



BRIEFING PAPER

Number SN-05649, 7 February 2017

State Pension uprating - 2010 onwards

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Inside:

1. Legislative framework
2. Pension Credit
3. Policy development



Contents

Summary	3
1. Legislative framework	4
1.1 Basic State Pension	4
Measure of earnings	5
1.2 Additional State Pension	5
Measure of prices	7
1.3 Deferred retirement increments	7
1.4 The new State Pension (nSP)	7
2. Pension Credit	9
2.1 Annual uprating orders	9
3. Policy development	11
3.1 Restoring the earnings link	11
3.2 The triple lock	12
3.3 Switch to the CPI	13
3.4 Pension Credit	14
Guarantee Credit	14
Savings Credit	15
3.5 Uprating in 2017/18	18
3.6 Rates for 2010/11 to 2017/18	19

Summary

The State Pension

The State Pension for people who reached State Pension age (SPA) before 6 April 2016 has two main elements. The basic State Pension (bSP), based on a person's National Insurance contribution record, and the additional State Pension, which is partly earnings-related. Different uprating arrangements apply to each:

- The statutory requirement is to increase the bSP at least in line with earnings ([Social Security Administration Act 1992](#), s150A). However, the Government is committed to increasing it according to the "triple lock" – the highest of earnings, prices or 2.5 per cent (HM Treasury, [Summer Budget 2015](#), para 1.139). In April 2017, the full amount of the bSP will rise from £119.30 to £122.30 pw.
- The statutory requirement is to increase the additional State Pension at least in line with prices ([Social Security Administration Act 1992](#), s150 (1)). Since 2011, the measure of prices used has been the Consumer Prices Index (CPI). In April 2016, the additional State Pension was frozen – reflecting the fact that CPI inflation was slightly negative (-0.1%) over the 12 months to September 2015. In April 2017, it will increase by one percent.

A new State Pension (nSP) was introduced from 6 April 2016 for people reaching SPA from that date. Its starting rate was £155.65pw in 2016/17 ([SI 2016/227](#)).

The legislation requires the nSP to be uprated at least in line with earnings ([Pensions Act 2014](#), Sch 12 (19)). However, the Government is committed to applying the triple lock, at least until 2020 ([HC Deb 23 November 2016 c906](#)). In April 2017, it is to rise to £159.55 pw ([HCWS287, 28 November 2016](#)).

Pension Credit

For people who reached SPA before 6 April 2016, Pension Credit has two elements: the Guarantee Credit, which provides a minimum level of income; and the Savings Credit, which aims to provide an additional amount for people aged 65 and over who have made some provision for their retirement. The legislation requires the Standard Minimum Guarantee in Guarantee Credit to be uprated at least in line with earnings. In the years 2010/11 to 2015/16, it was increased by the cash rise in the bSP (i.e; by more than earnings) to ensure that "the benefits of the triple lock uprating" were passed on to the poorest pensioners (see for example, HM Treasury, [Autumn Statement 2014](#), para 1.235).

The other elements of Pension Credit can be uprated by such a percentage as the Secretary of State thinks fit ([Social Security Administration Act 1992](#), s150 (1)).

Savings Credit has been removed for people reaching State Pension age from 6 April 2016. People who reached State Pension age before that date may still be eligible. However, measures have been taken to reduce the amount payable in recent years – often through the combination of reductions in the maximum and increases in the threshold of income taken into account to calculate it ([PQ226249 9 March 2015](#)).

The rates of social security benefits – including the State Pension and Pension Credit - for 2017/18 are in the [draft Social Security Benefits Uprating Order 2017](#).

Other relevant Library Briefing Papers include: CBP-07812 [State Pension triple lock](#) (February 2017); SN-01457 [Frozen overseas pensions](#) (May 2016); SN-07414 [The new State Pension – transitional questions](#) (August 2016).

