoming increasingly popular in the private sector and there are a few industry-wide arrangements.

Contract-based Scheme

Group personal pensions and group stakeholder pensions (contract-based scheme)

Group Personal Pensions (GPP) and Group Stakeholder Pensions (GSP) are sponsored by the employer, but the legal contract is still between the individual and the pension provider (**Figure 7**). These two types of personal pensions are collective arrangements, made for the employees of a particular employer to participate on a group basis, and so typically obtain lower management fees than individual personal pension plans. The main advantage of a GPP compared to an individual arrangement is that charges are likely to be lower.

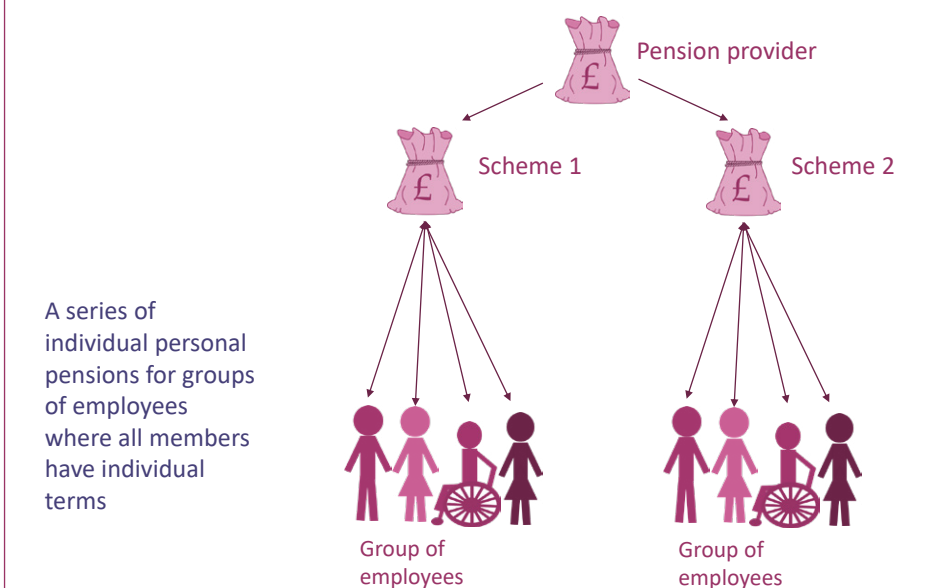
From April 2001, all employers with five or more employees were required to designate a stakeholder provider to which they would make payments deducted from an employee's pay if they requested. Employers were not required to contribute prior to their automatic enrolment staging dates (explained in a later section).

The main difference between these and other types of personal pensions at the time was that management charges in each year were limited by a maximum charge cap and providers were not permitted to charge exit penalties. For people who joined a stakeholder pension after 6 April 2005, the maximum fund management charge was 1.5% for the first 10 years, thereafter reducing to 1%. For stakeholder plans that were opened before this date, the previous maximum charge of 1% continued to apply. However, subsequent legislation has removed most of the differences between stakeholder pension schemes and other pension schemes used for automatic enrolment. Schemes used for automatic enrolment cannot, by law, charge more than 0.75% total Annual Management Charges (AMCs), excluding transaction costs, for members invested in the default fund, and, as of April 2023, some performance-related fees have also been removed from the charge cap.⁴²

Though employers are no longer required to provide access to Stakeholder schemes, as they were under previous legislation, they are still available for use alongside other personal pensions.

Figure 7

Group Personal Pensions and Group Stakeholder Pensions have individual terms for groups of employees



⁴² DWP (2023) Value for Money: A framework on metrics, standards and disclosures

Multi-employer pension schemes

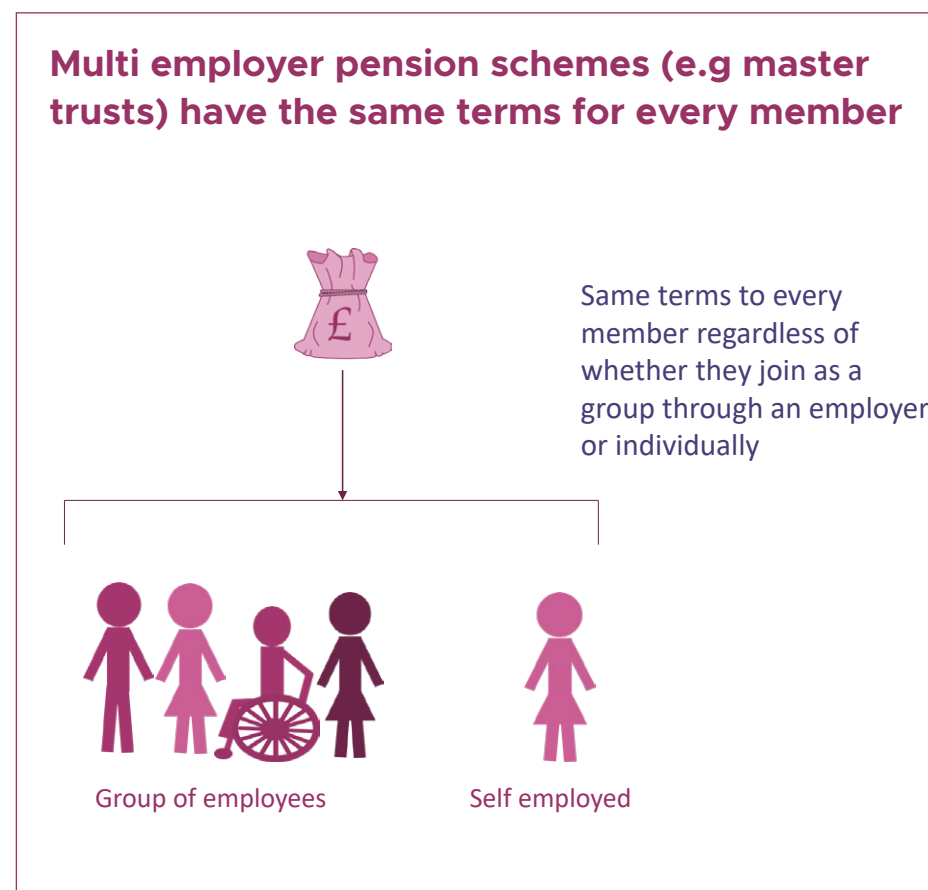
Multi-employer schemes allow an employer to offer a pension scheme without setting up a pension themselves. Historically multi-employer schemes were industry specific, such as the Merchant Navy Officers Pension Fund (MNOFP), which provides a pension scheme for shipping companies.

The introduction of automatic enrolment has heralded a significant rise in multi-employer schemes, some of which are master trusts.

Multi-employer schemes offer the same terms to every member regardless of whether they join the scheme as part of a group via their employer or singly as an employee or a self-employed person, though some multi-employer schemes do offer a variation in charges (**Figure 8**).

Some of these schemes are DC schemes run by an insurance company or pension provider. Others are **master trusts**, which are DC schemes governed by a board of trustees who owe a fiduciary duty to members. These schemes may be stand-alone (such as Nest) or have the backing of a pension provider or insurance company (such as People's Partnership or NOW: Pensions).

Figure 8



Pension Schemes Act 2017 and master trust regulation

The Pension Schemes Act 2017 was introduced on 27 April 2017. The Act introduced authorisation criteria that master trusts must satisfy. It is regulated by The Pensions Regulator (TPR). The Act increased TPR's powers in relation to ongoing supervision of schemes; TPR may now require that trustees of an authorised master trust submit a '**supervisory return**' once in any 12-month period. The authorisation of master trusts saw a reduction in the number of such schemes, and, **as of 2026,⁴³ 29 master trusts are authorised to operate in the UK market.⁴⁴**

Additional Voluntary Contributions

Until April 2006, all occupational pension schemes offered the facility for employees to make **Additional Voluntary Contributions** (AVCs). These could either be used to purchase extra years of service – at retirement the total pension will be based on earnings and actual service plus any added years purchased – or could be invested and the resultant pension would depend on the accumulated fund and annuity rates applicable at retirement. Some companies may no longer offer AVCs following changes to pension rules in April 2006, as there are now more options for people to top up their company pension through other means.⁴⁵

⁴³ At the time of writing.

⁴⁴ The Pensions Regulator List of authorised master trusts - www.thepensionsregulator.gov.uk/en/master-trust-pension-schemes/list-of-authorised-master-trusts

⁴⁵ Between April 2001 and April 2006 members of an occupational pension scheme earning less than £30,000 a year had an alternative 'concurrency' option. This allowed them to contribute up to £3,600 a year into a stakeholder or personal pension. The £30,000 limit applied to each employment. So, for example, it was possible for someone with more than one employment to have a concurrent pension even if his or her total earnings were above £30,000.

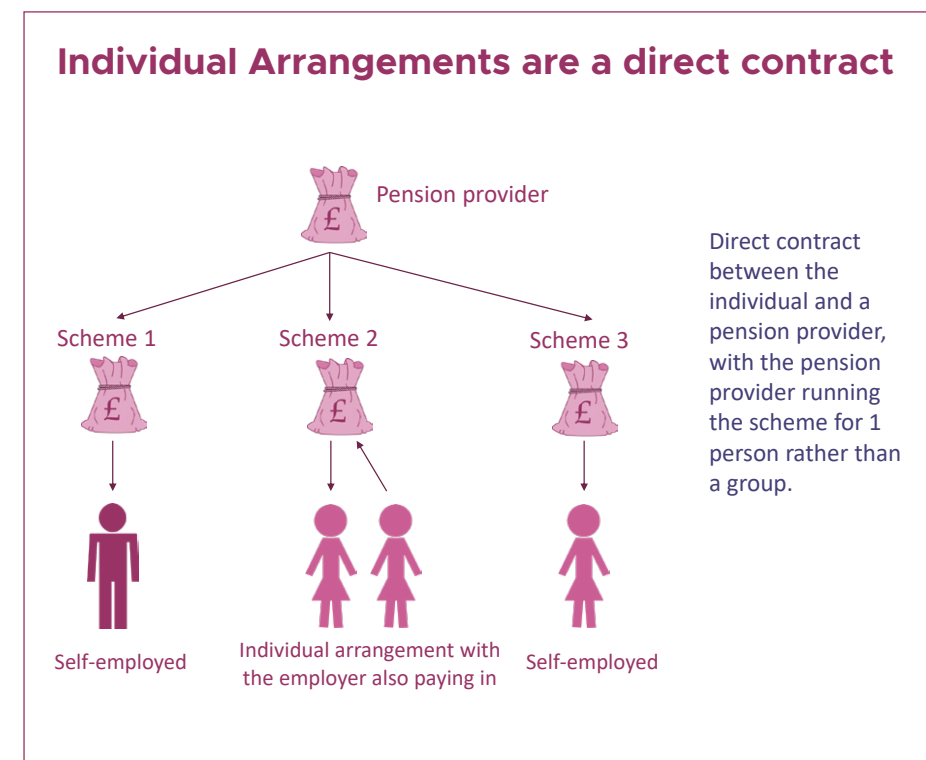
Individual Arrangements

Personal pension plans are individual arrangements (not made through an employer) based on a direct contract between the individual and a pension provider, and are contract based (**Figure 9**).

There are several types of these, including stakeholder pensions and a distinct product called a personal pension. These work with the same underlying money-purchase principle as workplace pensions, but individual pensions can have higher charges due to the provider running the scheme for one person rather than a group of employers.

Until April 2001, individual personal pensions were only available to individuals while they were self-employed, or were not members of an occupational pension scheme. Legislation introducing stakeholder pensions widened access further and, from April 2006, individual pension arrangements became open to everyone under age 75.

Figure 9



The majority of individual pension arrangements now operate under the **charge cap**, which limits the total annual cost to members whose funds are invested in the default fund to 0.75% of funds under management.

Individual contributions to private pension schemes obtain tax relief at least at an individual's highest marginal rate (within limits). The pension fund is accumulated in a tax-favoured environment. Employers can still contribute to a personal pension, and any contributions an employer makes are tax deductible and so reduce its corporation tax liability. The company also benefits from a reduction in the amount of National Insurance (NI) owed.

Automatic enrolment into pension schemes from 2012

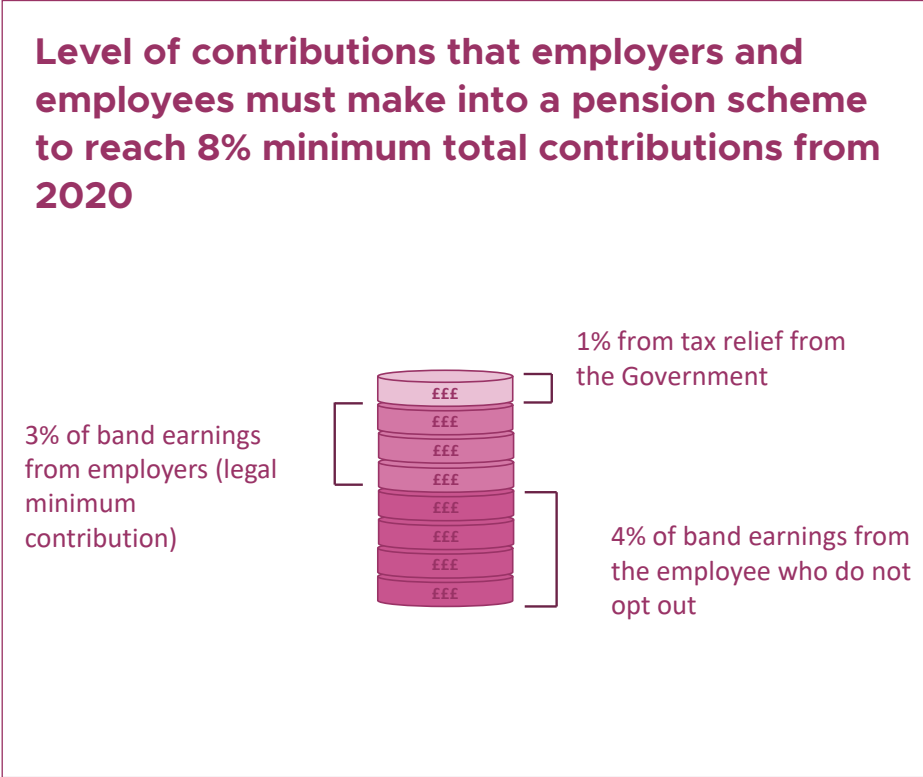
Previous Governments acted on the recommendations of the Pensions Commission⁴⁶ and legislated in the Pensions Act 2008 for the introduction of automatic enrolment into private pensions. Automatic enrolment began in October 2012 in a staged process. In the first stage, larger employers were required to automatically enrol their employees, with medium, then smaller employers following in the second and third stages. Finally, new companies set up during the staging process had to enrol employees in the fourth stage, which ended on 1 February 2018. Since that date any new company must automatically enrol their employees immediately.

Employees between age 22 and SPa are eligible for automatic enrolment into a scheme chosen by their employer, with employees having the right to opt out. The amount of annual earnings above which every employee should be automatically enrolled is £10,000 in 2026/27. Contributions become payable on band earnings over £6,240 and up to a limit of £50,270 (2026/27).⁴⁷

Employees have the choice to opt out of being enrolled into a pension scheme. Every three years, employers must repeat the automatic enrolment process so that employees who chose to opt out, or leave subsequent to the opt-out period, can revisit their decision.⁴⁸ This is known as re-enrolment.

The required level of contributions that employers and employees must make into a pension scheme (if employees remain opted in) is 8% minimum total contributions of band earnings.⁴⁹ This 8% is made up of a minimum 3% from the employer and the remainder from the employee and the Government (through tax relief)⁵⁰ (Figure 10). If the employer decides to contribute the legal minimum of 3% of band earnings, then employees who do not opt out will have to contribute 4% and the Government will contribute 1% through tax relief.⁵¹ However, it will be up to employers to decide whether they want to contribute more. If they contribute more than 3%, that could reduce the amount that employees are required to contribute.

Figure 10



⁴⁶ Pensions Commission (2005) A New Pension Settlement for the Twenty-First Century.

⁴⁷ TPR (2026) [Earnings thresholds](#)

⁴⁸ TPR (2015) Automatic enrolment: Commentary and analysis: April 2014 – March 2015.

⁴⁹ DWP (2012) Revised implementation proposals for workplace pension reform July 2012, para 7

⁵⁰ The tax relief may be higher for those people who pay higher-rate tax.

⁵¹ The tax relief may be higher for those people who pay higher-rate tax.

Review of Automatic Enrolment

The Automatic Enrolment Review panel published a report in December 2017. Based on the recommendations made in the report, the Government remains committed to implement from the mid-2020s:

- Removing the lower limit on the salary for contributions, so that salary is counted for contributions from the first pound.
- Reducing the minimum age for eligibility to automatic enrolment from 22 to 18.
- Testing ways to improve pension saving participation and retirement incomes for self-employed people.

In September 2023, the Pensions (Extension of Automatic Enrolment) Act 2023 received Royal Assent. The Act aims to expand automatic enrolment by enacting the proposals from the AE 2017 Review. The Act grants the Secretary of State certain powers to amend or abolish the Lower Earning Level (LEL) for contributions and lower the minimum automatic enrolment age limit. However, the provisions of the Act are not expected to result in immediate change. Instead, it grants the Secretary of State the power to consult and report on the outcomes of the proposed changes before implementing them.

Small pot consolidation

The expansion of automatic enrolment has also increased the number of deferred small pension pots, as workers may build up a new pension pot each time they change employer. The Pension Schemes Act 2026 provides the framework for the automatic consolidation of small deferred DC pension pots. The framework is expected initially to apply to deferred workplace pension pots worth **£1,000 or less**, with pots transferred automatically to authorised consolidator schemes unless the member opts out. The detailed rules and implementation timetable will be set through secondary legislation.⁵²

Individual Arrangements

With the introduction of automatic enrolment in 2012, the Government set an exemption test for deciding whether an employer-based pension scheme is of a high enough standard to allow the employer to be exempt from automatically enrolling eligible employees into an alternative scheme. In order to qualify as an automatic enrolment scheme, a pension scheme must:

- Allow contributions to be made by the employer.
- Be “registered”, which means the type of scheme that receives tax advantages under the Finance Act 2004.
- DC schemes must have employer contributions of at least 3%, and total contributions of at least 8%, of qualifying (band) earnings.
- DB schemes must satisfy the Test Scheme standard or an alternative DB requirement (e.g., costs of accruals test, money purchase quality requirement) for all active members.⁵³
- Hybrid schemes must satisfy either the money purchase requirement or the DB requirement, as appropriate, according to rules set out by the Secretary of State.

Charge Cap

The default strategy is the investment strategy that members will automatically have their contributions invested in, unless they make an active choice to invest in a “self-select” strategy.

The Occupational Pension Schemes (Charges and Governance) Regulations 2015 introduced a cap on the charges of default strategies used for automatic enrolment. **This cap limits the total annual cost to members whose funds are invested in the default to 0.75% of funds under management.** There are alternative permissible combination charges comprising of either a percentage of funds plus a percentage of contribution or a percentage of funds plus a flat fee. The cap applies to all scheme and investment administration charges.⁵⁴ Transaction costs (third-party costs generated when investments are sold and bought on the market) and some performance fees for investment managers are excluded from the charge cap.⁵⁵ A de minimis was introduced in 2022 restricting the use of flat fees such that a pension provider may not charge a member a flat fee if the total value of their rights within a default arrangement is £100.00 or less.

⁵² [Pension Schemes Act 2026](#)

⁵³ Test Scheme is a scheme that provides a pension from age 65 of 1/120 x average qualifying service over the last 3 tax years before retirement for each year of qualifying service.

⁵⁴ Department for Work and Pensions (2016) The charge cap: guidance for trustees and managers of occupational schemes https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/557888/charge-cap-guidance.pdf

⁵⁵ www.gov.uk/government/news/pensions-charge-cap-changes-outlined

Environmental, Social and Governance investment regulations

Value for Money framework

Alongside the charge cap, the Government and regulators are developing a Value for Money (VfM) framework for workplace DC pensions. The framework is intended to shift the focus from charges alone to the overall value delivered to members. It will assess arrangements by reference to investment performance, costs and charges, and quality of service. The aim is to make it easier to compare schemes and to identify arrangements that are not delivering good outcomes for members.

Under the proposed framework, schemes and providers would be required to publish standardised data and carry out VfM assessments. Arrangements found to be poor value against set metrics, which are still being considered and debated, may be required to improve or consolidate into better-performing arrangements. The Pension Schemes Act 2026 provides the legislative basis for the framework,⁵⁶ but the detailed rules and implementation timetable will be set through secondary legislation and TPR and/or Financial Conduct Authority (FCA) rules. The FCA has said it is currently working towards 2028 for the first VfM assessments to be required.⁵⁷

Pension Scheme Investment

Current Government policy is aligned behind the idea that larger, better-governed schemes can achieve better returns for savers while channelling more capital into the productive UK economy. The Government's programme encourages schemes to merge or transfer members into better-performing funds, that will be able to improve outcomes. Consolidation at the market level is being driven through two main policy levers: the Pension Schemes Act 2026 and the voluntary Mansion House Accord.

Pension Schemes Act 2026

The Pension Schemes Act 2026 introduces reforms intended to increase the scale of workplace pension arrangements. In-scope multi-employer DC schemes and the Local Government Pension Scheme (LGPS) are required to manage at least £25 billion in assets by 2030, thereby increasing the number of large "megafunds". DC schemes that are currently above £10 billion may remain below the 2030 threshold, provided they demonstrate a credible plan to reach £25 billion by 2035. The aim is to give schemes the scale needed to invest in illiquid assets,

such as infrastructure and high-growth private businesses, to contribute to boosting the UK economy while improving long-term net returns for savers.

Under the Act, trustees and providers gain new statutory powers to make bulk transfers where members can be moved to demonstrably better-performing funds. A new contractual-override regime, backed by strong consumer safeguards, will allow contract-based schemes to consolidate legacy or under-performing arrangements subject to consumer safeguards and detailed FCA rules.

The Act also aims to tackle the "small pots" challenge, introduces a framework for a mandatory VfM framework requiring under-performing funds to improve or merge, and creates a legal basis for "decumulation-only" CDC products and that DC savers are automatically offered a default retirement-income solution.^{58,59}

Mansion House Accord

Under the Mansion House Accord, 17 of the UK's largest DC providers have voluntarily committed to allocate a minimum 10 % of default-fund assets to private markets (including 5 % in UK-based investments) by 2030. If progress proves inadequate, the Government has signalled it could invoke reserve powers in the Pension Schemes Bill to mandate specific asset-allocation targets or further consolidation.⁶⁰

⁵⁶ [Pension Schemes Act 2026](#)

⁵⁷ Financial Conduct Authority (2026) [CP26/1: The Value for Money Framework: Response to consultation, further consultation and discussion paper](#)

⁵⁸ [Pension Schemes Act 2026](#)

⁵⁹ HM Treasury, Department for Work and Pensions and Department for Levelling Up, Housing & Communities (2025) *Pensions Investment Review: Final Report*, 29 May.

Available at: https://assets.publishing.service.gov.uk/media/683971d8e0f10eed80aafb3a/27.05.2025_PM_-_final_report.pdf

⁶⁰ HM Treasury (2025) 'Pension schemes back British growth', GOV.UK, 13 May. Available at: <https://www.gov.uk/government/news/pension-schemes-back-british-growth>



Environmental, Social and Governance investment regulations

The financial implications of Environmental, Social and Governance (ESG) factors are becoming increasingly important considerations in pension schemes' investment decisions as these issues become more pressing, both in terms of being more widely recognised as material risks and as a result of external regulatory and societal pressures. In September 2018, the Government introduced regulations to strengthen the obligation of occupational pension scheme trustees to consider ESG factors in investment decisions and illustrate how they have done so in their Statement of Investment Principles (SIP). From 1 October 2020, these regulations increased further, with trustees of DC schemes with 100 or more members now required to produce an implementation statement explaining how they have followed and acted upon the stated investment policies set out in their SIP.

This includes reporting on the way in which the scheme monitors its asset managers who undertake investment and engagement activities on its behalf, and on whether these managers have acted in accordance with the trustees' stated policies.

In December 2019, the Financial Conduct Authority (FCA) introduced similar reporting requirements for contract-based schemes, extending the remit of Independent Governance Committees (IGCs) to include a new duty of considering and reporting on their provider's policies on ESG issues, member concerns and stewardship, for the products overseen by the IGC.

Since October 2020, DB schemes are also required to publish their SIP alongside a narrower implementation statement covering their engagement and voting behaviour.

Regulation relating to pension schemes' ESG investment strategies continue to grow. Following recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), the Pension Schemes Act 2021 introduced legislation to enable regulations to be made requiring trustees to consider, in depth, how climate change will affect their pension scheme and its investments, funding and liabilities. Since October 2022, trustees of all schemes with total assets of £1bn have had to publish information relating to the effects of climate change on the scheme within seven months of each scheme year.⁶¹

DB Investment

In recent years UK private-sector DB schemes have been collectively in surplus. DB investment is also be addressed in the legislation introduced through the Pension Schemes Act 2026,⁶² allowing trustees to release part of a scheme's funding surplus once the funding target is reached, subject to strict member-protection safeguards. Trustees would then be able to revise scheme rules so that the freed-up funds can either boost members' benefits, or, where appropriate, be reinvested in the sponsoring employer, or wider productive assets. Trustees, however, remain bound by their fiduciary duties and will retain the discretion to refuse any transfer that could put members' pensions at risk.⁶³

⁶¹ The Pensions Regulator (2021) Guidance on governance and reporting of climate-related risks and opportunities: consultation.