1. Legislative framework

The State Pension for people reaching State Pension age before 6 April 2016 has two main elements:

- the **basic State Pension** (bSP) – this depends on the number of qualifying years the person has built up in their working life. The full rate of the BSP is £115.95 pw in April 2015/16, rising to £119.30 in 2016/17;
- the **additional State Pension** (AP) – this depends on the earnings or deemed earnings during their working life since additional State Pension was introduced in April 1978.¹

Other elements of the State Pension include 'deferred retirement increments', to which people may be eligible if they have deferred claiming their State Pension after they reach State Pension age.²

The relevant legislation is Part II of the [Social Security Contributions and Benefits Act 1992](#).

Different uprating arrangements apply to the different parts.

1.1 Basic State Pension

Section 150A of the [Social Security Administration Act 1992](#) requires the Secretary of State to uprate the amount of the bSP (and the Standard Minimum Guarantee in Pension Credit) *at least* in line with the increase in the general level of earnings over the review period:

150A.—(1) The Secretary of State shall in each tax year review the following amounts in order to determine whether they have retained their value in relation to the general level of earnings obtaining in Great Britain—

(a) the amount of the basic pension;

(b) the specified amounts in the case of Category B, C or D retirement pensions;

[...]

(d) the amounts of the standard minimum guarantee for the time being prescribed under section 2(4) and (5)(a) and (b) of the State Pension Credit Act 2002.

(2) Where it appears to the Secretary of State that the general level of earnings is greater at the end of the period under review than it was at the beginning of that period, he shall lay before Parliament the draft of an order which increases each of the amounts referred to in subsection (1) above by a percentage not less than the percentage by which the general level of earnings is greater at the end of the period than it was at the beginning.

(3) Subsection (2) above does not require the Secretary of State to provide for an increase in any case if it appears to him that the amount of the increase would be inconsiderable. [...].³

¹ Pension Service, [A detailed guide to state pensions for advisers and others](#), NP46, August 2008, p9

² For more detail, see Library Standard SN/BT 2868 [Deferred Retirement Increments](#)

³ [Social Security Administration Act 1992](#), s150A

This came into effect from April 2011.⁴ The statutory requirement is for the increase to be “at least” in line with earnings. The current Government has committed itself to increasing the bSP by the highest of earnings, prices or 2.5% (see section 3.1 below)

Measure of earnings

The legislation does not specify that a particular measure of earnings should be used, just that the Secretary of State “shall estimate the general level of earnings in such manner as he sees fit.” When the *Pensions Bill 2006-07* was before Parliament, the then Pensions Minister, James Purnell, explained that because measures changed over time, it was important to have flexibility:

The method that we propose for uprating by earnings is the same one we use now for uprating the standard minimum guarantee and pension credit in line with average earnings. Such measures change over time, however, and it is important to leave the Government of the day with flexibility in that regard.⁵

In the past the Average Earnings Index (AIE) was used: by convention, the three month average ending in July provided the uprating factor. The (AWE) took over as the lead measure in January 2010 and the AIE was discontinued.⁶ The AWE is the key National Statistics indicator of short-term earnings growth, and provides estimates of the level of average weekly earnings per employee each month.

1.2 Additional State Pension

Section 150 of the [Social Security Administration Act 1992](#) requires other parts of the State Pension – the additional State Pension and deferred retirement increments – to be increased at least in line with the increase in the general level of prices over the period under review:

150 (1) The Secretary of State shall in each tax year review the sums

[...]

(c) which are the additional pensions in long-term benefits; [*additional or earnings related pension, SERPS or S2P*]

[3(ca) which are shared additional pensions; [*where a pension is shared on divorce*]

(d) which are the increases in the rates of retirement pensions under Schedule 5 to the Contributions and Benefits Act; [*deferred retirement increments*]

[1(dza) which are lump sums to which surviving spouses [2or civil partners] will become entitled under paragraph 7A of that Schedule on becoming entitled to a category A or Category B retirement pension;] [*Entitlement to lump sum where pensioner's deceased spouse [or civil partner] has deferred entitlement*]

⁴ [SI 2010/2650](#) provided that 2010-11 would be the designated tax year (i.e. the first year in which the Secretary of State would carry out a review to see if the BSP had kept its value in relation to earnings (section 5(3) Pensions Act 2007).