Available at: www.thepensionsregulator.gov.uk/en/document-library/consultations/climate-change-guidance

⁶² Pension Schemes Act 2026

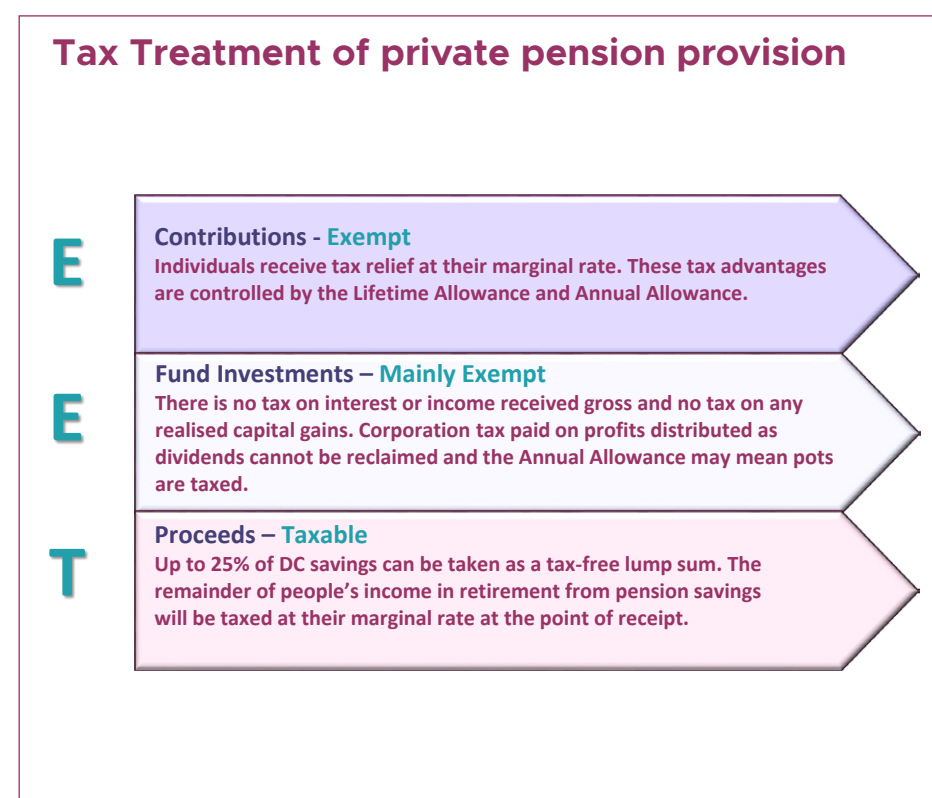
⁶³ HM Treasury, Department for Work and Pensions and Department for Levelling Up, Housing & Communities (2025) *Pensions Investment Review: Final Report*, 29 May.

Available at: https://assets.publishing.service.gov.uk/media/683971d8e0f10eed80aafb3a/27_05_2025_PM_-_final_report.pdf

Tax treatment of private pension provision

The tax treatment of private pension provision is generally expressed as **EET – Exempt, Exempt, Taxed** (**Figure 11**). Contributions into a pension fund are exempt from tax, the accumulation of the fund is mainly exempt from tax, and the majority of the proceeds are taxable.

Figure 11



As a portion of the fund sum can be taken tax free after minimum pension age, the **'T'** is only partial. The accumulation stage is also not fully **'E'**, as it is not fully exempt from tax. The extent of taxation on the fund accumulation depends on the mix of investments within the pension fund. The roll up of funds invested directly in bonds, property or cash is completely tax-free. However, since 1997, dividend income from equities has been taxed at a Corporation Tax rate, although capital gains remain tax free.

Prior to April 2006, contributions to and benefits from pension schemes qualified for tax relief according to limits which were closely related to how much an individual earned.⁶⁴ There were eight different regimes, depending on the type of pension scheme in operation.

The Finance Act 2004, which took effect from 6 April 2006, included a number of amendments designed to simplify the taxation of the UK private pension regime, effectively capturing all pensions under a single set of rules.⁶⁵

Contributions – 'Exempt'

Employer contributions are paid gross and, if they are treated by HM Revenue & Customs (HMRC) as an eligible expense, the employer will get full relief against Corporation Tax. Making pension contributions on behalf of employees has an additional tax advantage for the employer, as employers' pension contributions are not liable for NICs.

Fund Accumulation – mainly 'Exempt'

The pension fund accumulates in a tax-favoured environment, where there is no tax on interest or income received gross, and no tax on any realised capital gains. However, since 1997, pension funds have not been able to reclaim Advance Corporation Tax (ACT) on UK dividends.⁶⁶

From April 2006, an individual can build up their pension funds tax-free until the total exceeds the AA in any given year, or the LTA. With the announced abolition of the LTA, the AA is the only limit to the individual on the amount of fund that can be built up in a pension.

⁶⁴ For contributions of more than £3,600 a year.

⁶⁵ Inland Revenue (IR) (2003) Simplifying the taxation of pension: the Government's Proposals and Her Majesty's Treasury (HMT) (2004) Prudence for a purpose: A Britain of stability and strength, Budget report https://webarchive.nationalarchives.gov.uk/20040723205159/http://www.hm-treasury.gov.uk/budget/budget_04/budget_report/bud_bud04_repindex.cfm?textonly=false&

⁶⁶ PPI (2005) Briefing Note Number 22 Is £5 billion being taken from pension funds each year? www.pensionspolicyinstitute.org.uk/default.asp?p=124&publication=0193

Proceeds – mainly ‘Taxable’

Upon reaching the Normal Minimum Pension Age, up to 25% of DC pension savings can be taken as a tax-free lump sum. The remainder of the fund can be withdrawn flexibly or some or all of it can be used to purchase a retirement income product, such as a lifetime, fixed or flexible annuity, an income drawdown product, or another product that offers income, savings and/or insurance. As the market continues to develop, new products may emerge. People’s income in retirement from pension savings is taxed at their marginal rate at the point of receipt.

People with DB pension savings may also take a tax-free lump sum from the scheme. This is usually achieved by giving up some of their income in exchange for a lump sum, or they may have been accruing a lump sum in parallel to their pension accrual. In either case they are similarly limited to taking a quarter of the value of their pension tax-free as a lump sum. The remaining income is taxed at the individual’s marginal rate of tax.

Tax treatment on death

If an individual dies before converting their pension savings into an income, the accumulated fund, plus any insured lump sum death benefit, can generally be paid out tax-free. Inherited pension savings (with the exception of lifetime annuities without capital guarantees) are tax-free if the fundholder dies under the age of 75 with uncrystallised funds or funds in a drawdown account. Inherited pension savings are taxed at marginal rate if the fundholder dies over the age of 75.⁶⁷

From 6 April 2027, most unused pension funds and pension death benefits will be brought within the scope of inheritance tax. This means that, when a member dies, the value of unused pension savings may be counted as part of their estate for inheritance tax purposes. Death-in-service benefits from registered pension schemes and dependent benefits from a DB pension scheme will remain outside the scope of the change.

Following consultation, the Government confirmed that personal representatives, rather than pension scheme administrators, will be responsible for reporting and paying any inheritance tax due. The measure is due to apply to deaths occurring on or after 6 April 2027.⁶⁸

⁶⁷ www.gov.uk/tax-on-pension-death-benefits

⁶⁸ HM Treasury (2025) [Inheritance Tax – unused pension funds and death benefits](#)

Withdrawing retirement income

In comparison, the actual level of income from a DC scheme cannot be predicted in advance, even when the level of the pot at retirement is known. The level of pension provided will depend on the method of access, market conditions, and, in some cases, may not constitute a “pension”, but rather a series of flexible withdrawals as and when desired by the fundholder.

Withdrawal of pension savings has had various policy changes over the years. Please refer to **Appendix 11**, which discusses these changes in more detail.

People can access DC pension savings flexibly from age 55

Prior to 2015, most individuals accessing DC pensions were required to annuitise their savings (after taking an optional 25% tax-free lump sum).⁶⁹ There were exceptions for those with savings below the trivial commutation amount (£18,000), who could take the total as a lump sum, and those who could provide themselves with a guaranteed lifetime income of £20,000 per year from other sources, who could access the remainder of their savings flexibly via drawdown. Those with pots of more than £18,000 but without a guaranteed minimum income of £20,000 per year were required to use their DC savings to secure a retirement income, either by purchasing an annuity or through the use of a capped drawdown product (which limited income withdrawals to 150% of an equivalent annuity).

In the 2014 Budget, the Government announced that, from April 2015, individuals would be able to flexibly access their DC pension savings with no requirement to secure a guaranteed retirement income, with the objective of giving savers more freedom and choice over how they access their DC savings and provide a retirement income for themselves.

The options open to people with DC savings are limited only by the products available and the amount of savings people have. They are also governed by taxation.

People with DC savings may, from age 55 (age 57 from 2028), do one or a combination of the following, (though this list is not exhaustive as the retirement income market is still evolving in light of the policy):

- **Withdraw the total fund** (25% tax-free up to the limit of £268,275, the remainder taxed).
- Leave their pension fund invested and withdraw unlimited amounts, taxed at an individual’s marginal rate, with 25% of each withdrawal tax free. This is known as an **uncrystallised funds pension lump sum (UFPLS)** because the member does not “crystallise” their pension by buying a retirement product.
- Purchase a product such as **longevity insurance**.

- Purchase an **annuity**. A lifetime annuity is a retirement income product that pays an income from the date of purchase until the date of death. There are many different types of annuity, which are explained in **Appendix 11**.
- Purchase an **income drawdown product**. An income drawdown means that the pension fund remains invested and benefits from investment growth, but an individual can withdraw an income from it until the fund is depleted.

Those with DB pension savings may also use flexible access, but only after transferring the cash value of their DB pension into a defined-contribution pot. Transfers above £30,000 must be approved by a regulated financial adviser.

⁶⁹ For more information on pre-Freedom and Choice arrangements, see appendix 11 and the [Pensions Primer Historical Annex Document](#)

Guidance, targeted support, and advice

Decisions about pension savings can often be difficult and complex for people approaching retirement. Options that may help people making decisions about how to access pension savings include guidance and regulated financial advice.

Guidance gives general information about the options available, such as withdrawing cash, buying an annuity, using drawdown, or combining different approaches. It can help people understand the issues they should consider, such as tax, investment risk, charges, and the risk of running out of money. Guidance does not assess a person's full circumstances and does not tell them which option they should choose.

Regulated financial advice involves a personal recommendation based on an individual's circumstances, objectives and attitude to risk. An adviser may recommend a particular product, provider or course of action. As advice is personal, it comes with regulatory protections if the recommendation is unsuitable. Advice may involve a fee.

From April 2026, FCA-regulated firms may also provide **targeted support**. This sits between guidance and advice. It allows firms to suggest a course of action for a group of consumers with similar characteristics, but without making a personal recommendation to an individual.⁷⁰

Guidance can help someone understand their options but leaves the decision entirely with them. Advice provides a personal recommendation and carries adviser responsibility for suitability. Targeted support may provide more direction than guidance, but it is not the same as full regulated advice.

The Pension Schemes Act 2026 introduces a new framework known as Guided Retirement, aimed at helping pension savers convert their savings into a reliable retirement income. Under the new requirements, pension schemes must offer members a default option, known as a default pension benefit solution, adding a layer of support to help members access their pension savings. These default options must reflect the needs and circumstances of the scheme's membership, taking into account factors such as members' ages and the value of their pension

pots. Where a scheme is unable to offer a suitable default option, or where a better outcome is available elsewhere, a member's pension savings may be transferred to another qualifying scheme. Schemes will also be required to publish a pension benefits strategy, setting out how they intend to understand their members' needs, design appropriate retirement options, and communicate effectively with members. The Act establishes the broad framework, with the finer details to be determined through consultation and further legislation.

⁷⁰ Financial Conduct Authority (2026) [PS25/22: Supporting consumers' pensions and investment decisions: rules for targeted support](#)



Limits on the tax relief on pension schemes

Previously, the amount by which an individual can benefit from tax advantages was controlled by two ‘allowances’: Annual and Lifetime. These allowances applied to each individual and across all registered pension schemes that the individual uses for providing benefits, regardless of the time of joining.⁷¹ An individual can accrue benefits in any number of private pension schemes and receive tax relief on the amount saved in that year up to the **Annual Allowance** (AA).⁷² The AA remains at £60,000 for 2026/27⁷³ as it has been since 2023/24. Contributions above the AA are taxed at an individual’s marginal tax rate.

In 2026/27, employee contributions up to the lower of 100% of earnings, or the £60,000 AA value can be offset against income tax, where individuals receive tax relief at their highest marginal rate. In some cases, full relief is available immediately, whereas in other cases basic-rate relief is given immediately and higher-rate relief is reclaimed through the end-of-year tax return.⁷⁴

From April 2016, the Government introduced a taper to the AA. The income threshold is £260,000. For every £2 over an individual’s adjusted income of £260,000 to £360,000, £1 is deducted from their AA (**Figure 12**). This means an individual earning £360,000 or over can receive tax relief on contributions up to £10,000 and is then taxed at their marginal rate.⁷⁵

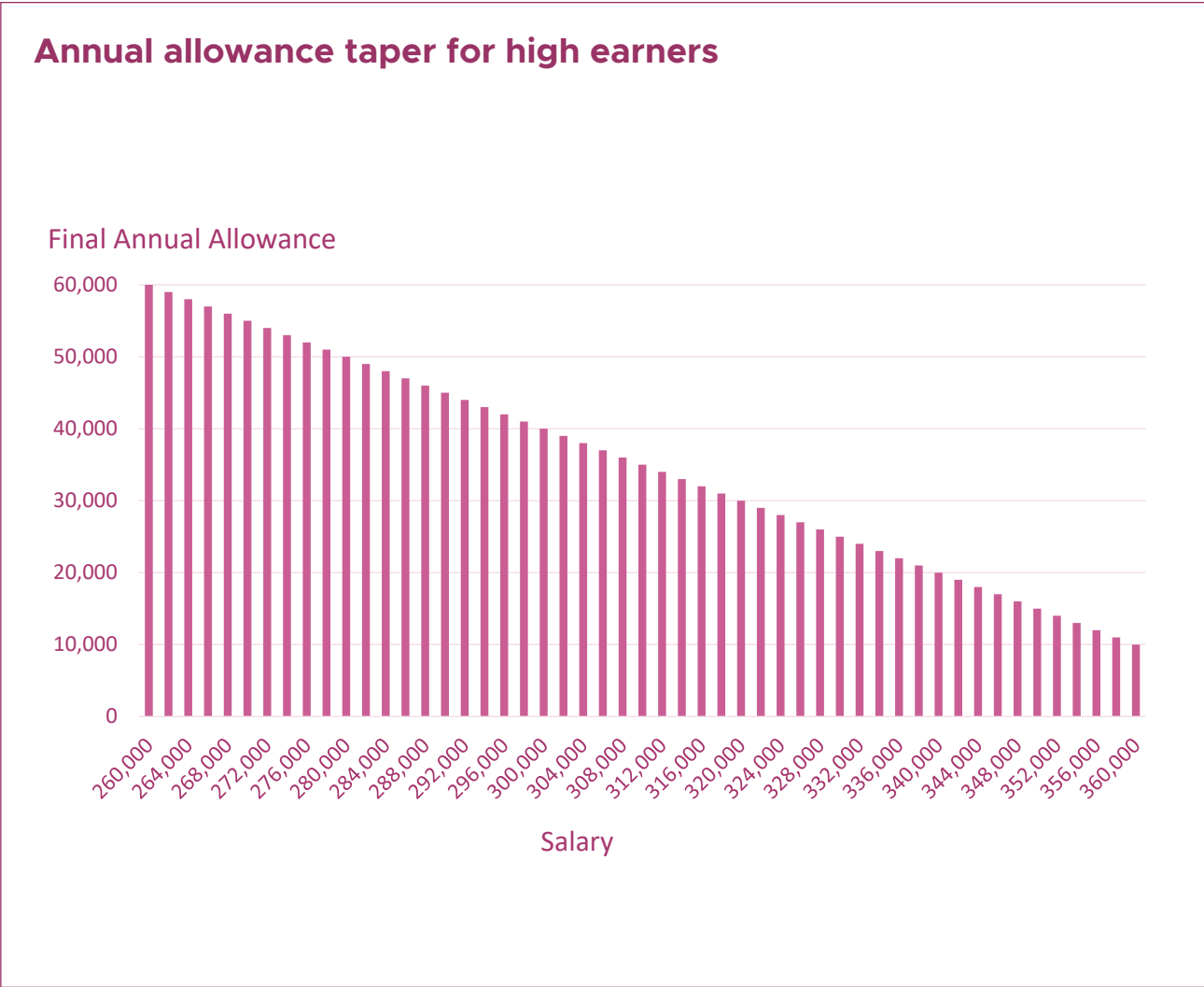
Previously, upon accessing benefits in retirement, an individual’s total pension savings was tested against a **Lifetime Allowance** (LTA), whose purpose was to regulate the amount of tax relief individuals get over their working life. In the 2023 Spring Budget, the Chancellor announced that the LTA would be abolished from April 2024. It was also announced that a maximum level of Tax-Free Lump Sum would be set at £268,275 (which is 25% of the LTA level) and frozen at that level in future years.

Salary sacrifice

Some employers⁷⁶ structure workplace pension contributions through salary sacrifice. In this case an employee gives up part of their salary, equal to the amount that would have been their employee pension contribution, in return for a matching increase in their employer pension contribution. This reduces the employee salary subject to National Insurance Contributions (NICs), lowering both employer and employee NIC liability.

From April 2029, the National Insurance exemption for pension salary sacrifice will be limited to the first £2,000 of employee pension contributions each year. Salary-sacrificed pension contributions above this level will be subject to employee and employer NICs. Income tax relief is unchanged, subject to the usual limits, and employer pension contributions remain exempt from National Insurance.⁷⁷

Figure 12



⁷¹ Although exemptions to the Lifetime Allowance are available to protect existing rights.

⁷² For defined contribution schemes the contributions made by the employer and employee are compared to the amount of the Annual Allowance, in the case of defined benefit schemes it is slightly more complicated, the change in value of accrued benefits (after allowing for growth in inflation) is compared to the Annual Allowance. This means that for final salary DB schemes, a promotional pay increase could lead to a change in pension value that breaches the Annual Allowance, as it is an increase in value that affects all previously accrued benefit.

⁷³ House of commons Library (2026) [Pension tax relief: The annual allowance and lifetime allowance](#)

⁷⁴ In the 2017 Scottish budget, the Scottish Government implemented Scotland-specific income tax rates which are reflected in the tax relief on the pension contributions that can be claimed in Scotland. More information can be found here: [www.gov.uk/government/publications/pension-schemes-relief-at-source-for-scottish-income-tax-newsletter-february-2018/pension-schemes-relief-at-source-for-scottish-income-tax-newsletter-february-2018](#)

⁷⁵ House of commons Library (2025) [Pension tax relief: The annual allowance and lifetime allowance](#)

⁷⁶ HMRC does not hold administrative data on the use of salary-sacrifice schemes for pension contributions, but as the need for measuring whether contributions to compare to the cap emerges, reliable data on the extent of salary sacrifice may become available.

⁷⁷ HMT [Changes to salary sacrifice for pensions from April 2029](#)



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Appendix 1:

Eligibility for State Pension

The State Pension is based on an individual’s National Insurance contribution (NIC) record (**Chart A1.1**). Any tax year in which an individual makes, or is credited with making, sufficient NICs is known as a qualifying year.

Employees make Class 1 contributions when their weekly earnings exceed the ‘Primary Threshold’ (PT) of £242 a week.⁷⁸ If they earn less than the PT but more than the ‘Lower Earnings Limit’ (LEL) of £129 a week,⁷⁹ then they do not make Class 1 contributions but are credited for the State Pension.⁸⁰ The self-employed are credited with a qualifying year through Class 2 contributions if their profits are above the Small Profits Threshold of £7,105 a year.⁸¹ Class 3 voluntary contributions, of £18.40 a week,⁸² are paid by those who wish to protect their entitlement and have not accrued enough qualifying years through Class 1 or Class 2 contributions. Class 3 payments must generally be made within six years of the end of the tax year for which payment is being made.⁸³

Chart A1.1 - How National Insurance contributions work

Nic class	Who pays this class of NICs	What this entitles people to
Class 1	Paid by employers at a rate of 15% of earnings above the Secondary Threshold (£96 a week) and by employees aged between 16 and SPa who earn over the Primary Threshold (PT) (£242 a week) at a rate of 8% and at a rate of 2% for earnings over the Upper Earnings Limit (UEL) (£967 a week). People who earn at or above the Lower Earnings Limit (LEL) (£129 a week) but below the PT are not required to pay but are treated as having paid NICs.	Each qualifying year counts towards an individual’s pension entitlement and is used to calculate how much State Pension they will receive. People who earn below the LEL do not accrue entitlement to State Pension.
Class 2	Class 2 NICs are associated with self-employment. Since April 2024, self-employed people with profits at or above the Small Profits Threshold, £7,105 a year in 2026/27, are treated as having paid Class 2 NICs. Those below this threshold may pay voluntary Class 2 NICs at £3.65 a week to protect their NI record.	Each Class 2 contribution is treated as one week of earnings at the LEL.
Class 3	Voluntary contributions of £18.40 a week that people can pay to fill gaps in their contribution record.	Can fill in gaps of full or partial years in order to make those years qualifying years for State Pension entitlement.
Class 4	Additional contributions paid by self-employed people (as well as Class 2 NICs) at a rate of 6% on profits between the Lower Profits Limit (£12,570 a year) and Upper Profits Limit (£50,270 a year) and 2% on profits above the Upper Profits Limit.	Does not count towards qualifying years.

⁷⁸ HMRC (2026) [Rates and thresholds for employers 2026 to 2027](#)

⁷⁹ HMRC (2026) [Rates and thresholds for employers 2026 to 2027](#)

⁸⁰ From April 2011

⁸¹ HMRC (2026) [Rates and allowances: National Insurance contributions](#)
Self-employed people with profits at or above the Small Profits Threshold, £7,105 a year in 2026/27, are treated as having paid Class 2 NICs. Those below this threshold may pay voluntary Class 2 NICs at £3.65 a week. Special Class 2 rates apply for fishermen and volunteer development workers. The self-employed also make class 4 contributions, which are earnings-related but do not affect bSP entitlement.

⁸² HMRC (2026) [Rates and allowances: National Insurance contributions](#)

⁸³ People were permitted to make back payments for more than six years if the payments were for the tax years 1996/1997 through to 2001/2002, and these payments were made by April 2009 or April 2010 depending on when people reach State Pension age. For detailed explanation www.hmrc.gov.uk/ni/volcontr/whentop-up.htm



There are many activities that can credit someone into the new State Pension (nSP) without their having to pay contributions. Credit will be given if, for instance, an individual is entitled to:

- Statutory Sick Pay
- Statutory Maternity, Paternity or Adoption Pay
- Child Benefit
- Jobseekers Allowance
- Employment and Support Allowance
- Unemployability Supplement or Allowance
- Carer's Allowance
- Universal Credit

Credits are also given for individuals who have been wrongly imprisoned and for time spent doing Jury Service.

Home Responsibilities Protection (HRP) was introduced in 1978 and, for people reaching SPa before April 2010, reduced the number of years of contributions required to secure a full State Pension. Protection was given for those complete tax years where an individual was caring for children or an older or a disabled person. HRP was replaced by National Insurance (NI) credits from 6 April 2010, however people may still apply for HRP if they were caring for a sick or disabled person, or were a foster carer before April 2010.

There were some changes in the Pensions Act 2007 that affected people who reach SPa between 6 April 2010 and April 2016.

These people:

- were able to earn positive credits towards the basic State Pension (bSP) rather than HRP reductions. The outcome for individuals under a credit system is more generous and simplifies the way entitlement is calculated;
- only needed 30 qualifying years to be eligible for the full bSP, while people who reached SPa before 6 April 2010 still need to have contributed for 39 years (for women) or 44 years (for men) to qualify for a full bSP;
- receive a proportion of the full bSP for every contributing year, as the 25% minimum contribution limit was abolished.

Carers now receive weekly **Carer's Credits** for any week in which they are:

- awarded child benefit; or
- a foster parent for a child under the age of 12; or
- engaged in caring within the meaning given in regulations (people caring for one sick or severely disabled person for 20 hours or more a week, subject to an appropriate validation process).

This change means that in any year, individuals can combine **Carer's Credits** with **NICs** to build up a qualifying year. Credits for people who are caring for children are awarded until the youngest child reaches 12 years.

Grandparents of working age who care for grandchildren for 20 hours or more a week are also eligible to receive Carer's Credits that count towards their State Pension entitlement.