⁵ PBC Deb, 25 January 2007, c145

⁶ [Equality impact assessment. Social Security Benefits uprating 2011, February 2011, page 5, footnote 3](#)

[3(da) which are the increases in the rates of shared additional pensions under [1paragraph 2 of Schedule 5A to] that Act;]
[Pension increase or lump sum where entitlement to shared addition pension is deferred]

(e) which are –

(i) payable by virtue of [section 15(1)] of the *Pensions Act* to a person who is also entitled to a Category A or Category B retirement pension (including sums payable by virtue of [section 17(2)]); or *[Increase of guaranteed minimum where commencement of guaranteed minimum pension postponed]*

(ii) payable to such a person as part of his Category A or Category B retirement pension by virtue of an order made under this section by virtue of this paragraph or made under section 126A of the 1975 Act or section 63(1)(d) of the 1986 Act;

(l) specified in regulations under sections 2 or 3 of the *State Pension Credit Act 2002* (other than those prescribing the amounts mentioned in section 150A (1) below) *[Pension Credit except for the Standard Minimum Guarantee]*

[...]

in order to determine whether they have retained their value in relation to the general level of prices obtaining in Great Britain estimated in such manner as the Secretary of State thinks fit.

(2) Where it appears to the Secretary of State that the general level of prices is greater at the end of the period under review than it was at the beginning of that period, he shall lay before Parliament the draft of an up-rating order –

(a) which increases each of the sums to which subsection (3) below applies by a percentage not less than the percentage by which the general level of prices is greater at the end of the period than it was at the beginning; and

(b) if he considers it appropriate, having regard to the national economic situation and any other matters which he considers relevant, which also increases by such a percentage or percentages as he thinks fit any of the sums mentioned in subsection (1) above but to which subsection (3) below does not apply; and

(c) stating the amount of any sums which are mentioned in subsection (1) above but which the order does not increase.

(3) This subsection applies to sums –

(a) [...];

(b) mentioned in subsection (1) [...] (c), (d), (dza), (e) [...] above.

[...] ⁷

Public service pensions are increased each year by the same percentage as the additional State Pension. ⁸

⁷ [Social Security Administration Act 1992](#), s150. The additional State Pension is mentioned in section 150 (1) (c) and 150 (3) (b)

⁸ [Pensions Increase Act 1971](#) and sections 59 and 59A of the [Social Security Pensions Act 1975](#) as amended; This is discussed in more detail in Library Standard Note SN 05434 [Public service pension increases](#)

Measure of prices

A statutory requirement to uprate in line with prices has been in place in some form since the mid-1970s.⁹ It has not specified a particular measure of prices and different measures have been used over time. In the 1970s and 1980s, for example, governments switched from using a historic measure of inflation to a forecast measure and back again. Changes have also been made to the date from which increases apply. However, since 1987, increases have taken place in April from the first Monday of the tax year.¹⁰ From 1988 until 2011, there was continuity. The measure of prices used was the annual movement in the September Retail Prices Index and the increase took place in April.¹¹ Things changed again in April 2011, when the current Government switched to the Consumer Prices Index (CPI) as the measure of prices (see section [2.3 below](#)).

In the year to September 2015, CPI inflation was negative (-0.1%). The result was that the additional State Pension and other CPI-linked benefits were frozen on the grounds that they had “maintained their value in relation to prices.”¹²

In the twelve months to September 2016, CPI inflation was 1%, so the additional State Pension will increase in line with this in April 2017.¹³

For more on the background, see Library Briefing Paper SN 2117 [State Pension uprating – background](#) (July 2010).