People reaching SPa before 2010

For men who reached SPa before 6 April 2010, the full bSP of £184.90 a week is payable with at least 44 qualifying years of NICs. For women born prior to 6 April 1950, the full bSP is payable with at least 39 qualifying years.⁸⁴

A proportionate benefit is payable if the number of qualifying years is less than that needed for the maximum. For example, a woman who retired before 6 April 2010 with a 30-year contribution record currently receives a bSP of £142.23 a week ((30/39) multiplied by £184.90).⁸⁵ However, if the number of qualifying years at retirement was less than 25% of the amount required for a maximum bSP, then no bSP benefit is payable for a person who reached SPa before 6 April 2010.

If a person⁸⁶ cared for a child until the child reached age 16, the requirement for a maximum bSP would reduce from 39 qualifying years to 24. HRP did not give complete protection, as it did not reduce the number of qualifying years required for a full bSP below 20 years.

Class 3A voluntary National Insurance contributions

Class 3A National Insurance contributions⁸⁷ were designed to help those people who have not been able to build up much additional State Pension (ASP), but reach SPa before the introduction of the nSP on 5 April 2016.

People were able to make Class 3A contributions during an 18-month period, starting in October 2015.

Each Class 3A contribution acquired a unit of extra pension which increased the individual's ASP by £1 a week, up to a cap of £25 a week.

The price was set at an 'actuarially fair' rate and was therefore lower for older pensioners than younger pensioners.

⁸⁴ www.gov.uk/state-pension/eligibility

⁸⁵ Assuming no Home Responsibilities Protection is awarded

⁸⁶ Although most recipients are women, HRP is unisex - it is available to the person to whom child benefit is payable

⁸⁷ Department for Work and Pensions (2013) *Class 3A Voluntary National Insurance*

www.gov.uk/government/uploads/system/uploads/attachment_data/file/265390/v2_mw__20131211_policy_brief_formatted_FINAL.pdf

Appendix 2: State Pension age

Table A2.1 compares the effects of increases in State Pension age (SPa) for women under the Pensions Act 2011 provisions, compared to previous legislation, according to birth date.

Table A2.1: Comparing the effects of Pensions Act 1995 and Pensions Act 2011 provisions on women’s SPa⁸⁸

Date of Birth	Pensions Act 1995		Pensions Act 2011	
	State Pension date	State Pension age	State Pension date	State Pension age
6 Jan 1954 - 5 Feb 1954	6 Nov 2017	63 yrs 10 mths - 63 yrs 9 mths	6 May 2019	65 yrs 4 mths - 65 yrs 3 mths
6 Feb 1954 - 5 Mar 1954	6 Jan 2018	63 yrs 11 mths - 63 yrs 10 mths	6 Jul 2019	65 yrs 5 mths - 65 yrs 4 mths
6 Mar 1954 - 5 Apr 1954	6 Mar 2018	64 yrs 0 mths - 63 yrs 11 mths	6 Sep 2019	65 yrs 6 mths - 65 yrs 5 mths
6 Apr 1954 - 5 May 1954	6 May 2018	64 yrs 1 mths - 64 yrs 0 mths	6 Nov 2019	65 yrs 7 mths - 65 yrs 6 mths
6 May 1954 - 5 Jun 1954	6 Jul 2018	64 yrs 2 mths - 64 yrs 1 mths	6 Jan 2020	65 yrs 8 mths - 65 yrs 7 mths
6 Jun 1954 - 5 Jul 1954	6 Sep 2018	64 yrs 3 mths - 64 yrs 2 mths	6 Mar 2020	65 yrs 9 mths - 65 yrs 8 mths
6 Jul 1954 - 5 Aug 1954	6 Nov 2018	64 yrs 4 mths - 64 yrs 3 mths	6 May 2020	65 yrs 10 mths - 65 yrs 9 mths
6 Aug 1954 - 5 Sep 1954	6 Jan 2019	64 yrs 5 mths - 64 yrs 4 mths	6 Jul 2020	65 yrs 11 mths - 65 yrs 10 mths
6 Sep 1954 - 5 Oct 1954	6 Mar 2019	64 yrs 6 mths - 64 yrs 5 mths	6 Sep 2020	66 yrs 0 mths - 65 yrs 11 mths
6 Oct 1954 - 5 Nov 1954	6 May 2019	64 yrs 7 mths - 64 yrs 6 mths	66th birthday	66 yrs

For those born between November 1954 and April 1960, SPa is 66 years old. Following the State Pension Age Review in 2023 it was announced that the timetable for increasing the SPa to 67 would follow the existing timetable (set out in table A2.2) and that for the time being no changes were made to the timetable for the increase to 68.⁸⁹

Table A2.2: The increase in SPa from age 66 to 67 for both men and women

Pension Act 2014	
Date of Birth	State Pension age
6 April 1960 – 5 May 1960	66 years and 1 month
6 May 1960 – 5 June 1960	66 years and 2 months
6 June 1960 – 5 July 1960	66 years and 3 months
6 July 1960 – 5 August 1960	66 years and 4 months
6 August 1960 – 5 September 1960	66 years and 5 months
6 September 1960 – 5 October 1960	66 years and 6 months
6 October 1960 – 5 November 1960	66 years and 7 months
6 November 1960 – 5 December 1960	66 years and 8 months
6 December 1960 – 5 January 1961	66 years and 9 months
6 January 1961 – 5 February 1961	66 years and 10 months
6 February 1961 – 5 March 1961	66 years and 11 months
6 March 1961 – 5 April 1977	67

Table A2.3: The increase in SPa from 67 to 68 for both men and women

Pension Act 2014	
Date of Birth	Date SPa reached
6 April 1977 – 5 May 1977	6 May 2044
6 May 1977 – 5 June 1977	6 July 2044
6 June 1977 – 5 July 1977	6 September 2044
6 July 1977 – 5 August 1977	6 November 2044
6 August 1977 – 5 September 1977	6 January 2045
6 September 1977 – 5 October 1977	6 March 2045
6 October 1977 – 5 November 1977	6 May 2045
6 November 1977 – 5 December 1977	6 July 2045
6 December 1977 – 5 January 1978	6 September 2045
6 January 1978 – 5 February 1978	6 November 2045
6 February 1978 – 5 March 1978	6 January 2046
6 March 1978 – 5 April 1978	6 March 2046
6 April 1978 onwards	68th birthday

⁸⁸ For more information on changes to SPa that have already occurred, see Historical Annex
⁸⁹ DWP State Pension Age Review 2023 (2023) www.gov.uk/government/publications/state-pension-age-review-2023-government-report



Appendix 3:

Impact of indexation of the State Pension

Table A3.1: Historical Uprating of the basic State Pension (bSP) in relation to average earnings

	bSP – Weekly Amount	Adjusted to April 2026 prices ⁹⁰	Full-time average earnings ⁹¹ (bSP as a percentage)	Average Weekly Earnings total pay ⁹² (bSP as a percentage)
Oct-72	£6.75	£98.35	£32.00 (21.1%)	
Jul-74	£10.00	£116.88	£41.70 (24.0%)	
Nov-77	£17.50	£119.71	£70.20 (24.9%)	
Nov-79	£23.30	£125.54	£89.60 (26.0%)	
Nov-82	£32.85	£129.06	£136.50 (24.1%)	
Apr-87	£39.50	£126.06	£198.90 (19.9%)	
Apr-92	£54.15	£130.75	£304.60 (17.8%)	
Apr-00	£67.50	£140.75	£425.10 (15.9%)	£311.60 (21.7%)
Apr-01	£72.50	£149.53	£449.70 (16.1%)	£327.80 (22.1%)
Apr-02	£75.50	£153.63	£472.10 (16.0%)	£340.20 (22.2%)
Apr-03	£77.45	£155.30	£487.10 (15.9%)	£349.60 (22.2%)
Apr-04	£79.60	£157.73	£498.20 (16.0%)	£363.90 (21.9%)
Apr-05	£82.05	£159.66	£516.40 (15.9%)	£380.70 (21.6%)
Apr-06	£84.25	£160.64	£534.90 (15.8%)	£399.60 (21.1%)
Apr-07	£87.30	£161.96	£550.30 (15.9%)	£418.00 (20.9%)
Apr-08	£90.70	£163.46	£575.60 (15.8%)	£433.60 (20.9%)
Apr-09	£95.25	£167.67	£587.20 (16.2%)	£437.20 (21.8%)
Apr-10	£97.65	£165.73	£598.60 (16.3%)	£442.40 (22.1%)
Apr-11	£102.15	£165.93	£602.90 (16.9%)	£454.70 (22.5%)
Apr-12	£107.45	£169.45	£607.80 (17.7%)	£461.40 (23.3%)
Apr-13	£110.15	£169.64	£620.20 (17.8%)	£466.80 (23.6%)
Apr-14	£113.10	£171.05	£620.80 (18.2%)	£468.90 (24.1%)
Apr-15	£115.95	£175.71	£627.00 (18.5%)	£482.10 (24.0%)
Apr-16	£119.30	£180.25	£644.90 (18.5%)	£494.00 (24.1%)
Apr-17	£122.30	£179.93	£661.10 (18.5%)	£505.10 (24.2%)
Apr-18	£125.95	£180.91	£685.20 (18.4%)	£518.60 (24.3%)
Apr-19	£129.20	£181.78	£703.40 (18.4%)	£539.50 (23.9%)

⁹⁰ Inflation index measured as the Consumer Prices Index (CPI) at April of year. For April 2026 CPI is projected using Office for Budget Responsibility (OBR) short term assumptions. Pre 1988 CPI is backfilled using Retail Prices Index (RPI) as a proxy for CPI.

⁹¹ Mean weekly pay of a full-time employee from the Annual Survey of Hours and Earnings. For 2026 mean weekly pay is projected using OBR short term assumptions.

⁹² Average weekly total pay from May to July in the whole economy including full time and part time earners. Data averaged over three months from Average Weekly Earnings (AWE) series (Office for National Statistics (ONS) data series KAB9). When applied, earnings uprating figures are based on the annual change on these figures (ONS data series KAC3). For 2026 AWE is projected using OBR short-term assumptions.

Continued Overleaf...



Appendix 3:

Impact of indexation of the State Pension

Table A3.1: Historical Uprating of the basic State Pension (bSP) in relation to average earnings

	bSP – Weekly Amount	Adjusted to April 2026 prices	Full-time average earnings (bSP as a percentage)	Average Weekly Earnings total pay (bSP as a percentage)
Apr-20	£134.25	£187.32	£708.10 (19.0%)	£534.90 (25.1%)
Apr-21	£137.60	£189.20	£726.60 (18.9%)	£579.80 (23.7%)
Apr-22	£141.85	£178.96	£755.60 (18.8%)	£611.30 (23.2%)
Apr-23	£156.20	£181.34	£811.10 (19.3%)	£663.50 (23.5%)
Apr-24	£169.50	£183.09	£867.20 (19.5%)	£692.00 (24.5%)
Apr-25	£176.45	£184.50	£920.80 (19.2%)	£725.30 (24.3%)
Apr-26	£184.90	£184.90	£954.90 (19.4%)	£752.20 (24.6%)



Table A3.2
Historical Uprating of the new State Pension (nSP) in relation to average earnings

	nSP – Weekly Amount	Adjusted to April 2026 prices ⁹³	Full-time average earnings ⁹⁴ (nSP as a percentage)	Average Weekly Earnings total pay ⁹⁵ (nSP as a percentage)
Apr-16	£155.65	£235.17	£644.90 (24.1%)	£494.00 (31.5%)
Apr-17	£159.55	£234.73	£661.10 (24.1%)	£505.10 (31.6%)
Apr-18	£164.35	£236.06	£685.20 (24.0%)	£518.60 (31.7%)
Apr-19	£168.60	£237.21	£703.40 (24.0%)	£539.50 (31.2%)
Apr-20	£175.20	£244.46	£708.10 (24.7%)	£534.90 (32.8%)
Apr-21	£179.60	£246.95	£726.60 (24.7%)	£579.80 (31.0%)
Apr-22	£185.15	£233.58	£755.60 (24.5%)	£611.30 (30.3%)
Apr-23	£203.85	£236.66	£811.10 (25.1%)	£663.50 (30.7%)
Apr-24	£221.20	£238.94	£867.20 (25.5%)	£692.00 (32.0%)
Apr-25	£230.25	£240.76	£920.80 (25.0%)	£725.30 (31.7%)
Apr-26	£241.30	£241.30	£954.90 (25.3%)	£752.20 (32.1%)

Table A3.3
Projected level of new State Pension (nSP) compared to average earnings⁹⁶

Tax Year	nSP - Weekly Amount (Projected)	Weekly full-time average earnings (Projected)	Projected nSP as a percentage of full-time average earnings
2026	£241.30	£955	25.3%
2030	£266.35	£1,044	25.5%
2035	£325.07	£1,239	26.2%
2040	£403.19	£1,495	27.0%
2045	£500.24	£1,805	27.7%
2050	£620.65	£2,179	28.5%
2055	£770.03	£2,630	29.3%

Table A3.4
Projected uprating of bSP under the triple locked system

Tax Year	bSP - Weekly Amount (Projected)	Weekly full-time average earnings (Projected)	Projected bSP as a percentage of full-time average earnings
2026	£184.90	£955	19.4%
2030	£204.10	£1,044	19.6%
2035	£249.09	£1,239	20.1%
2040	£308.95	£1,495	20.7%
2045	£383.32	£1,805	21.2%
2050	£475.58	£2,179	21.8%
2055	£590.05	£2,630	22.4%

⁹³ Inflation index measured as CPI at April of year. For April 2026 CPI is projected using OBR short-term assumptions. Pre 1988 CPI is backfilled using RPI as a proxy for CPI.

⁹⁴ Mean weekly pay of a full-time employee from the Annual Survey of Hours and Earnings. For 2026 mean weekly pay is projected using OBR short-term assumptions.

⁹⁵ Average weekly total pay from May to July in the whole economy including full-time and part-time earners. Data averaged over three months from Average Weekly Earnings series (ONS data series KAB9). When applied, earnings uprating figures are based on the annual change on these figures (ONS data series KAC3). For 2026 AWE is projected using OBR short-term assumptions.

⁹⁶ PPI modelling, assumes triple lock remains in place beyond the current parliament.



Appendix 4:

Categories of basic State Pension

For those who reached State Pension age (SPa) prior to April 2016 and the introduction of the new State Pension (nSP), there are five categories the basic State Pension (bSP) provides:

- **Category A** was based on the individual's contributions.
- **Category B** was based on a spouse's or civil partner's qualifying years.
- **Category C** was non-contributory, and was payable to widows of men who were over age 65 on 5 July 1948.
- **Category D** was non-contributory and was payable to people over age 80 who satisfied certain residency conditions, and failed to qualify for a category A or B pension, or received less than the non-contributory rate.
- **Age Addition** was non-contributory and was payable to all recipients of State Pensions aged 80 or above.

Category A pension

Category A pension was contributory and based on the individual's contribution history. Where an individual had an incomplete contribution record, and reached SPa before April 2016, then the qualifying years of a spouse or former spouse (separated through either bereavement or divorce) could be substituted to provide a higher bSP.

Changes in eligibility criteria for Category A pension⁹⁷

For people reaching SPa before 6 April 2010 and for those claiming bereavement benefits, past contribution conditions continued to apply.

For those reaching SPa between 6 April 2010 and 6 April 2016, the number of years needed to qualify for a full Category A pension was reduced from 44 years for a man and 39 years for a woman, to 30 qualifying years for men and women alike. A person who had less than 30 qualifying years was entitled to a proportion of the full bSP for each qualifying year they had built up.

Parents and carers were also allowed to build up entitlement to a Category A pension through credits. Parents or guardians (awarded child benefit for a child aged under 12), a registered foster parent, or a carer providing care (for one or more severely disabled persons or caring for a child under 12) reaching SPa from 6 April 2010 until 6 April 2016 were able to build up credits towards a Category A pension.

For those reaching SPa from 6 April 2010 to 5 April 2016, each complete year (subject to a limit) of Home Responsibilities Protection awarded under the existing rules of the scheme were converted into a qualifying year for bSP.

From 2011, grandparents of working age who cared for grandchildren for 20 hours or more a week were also eligible to build up entitlement to a Category A pension through credits.⁹⁸

⁹⁷ The changes described in this section result from legislation in the Pensions Act 2007 and announcements in Budget 2009.

⁹⁸ Budget 2009 report, https://webarchive.nationalarchives.gov.uk/20090903154537/http://www.hm-treasury.gov.uk/bud_bud09_repindex.htm



Category B pension

Category B pension was contributory and based solely on a spouse’s or civil partner’s qualifying years and earnings. Previously it was only payable to married women, widows and widowers, but from 6 April 2010 both men and women were able to claim bSP based on their spouse’s or partner’s National Insurance (NI) record if this was better than their own.

Changes to eligibility for Category B pension⁹⁹

From 6 April 2010 to 5 April 2016, people could claim a Category B pension even if their spouse had deferred their own Category A claim. Changes also allowed the spouse or partner of a carer to build up entitlement to an associated Category B pension.

Married couples

If both husband and wife had a full National Insurance contribution (NIC) record, then they each received a full bSP when they reached SPa. However, if the wife was entitled to less than 60% of the full bSP, and she was over SPa, she may have been able to claim a composite Category A and Category B pension based on her husband’s contribution record, which could increase her pension to 60% of the full rate.

Abolition of Adult Dependency Increases

Adult Dependency Increases (ADI), whereby a sole breadwinner could claim up to an extra £70 for a dependant spouse or partner were abolished for new claimants from 6 April 2010.¹⁰⁰ All ADI payments ceased on April 6, 2020.

Category C pension

Category C pensions are now obsolete and are being gradually phased out (there were around five women in receipt of Category C pension in August 2020).¹⁰¹ These are payable at the rate of 60% of the full bSP to men aged over 65 on 5 July 1948, or to widows of men who were aged over 65 in July 1948.

Category D pension

A non-contributory pension, equivalent to the dependent adult’s addition, is awarded to those who:

- are aged 80 or above;
- have been a resident in the UK for at least 10 of the previous 20 years; and
- receive either no bSP or less than the dependent adult’s addition.

This is sometimes called the ‘Over 80 Pension’ and it amounts to £110.75 a week in 2026/27.¹⁰² If the person is on a reduced pension, they will receive the difference between £105.70 and the reduced bSP.¹⁰³

Age addition

An age addition of 25p a week is payable to all recipients of bSP aged 80 or over. When it was introduced in 1971, the full bSP was £6.00 and therefore effectively a 4.2% enhancement. Subsequently, the age addition has not been increased, and so is now only a 0.1% enhancement.

⁹⁹ Legislated in the Pensions Act 2007
¹⁰⁰ Legislated in the Pensions Act 2007
¹⁰¹ DWP Stat Xplore – state pension sourced: 19.04.2021. Dataset: State Pension – Data from August 2020, Category of Pension by Quarter and Gender
¹⁰² Department for Work and Pensions (DWP) (2026) Benefit and pension rates 2026 to 2027
¹⁰³ www.gov.uk/over-80-pension/overview

Appendix 5:

Pension Credit

Pension Credit replaced the Minimum Income Guarantee (MIG) in October 2003. Pension Credit consists of two parts – Guarantee Credit which is similar to the MIG, and Savings Credit (SC). **Since 6 April 2016, individuals can no longer receive SC.** For a transitional period of five years (until April 2021), support was retained for those people who may have been eligible for SC under the old system.

Guarantee Credit

Guarantee Credit (GC) replaced the Minimum Income Guarantee (MIG) in October 2003. Guarantee Credit is the name used for the means-tested income support benefit for people over the women's State Pension age (SPa). It is payable from just under age 66 in 2022 as a tax-free, means-tested benefit, but it is only paid to those with low incomes and low savings.¹⁰⁴

An individual or couple is eligible for GC if they:¹⁰⁵

- have an age equal to SPa (currently age 66) or higher.
- are on a weekly income below the GC level of £238.00 a week for single pensioner and a minimum of £363.25 a week for couples (2026/27 rates),¹⁰⁶ and
- are working fewer than 16 hours a week (and any partner working fewer than 24 hours a week).

Changes to eligibility for Pension Credit

The Welfare Reform Act 2012 stipulates that an individual over the SPa is not entitled to Pension Credit if they have a partner¹⁰⁷ under the SPa.¹⁰⁸ Since May 2019, the younger partner may be able to claim Universal Credit for both people in the couple until they also reach the qualifying age for GC (currently 66). However, Universal Credit is paid at a lower rate than Pension Credit.

GC can be higher where:

- an individual (or an individual within a couple) is disabled and living either on their own or with another disabled person, or
- an individual (or an individual within a couple) is a carer getting Carer's Allowance, or
- where there are housing costs not fully covered by Housing Benefit.

Lower levels of benefit are paid if pensioners have savings of more than £10,000.¹⁰⁹ The assessed savings include savings and investments, and any properties that are not the beneficiary's main home. GC is currently reduced by £1.00 a week for each £500 (or part thereof) in excess of £10,000. This is more generous than under the MIG.¹¹⁰

Savings Credit

Savings Credit (SC), which is now only available to those who reached SPa prior to April 2016, attempts to encourage saving and ensure that anyone who has made some private saving for retirement will be better off than those who have not saved.

SC pays a tax-free allowance of 60p for each £1 of income between the SC threshold and the GC threshold. This includes some income from ongoing employment, additional State Pension, employer-sponsored pension schemes, personal pensions and notional income from savings. The maximum SC that can be received in 2026/27 is £17.96 for single pensioners and £20.10 for couples.

For 2026/27, the SC threshold for single pensioners is set at £208.07 a week and £329.75 a week for couples.

In 2026/27, the income above which people are no longer eligible to receive SC is around £283 for single pensioners and around £413 for couples.¹¹¹

Table A5.1 overleaf shows the impact of various levels of accrued savings for a single person receiving only the 2026/27 basic State Pension (bSP) of £184.90. In this table savings above £10,000 are considered when calculating assumed savings income.

¹⁰⁴ Savings consist of liquid assets, such as cash, building society and bank accounts, national savings, unit trusts and shares. It does not include the value of the home.

¹⁰⁵ Married, Civil Partners, or living together as husband and wife or as civil partners

¹⁰⁶ Department for Work and Pensions (DWP) (2026) [Benefit and pension rates 2026 to 2027](#)

¹⁰⁷ A partner would include a legal spouse, a civil partner, or a live-in partner. See UK Parliament (2012) Welfare Reform Act, Part 1, Chapter 3, 39, p. 26. [www.legislation.gov.uk/ukpga/2012/5/pdfs/ukpga_20120005_280218_en.pdf](#)

¹⁰⁸ See UK Parliament (2012) Welfare Reform Act, Sch 2, 64 (1A) p.124.

¹⁰⁹ [www.gov.uk/pension-credit/eligibility](#)

¹¹⁰ Under the previous legislation the MIG was reduced by £1.00 a week for each £250 in excess of £6,000.

¹¹¹ Income limits for single and pensioner couples could be higher if they qualify for a higher level of GC through severe disability, caring or housing costs.



Table A5.1:
Interaction of accrued savings with Pension Credit

Savings	Assumed Savings Income	GC Benefit	Total Weekly bSP + GC
£0	£0.00	£53.10	£238.00
£10,000	£0.00	£53.10	£238.00
£12,000	£4.00	£49.10	£234.00
£14,000	£8.00	£45.10	£230.00
£16,000	£12.00	£41.10	£226.00
£18,000	£16.00	£37.10	£222.00
£20,000	£20.00	£33.10	£218.00
£22,000	£24.00	£29.10	£214.00
£24,000	£28.00	£25.10	£210.00

Table A5.2 shows the interaction of GC with SC for various levels of assessed income for single pensioners and pensioner couples. The incomes given represent the total income considered for Pension Credit purposes. It may include, for example, bSP, ASP, private pension income and savings converted into notional income calculated for the Pension Credit calculation. SC can be up to £17.96 a week (for a single pensioner), when income is £238.00 a week, and then begins to tail off for higher levels of income. Table A5.2 shows in bold the weekly income value at which GC and SC become zero because of hitting the assessed income limit.

Table A5.2:
Interaction of income with GC and SC in the 2026/27 Tax Year

Single Pensioner				Pensioner Couple			
Weekly Income	GC	SC	Total Income	Weekly Income	GC	SC	Total Income
£140.00	£98.00	£0.00	£238.00	£270.00	£93.25	£0.00	£363.25
£150.00	£88.00	£0.00	£238.00	£280.00	£83.25	£0.00	£363.25
£160.00	£78.00	£0.00	£238.00	£290.00	£73.25	£0.00	£363.25
£170.00	£68.00	£0.00	£238.00	£300.00	£63.25	£0.00	£363.25
£180.00	£58.00	£0.00	£238.00	£310.00	£53.25	£0.00	£363.25
£190.00	£48.00	£0.00	£238.00	£320.00	£43.25	£0.00	£363.25
£200.00	£38.00	£0.00	£238.00	£330.00	£33.25	£0.15	£363.40
£210.00	£28.00	£1.16	£239.16	£330.00	£33.25	£0.15	£363.40
£220.00	£18.00	£7.16	£245.16	£340.00	£23.25	£6.15	£369.40
£230.00	£8.00	£13.16	£251.16	£350.00	£13.25	£12.15	£375.40
£238.00	£0.00	£17.96	£255.96	£360.00	£3.25	£18.15	£381.40
£240.00	£0.00	£17.16	£257.16	£363.25	£0.00	£20.10	£383.35
£250.00	£0.00	£13.16	£263.16	£370.00	£0.00	£17.40	£387.40
£260.00	£0.00	£9.16	£269.16	£380.00	£0.00	£13.40	£393.40
£270.00	£0.00	£5.16	£275.16	£390.00	£0.00	£9.40	£399.40
£280.00	£0.00	£1.16	£281.16	£400.00	£0.00	£5.40	£405.40
£282.90	£0.00	£0.00	£282.90	£410.00	£0.00	£1.40	£411.40
£290.00	£0.00	£0.00	£290.00	£413.50	£0.00	£0.00	£413.50
£300.00	£0.00	£0.00	£300.00	£420.00	£0.00	£0.00	£420.00



Appendix 6:

Housing Benefit

Housing Benefit is a means-tested benefit that is designed to help individuals in rented accommodation to pay for their rent. There is no set amount of Housing Benefit, as it is paid to single people or couples based on their income. This includes some income from employment, State and private pensions, notional income from capital, and Pension Credit.

The maximum amount of benefit available is an amount equal to a person's (or couple's) share of the household's rent and is paid if claimants are also eligible for Guarantee Credit (GC). In practice, the amount of rent that can be taken into account in the calculation of Housing Benefit will be restricted if the amount of rent paid by the household is considered to be excessive.¹¹²

The amount of rent that is actually taken into account in the calculation of Housing Benefit, after these restrictions have been applied, is called 'eligible rent'.

Housing Benefit is reduced once income reaches a personal allowance of £256.00 a week for singles and £383.35 for couples, where one or both partners are aged over State Pension age (SPa) (from April 2026).¹¹³ This is intentionally set to broadly equal the GC level (currently £238.00 a week

from April 2026) plus the maximum amount of Savings Credit (SC), which is £17.96 a week from April 2026. As SC is taken into account for Housing Benefit, this means that Housing Benefit is withdrawn once an individual is no longer eligible for the GC.

If the claimant's income is above the personal allowance level, then the amount of Housing Benefit is reduced at the rate of 65p for every £1 of additional income. No benefit is payable if claimants have capital of more than £16,000, unless they are also eligible for GC.¹¹⁴ Higher personal allowances can apply for individuals who are eligible for premiums for Pension Credit.

The Welfare Reform Act 2007 legislated for the roll-out of Local Housing Allowance (LHA) across the private rented sector from 7 April 2008. LHA is a way of working out how the amount of benefit is determined and how the benefit is delivered.

The maximum amount of Housing Benefit payable is the amount of rent that a particular person (or couple) pays, subject to a series of restrictions. LHA gives a claimant an allowance, based on the 30th percentile of market rents in

the particular locality and on housing needs. The highest rents across the country are excluded from the calculation of the LHA in each area. Individuals can decide to live in more expensive accommodation than the allowance covers, if they can cover the difference.

The previous Coalition Government made changes to Housing Benefit from April 2011 with the following results:¹¹⁵

- The LHA is restricted to a maximum of four bedrooms for new and existing claimants.
- Weekly LHA rates vary between local authorities and the number of bedrooms in each property. The maximum rate of Housing Benefit is limited to the rate for a four-bedroom property. There is no cap for people living in social rented or supported housing.
- LHA rates are based on the thirtieth percentile of rents of the local area, rather than the median.
- From April 2013, LHA is uprated by the Consumer Prices Index (CPI).

The Welfare Reform Act 2012 introduced a restriction to Housing Benefit to allow for one bedroom for each person or couple living as part of the household, with some exceptions. Pensioners are currently exempt from this; however, as the SPa increases the age at which people are subject to this will also rise. Claimants will forego a fixed percentage of the Housing Benefit eligible rent; 14% of eligible rent for one bedroom and 25% for two or more extra bedrooms.

¹¹² For example, if the contractual rent is significantly above the market level. The size of the accommodation relative to the needs of the tenant may also be considered and rents will also be compared to 'local reference rates', which are calculated as the midpoint of a range of rents for properties of the same size in the locality.

¹¹³ Department for Work and Pensions (DWP) (2026) [Benefit and pension rates 2026 to 2027](#)

¹¹⁴ www.gov.uk/housing-benefit

¹¹⁵ See UK Parliament (2012) *Welfare Reform Act*, p. 124.: www.legislation.gov.uk/ukpga/2012/5/pdfs/ukpga_20120005_en.pdf



Case study

Deductions may be made if there is another adult living in the claimant's home, or if the claimant is single, under 35, with no dependents and renting from a private landlord.

Housing Benefit assessed under the LHA is paid directly to the claimant. There are some exceptions to this:

- If the claimant's landlord is the Local Authority, they will be responsible for paying Housing Benefit, which will be given in the form of a reduction in rent due, known as rent rebate.
- If the claimant is in eight weeks or more of rent arrears, some of the Housing Benefit must be paid directly to the landlord until the amount of arrears reduces to below eight weeks' worth of rent, unless the claimant can show that it is not in their best interests to make direct payments.
- If the claimant may have difficulty managing financial affairs or is thought unlikely to pay their rent, payments may be made directly to the landlord for up to eight weeks while the situation is assessed.
- Payments may be made directly to the landlord if direct payments would help to keep or secure accommodation for the claimant.
- Claimants can apply for payments to be made directly to the landlord.

Under Universal Credit, which is being phased in at the moment, the housing element will be paid directly to the claimant even in the case of council tenants.

Susan is a 78-year-old single woman who does not own her own home. She rents a flat costing her £175 a week.

Her income from state and private pensions is £235 a week, which would entitle her to £19.16 a week from Pension Credit (made up of £3 from the Guarantee Credit and £16.16 from Savings Credit).

If Susan had no additional savings, she would be entitled to have her whole rent paid by Housing Benefit.

On the other hand, if Susan had savings of £15,000 the first £10,000 of savings is disregarded, leaving Susan £5,000 to be considered.

This is converted into a 'tariff income' for calculation purposes at £1 for every £500 of savings, giving Susan £10 of tariff income.

This makes her income for Pension Credit calculations £245 (= £235 + £10). She would not receive income from the Guarantee Credit but her income from Savings Credit would be £15.16 a week.

Her deemed income in the calculation for her Housing Benefit entitlement would be £260.16 a week.

$£260.16 = £15.16$ (income from Savings Credit) + $£235.00$ (income from state and private pensions) + $£10$ (deemed income from savings). This is the same as the deemed income for pension credit because the calculation of tariff income from savings for housing benefit has the same savings disregard of £10,000.

This is £4.16 above the personal allowance for Housing Benefit (£256 a week in 2026/27 for a single person who reached SPa before April 2021), which would reduce her income from Housing Benefit by £2.70 a week (£4.16 multiplied by 0.65).

This means Susan would receive Housing Benefit worth £172.30 a week towards the cost of her rent.

If her savings were £16,000 or above, Susan would not be eligible to receive any Housing Benefit (since her savings would be above the £16,000 limit).

Appendix 7:

Council Tax Reduction

Until April 2013, pensioners were able to access Council Tax Benefit, a means-tested benefit designed to help individuals pay their council tax. Like Housing Benefit, it was paid to singles or couples based on their income from employment, State and private pensions, as well as notional income from capital and Savings Credit (SC).

From April 2013, the Government has required Councils in England to design their own Council Tax Reduction (CTR) schemes. In this way, CTR is no longer a national entitlement. However, the Government has stated that pensioners should not be worse off under this arrangement. For the purpose of CTR, a pensioner is someone who has reached the State Pension age (SPA), the qualifying age for Pension Credit. Therefore, the thresholds and maximums described below continue to apply.

The maximum amount of CTR payable is an amount equal to the person's (or couple's) liability to pay Council Tax, subject to certain restrictions. This amount is paid if the individual is eligible for Guarantee Credit (GC).

CTR is reduced once income reaches a personal allowance that depends on the time at which a person retired. A single person who retired before April 2021 has an allowance of £256.00, with a couple having £383.35. For those who retired after April 2021, a single allowance is £238.00 and a couple's is £363.25 in 2026/27.¹¹⁶ If the claimant's income is above the personal allowance level, then the amount of CTR is reduced at the rate of 20p for every £1 of additional income. No benefit is payable if claimants have capital of more than £16,000, unless they are also eligible for GC.

There was a 'Band E restriction' under the national Council Tax Benefit scheme. The effect of this restriction was that claimants whose property fell into Bands F, G or H were awarded CTR as if their property was in Band E. Some councils restrict CTR awards up to the value of a certain Council Tax band.

In addition, there was a one-off CTR of £150 for households in Bands A-D during 2022 to help with rising energy costs. This scheme ended in November of 2022.

Second Adult Rebate (SAR) is a means-tested benefit, but it is not assessed on the income and capital of the person liable to claim it. It aims to compensate people who pay Council Tax but who were not able to claim a single person discount because there was a second adult present in their household.

A single person discount can reduce a person's liability to Council Tax by 25%, if they are the only adult living in the property. If a second adult is present, SAR can reduce up to 25% of the council tax paid by the claimant. A 25% rebate is paid if the second adult is in receipt of Income Support, Income-based Jobseeker's Allowance or Pension Credit, however, this amount is reduced if the second adult has higher levels of income. If the second adult's gross weekly income is less than £289, the rebate is 15%, but if it is between £289 and £374.99, the rebate is 7.5%. No rebate is awarded if their income is £375 or above.¹¹⁷

Whenever someone claims main CTR, SAR is also calculated. The claimant is then awarded whichever benefit (main CTR or SAR) is most advantageous to them. In practice, there are very few awards of SAR.¹¹⁸

¹¹⁶ [The Council Tax Reduction Schemes \(Prescribed Requirements\) \(England\) Regulations 2012 \(amended 2026\)](#)

¹¹⁷ [The Council Tax Reduction Schemes \(Prescribed Requirements\) \(England\) Regulations 2012 \(amended 2026\)](#)

¹¹⁸ The DWP is unable to confirm exact figures of how many people claim SAR and has removed estimates from their publications.

Case study

Tim and Kate are a married couple who reached SPa before 2016. Their Council Tax liability is £25.00 a week. Their combined income from State Pensions is £380 a week, which would entitle them to £13.40 a week from Pension Credit (made up entirely of Savings Credit).

Even if they had no additional savings Tim and Kate would still not be entitled to a Council Tax rebate of 100% of their liability because their deemed income of £393.40 a week (£380 + £13.40) is above the personal allowance for couples of £383.35 a week in 2026/27. But they would be eligible to partial Council Tax Reduction.

Their deemed income is therefore £10.05 above the personal allowance, which would reduce their income from Council Tax Reduction by £2.01 a week (£10.05 multiplied by 0.2). So, Tim and Kate would receive a Council Tax rebate worth £22.99 a week.

If Tim and Kate did have savings above the £16,000 limit, they would not be eligible to receive any Council Tax Reduction.



Appendix 8:

Other first tier benefits



Individually Assessed Benefits

Disability-related benefits, such as Attendance Allowance, are payable if individuals satisfy the qualifying criteria. For instance:

- **Attendance Allowance - lower rate** of £76.70 from April 2026, payable if the individual needs personal care either during the day or night. Attendance Allowance can only be claimed after State Pension age (SPa).¹¹⁹
- **Attendance Allowance - higher rate** of £114.60 from April 2026, payable if the individual needs personal care during both the day and the night.¹²⁰
- **Disability Living Allowance (DLA)** – consists of two elements: a care component of between £30.30 and £114.60 a week from April 2026 for personal care and a mobility component of between £30.30 and £80.00 a week from April 2026. DLA can only be newly claimed before age 16, although payment for continuous claims can continue after age 65. Prior to April 2013, individuals over 16 could apply for DLA.
- **Personal Independence Payment (PIP)** - Since April 2013, DLA has been gradually replaced by PIP. Those who were already aged over 65 and in receipt of DLA in April 2016 can continue to receive payments without transitioning to PIP, while PIP is replacing DLA for those people aged 16 to SPa. There is a staged timetable for this development; in 2013 PIP was introduced for new claimants. From 2013, the Department for Work and Pensions started to contact people aged 16 to 65 in receipt of DLA about transferring to PIP.¹²¹ From April 2026, PIP pays between £76.70 to £114.60 for the daily living component, and between £30.30 and £80.00 for the mobility component.¹²²
- **Carer's Allowance** of £86.45 a week from April 2026 is payable to those spending at least 35 hours a week looking after someone receiving certain disability benefits, including Attendance Allowance, DLA and PIP.¹²³

Attendance Allowance, DLA and PIP are tax free, not means-tested and do not count as income for the purposes of assessing eligibility for other benefits (such as Pension Credit, Housing Benefit and Council Tax Reduction).

Carer's Allowance is not payable to those who earn more than £204¹²⁴ a week (after tax and certain expenses), and eligibility may be affected if the individual is in receipt of some other benefits equal to or higher than the level of Carer's Allowance. These are known as 'overlapping benefits'.¹²⁵ The amount received can also be reduced if individuals receive other State benefits. Carer's Allowance is taken into account as income for the purposes of assessing eligibility for means-tested benefits, although an individual in receipt of Carer's Allowance may qualify for a carer premium in Pension Credit or Universal Credit (where ineligible for Pension Credit as a mixed-age couple).

Near Universal Benefits are paid irrespective of income or assets, and includes the following:

- **Christmas Bonus** - £10 for each recipient of State Pension - paid annually before Christmas.
- **Free NHS prescriptions** and **eye tests** for those over 60.
- **Free TV Licences** for those over 75 and in receipt of Pension Credit.
- **Free central heating** installed for people receiving Pension Credit and discounts for other pensioners.
- **Free off-peak nationwide bus travel** for those aged over SPa. In London, people over 60 can travel free on buses, tubes and other transport.

¹¹⁹ <https://www.gov.uk/attendance-allowance>

¹²⁰ <https://www.gov.uk/attendance-allowance>

¹²¹ www.gov.uk/government/policies/simplifying-the-welfare-system-and-making-sure-work-pays/supporting-pages/introducing-personal-independence-payment

¹²² Department for Work and Pensions (DWP) (2026) [Benefit and pension rates 2026 to 2027](#)

¹²³ Department for Work and Pensions (DWP) (2026) [Benefit and pension rates 2026 to 2027](#)

¹²⁴ Department for Work and Pensions (DWP) (2026) [Benefit and pension rates 2026 to 2027](#)

¹²⁵ <https://www.gov.uk/carers-allowance/effect-on-other-benefits>



Appendix 9:

The Pension Protection Fund



A key feature of Defined Benefit (DB) schemes is that the employer is assumed to pay sufficient contributions to ensure that the promised benefits are paid. However, in some cases employers are not able to pay the promised benefits if, for example, their scheme becomes underfunded, or the employer becomes insolvent.

The Pensions Act 2004 established a **Financial Assistance Scheme (FAS)** to offer help to members who have lost benefits through Occupational Pension schemes that are underfunded when they begin to wind up and/or where the employer is insolvent or no longer exists.¹²⁶ Members from underfunded pension schemes that started winding up between 1 January 1997 and 5 April 2005 are potentially eligible for help from the FAS.¹²⁷

The **Pension Protection Fund (PPF)** became operational in April 2005 and has been designed to protect members of certain eligible DB occupational schemes and the DB parts of hybrid schemes. The PPF aims to pay some of the pension to members of schemes who lose out when the employer running their scheme becomes insolvent and the pension fund is underfunded.

The PPF is managed by an independent Board who pay compensation, calculate annual levies and oversee the investment of the fund assets.

The PPF pays out 100% of the current level of pensions already in payment, and 90% of the pension owed for people not yet receiving a pension. Pensions in payment are increased each year in line with the rise in the Consumer Prices Index (CPI), capped at 2.5%. Compensation payments were previously subject to an overall cap, however

these were ruled to be unlawful on the grounds of age discrimination, so it is no longer applied.¹²⁸ These factors may mean that pensions received from the PPF are smaller than some members had expected to receive from their original scheme.

Compensation payments are partly funded by compulsory annual levies contributed by eligible schemes. Since 2006/7, the annual levy comprises an administration levy and a pension protection levy. The administration levy is set in statute and covers the PPF's initial start-up and running costs. The pension protection levy is set by the PPF Board based on scheme- and risk-based factors. Scheme-based factors take into account the level of liability owed to the scheme's members. The risk-based element relates to a scheme's funding level and the risk of becoming insolvent. When the PPF takes responsibility for a scheme, it will also acquire the remaining assets of that scheme to help pay for members' compensation.

¹²⁶ Department for Work & Pensions (DWP) Pension Reform – Financial Assistance Scheme www.dwp.gov.uk/lifeevent/penret/penreform/fas/

¹²⁷ FAS assistance generally tops up any pension payable from the scheme so that a qualifying member receives 90% of the pension they had accrued when the scheme began winding up, subject to a maximum assistance limit. The FAS cap is set by government and recalculated each year for pensions commencing in 2026/27 the cap is £47,183. As at 31 March 2025, the PPF reported 137,901 FAS members, including 88,052 in payment and 49,849 deferred.

¹²⁸ www.ppf.co.uk/trustees-advisers/valuation-guidance/compensation-cap-factors



Appendix 10:

Pension fund regulatory framework



UK pension schemes are regulated through a combination of pensions legislation, tax legislation, trust law, financial services regulation and scheme-specific rules. The public bodies involved include The Pensions Regulator (TPR), the Financial Conduct Authority (FCA), the Department for Work and Pensions (DWP), HM Treasury, and HM Revenue & Customs (HMRC).

The two types of pension arrangements have different regulators

Trust-based workplace pension schemes, including Defined Benefit (DB) schemes, trust-based Defined Contribution (DC) schemes, master trusts and Collective Defined Contribution (CDC) schemes, are regulated by TPR. These schemes are run by trustees, who must act in the interests of scheme beneficiaries and comply with pensions law. The role and duties of trustees are set by various laws and acts of Parliament, supported by guidance from TPR.¹²⁹

Contract-based workplace pensions are provided by FCA-regulated firms as a contract between the individual member and the provider, they do not have trustees acting on behalf of members. Instead, providers must

have an Independent Governance Committee (IGC), or in some cases a Governance Advisory Arrangement, to provide independent oversight of the value for money of the provider's workplace pension arrangements and to challenge the provider where necessary.

The role of The Pensions Regulator

Established by the Pensions Act 2004, TPR began operating in 2005 and replaced the Occupational Pensions Regulatory Authority (OPRA). OPRA's role was mainly compliance-based. TPR was established with a more risk-based approach to work-based pension regulation, and its remit has expanded over time as the pensions system has changed.

TPR's role includes supervising scheme governance and administration, overseeing DB scheme funding, monitoring compliance with trustee duties and taking action where trustees, employers or scheme managers do not meet their legal obligations. TPR can require information, issue improvement notices, appoint or prohibit trustees, and impose penalties.

Employer compliance with automatic enrolment duties is also overseen by TPR. Employers must assess their workforce, enrol eligible workers into a qualifying pension scheme, make the required contributions, provide information to workers and complete re-enrolment duties. These duties apply regardless of whether the employer uses a trust-based or contract-based scheme. TPR gives guidance to employers, monitors compliance, and can issue compliance notices and penalties where employers fail to meet their duties.¹³⁰

Some trust-based schemes require specific authorisation before they can operate. Master trusts must be authorised and supervised by TPR, and must continue to meet standards on governance, administration, systems and processes, financial sustainability, and continuity planning. CDC schemes must also be authorised and supervised by TPR before they can operate.

¹²⁹ Trustees and the Pensions Regulator www.thepensionsregulator.gov.uk/trustees/

¹³⁰ The Pensions Regulator [Automatic enrolment detailed guidance](#)

The role of the Financial Conduct Authority

Among its role as the regulator of the financial services industry, The FCA regulates firms that provide, operate, advise on, or distribute contract-based pension products. These include Group Personal Pensions (GPPs), stakeholder pensions, personal pensions and Self-Invested Personal Pensions (SIPPs). FCA regulation focuses on the conduct of regulated firms and consumer protection, including product governance, disclosure, communications, charges, investment pathways, advice and targeted support.

For workplace personal pensions, FCA rules require providers to have an Independent Governance Committee (IGC). These IGCs are intended to act, to some extent, as trustees on behalf of members and assess the value for money of the services offered to members. If the schemes do not sufficiently address problems highlighted by the IGC, it then has the power to escalate concerns to the FCA.¹³¹

The FCA regulates providers of contract-based workplace pension arrangements used for automatic enrolment, although the employer's automatic enrolment duties are enforced by TPR.

The role of other Governmental bodies in pension regulation

Responsibility for pensions policy, tax policy, and tax administration sits across government. The Department for Work and Pensions is responsible for much of the policy and legislation for workplace pensions, including automatic enrolment and workplace pension reforms. HM Treasury is responsible for pensions tax policy. HMRC administers pensions tax rules, including tax relief on contributions, annual and lump sum allowances, and tax charges.

The Pensions Ombudsman investigates complaints and disputes about pension schemes, including complaints about maladministration and disputes of fact or law involving members, trustees, employers and pension providers.

¹³¹ Department of Work and Pensions (2014) Better workplace pensions: Further measures for savers: www.gov.uk/government/uploads/system/uploads/attachment_data/file/298436/better-workplace-pensions-march-2014.pdf; <http://www.legislation.gov.uk/ukpga/2014/19/part/6>



Appendix 11:

Withdrawing retirement income prior to 2015



Prior to April 2006, upon reaching retirement age individuals could take a 25% tax-free lump sum while leaving the rest invested in an income drawdown account, within limits. By age 75, any remaining pension pot balance had to be annuitised. Individuals with a pension pot below the trivial commutation limit were allowed to take the whole fund as a lump sum.

Between 2006 and 2010, if a person had private pension savings above the trivial commutation limit and had not opted for an annuity by the time they reached age 75, they were required to begin withdrawing their pension benefits, either by purchasing an annuity or by the additional option of an Alternatively Secured Pension (ASP) drawdown account. ASPs were primarily designed for those who had a principled religious objection to buying an annuity, but were used by some people as a way to avoid purchasing an annuity over age 75.

From April 2011, the requirement to purchase an annuity by age 75 was removed. **Between April 2011 and 6 April 2015**, people over the age of 55 could choose one or a combination of following options:

- Taking a 25% tax-free cash lump sum (provided the scheme rules allowed it). If an individual's entire pension fund was less than the trivial commutation limit (set at £30,000 from 27 March 2014),¹³² it was possible to 'trivially commute' and take the whole fund as a lump sum, with 25% being tax-free and the remainder taxed at their marginal rate.
- Investing some or all of their fund in an income drawdown account for some part or all of their retirement, while taking an income from the funds, capped at a fixed percentage of an equivalent annuity.
- Purchasing an annuity. An insurance product that pays an income from the date of purchase until the date of death.¹³³
- Withdrawing their fund in unlimited amounts, provided that individuals can demonstrate a secured guaranteed lifetime pension income of at least £20,000 a year.¹³⁴

Following the introduction of the Freedom and Choice initiative in 2015, restrictions on how Defined Contribution (DC) pension savings could be accessed were removed for those above minimum pension age, as set out in the main body of the Primer in the section Tier 2: Withdrawing retirement income.

Annuities

Many people who retired with DC pension savings prior to April 2015 purchased an annuity and therefore they still constitute a significant proportion of income for current pensioners. Most annuities purchased prior to April 2015 were level; meaning that once the annuity is purchased, the level of income an individual receives from it is then set for the remainder of the individual's life.

The cost of an annuity depends on the following factors:

- Long-term interest rates prevalent in the market at that time;
- The age and gender of the individual;
- The health and lifestyle of the individual. For example, those in poor health may be able to get a higher income from their fund;
- The type of benefits chosen. For example, those increasing in line with the Retail Prices Index (RPI), or incorporating a spouse's pension are more expensive.
- Expenses of the provider, including any profit margins.

¹³² The trivial commutation has previously been set at 1% of the Lifetime Allowance (currently £1.8m) however it has been decoupled from the Lifetime Allowance from 2012 HMT (2010) *Restricting pensions tax relief through existing allowances: a summary of the discussion document responses*, p. 26.

¹³³ An annuity insures against an individual's money running out because he or she lives longer than expected

¹³⁴ HMT (2011). Removing the Effective Requirement to Annuitise by Age 75, p.2.

https://webarchive.nationalarchives.gov.uk/20130104073810/http://www.hm-treasury.gov.uk/d/pensions_annuitisation.pdf

From April 2015 onward, people are no longer compelled to purchase an annuity in order to access their DC savings, however, there are still many annuities on the market.

- **Lifetime annuity**
 - **Level:** an annuity that provides a set level of income for the remainder of an individual's life.
 - **Escalating annuity:** annuities with income that escalates in line with prices.
 - **Impaired life/enhanced annuity:** an annuity that pays out a higher rate for people who have a lower life expectancy due to health or lifestyle factors.
 - **Joint-life annuity:** Annuitants with dependents can ensure that their dependant continues to receive an income after the annuitant's death by purchasing a joint-life annuity; however joint-life annuities pay out a lower rate in return for the guarantee.
- **Fixed-term annuity:** an annuity for a fixed period.
- **Deferred annuity:** an annuity that does not start to pay out income until a later date.



Acknowledgements and contact details



This document is intended to provide a description of the UK pensions system for the purpose of considering pensions policy. It should not be used to make individual pensions decisions.

Every effort has been made to avoid error, but in such a complicated field unintentional errors and omissions may remain. Please contact the Pensions Policy Institute (PPI) if any data appears to be out of date, or to suggest additional subjects for the appendices.

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The Pensions Policy Institute takes responsibility for remaining errors.

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