1.3 Deferred retirement increments

Deferred retirement increments are the extra amounts people can earn by deferring their State Pension.¹⁴ The statutory requirement is to increase them in line with prices, measured according to the Consumer Prices Index (CPI).¹⁵ As explained above for the additional State Pension, this meant they were frozen in April 2016 but will increase by 1% in April 2017.¹⁶

1.4 The new State Pension (nSP)

The nSP was introduced from 6 April 2016 for people reaching State Pension age from that date.¹⁷ The Government was clear from the outset – when setting out its proposal for the new pension - that it would be set above the level of the Pension Credit standard minimum

⁹ [Social Security Act 1973](#), section 39, [Social Security Act 1975](#), section 125, as amended by [Social Security Act 1980](#), section 1; [Social Security Act 1986](#), section 63; [Social Security Contributions and Benefits Act 1992](#), section 150

¹⁰ [Cmnd 9519](#), paras 13.14-13.15; [Social Security Act 1986](#), section 63

¹¹ HM Treasury, [A note on the operation of pensions increase legislation for public service pension schemes](#), May 2001; Annex D, page 21; [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, Box 2B

¹² [EM to the Social Security Benefits Up-rating Order 2016](#), para 4.2

¹³ [HCWS87, 28 November 2016](#)

¹⁴ See Library Briefing Paper [SN-02868](#)

¹⁵ [Social Security Administration Act](#) (s150)

¹⁶ [EM to the Social Security Benefits Up-rating Order 2016](#), para 4.2; [HCWS287, 28 November 2016](#)

¹⁷ [Pensions Act 2014](#), section 1

guarantee but that the precise level would be decided shortly prior to implementation.¹⁸

Starting rate

Section 3 of the [Pensions Act 2014](#) provided for the full rate of the new State Pension to be set in regulations.¹⁹ These regulations were subject to the affirmative procedure, which means that both Houses of Parliament must expressly approve them.²⁰ In the 2015 Autumn Statement, the Government announced that:

From April 2016, those reaching pensionable age will receive a new, 'single-tier' pension with a starting rate of £155.65. This meets the government's commitment to set the new rate above the current means-tested benefit for the lowest income pensioners (the Standard Minimum Guarantee in Pension Credit).²¹

This was provided for in the [State Pension \(Amendment\) Regulations 2016 \(SI 2016/227\)](#). The SI was debated in Parliament in February 2016.²²

Uprating

Schedule 12 (19) of the 2014 Act provides for the nSP to be uprated at least in line with earnings.²³ In February 2016, the Government confirmed that the triple lock would apply for this Parliament at least.²⁴ In April 2017, the nSP will increase by 2.5% to £159.55 pw.²⁵

However, the triple lock does not apply to any 'protected payment' paid to an individual by April 2016 had built up a higher State Pension under the old system than the full amount of the new State Pension. The protected payment (the amount of entitlement in excess of £155.65 under the old system in April 2016) is uprated in line with prices rather than the triple lock.²⁶ For more on the background, see Library Briefing Paper SN-07414 [The new State Pension – transitional issues](#) (August 2016), section 3.2.

¹⁸ DWP, [The single-tier pension: a simple foundation for saving](#), Cm 8528, January 2013, p90; See also, Executive Summary, para 29

¹⁹ [Pensions Act 2014 – Explanatory Notes](#), para 47

²⁰ For more detail, see [House of Commons background paper – statutory instruments](#) (SN 6509)

²¹ HM Treasury, [Autumn Statement 2015](#), Cm 9162, November 2015, para 1.134

²² [HC Deb 8 February 2016 c1352-63](#); [HL Deb 22 February 2016 GC18](#)

²³ [Pensions Act 2014 – Explanatory Notes](#), para 50

²⁴ DWP, [The single-tier pension: a simple foundation for saving](#), January 2013 (Cm 8528), p90

²⁵ [HCWS287, 28 November 2016: draft Social Security Benefits Up-rating Order 2017, reg 6](#)

²⁶ [Pensions Act 2014 s23](#) and Sch 12 (19)

2. Pension Credit

For people who reached State Pension age before 6 April 2016, Pension Credit has two elements:

- The Guarantee Credit, which provides financial help for people who have reached the “qualifying age” for Pension Credit and whose income is below a specified amount. It bridges the gap between other money and individual or couple has (such as pensions, earnings and savings, subject to any disregards) and their “appropriate amount.” The appropriate amount is made up of a “standard minimum guarantee” (SMG) and additional amounts in respect of severe disability, caring responsibilities and certain housing costs, like mortgage interest payments.²⁷
- The Savings Credit, which aims to provide an additional amount for people aged 65 and over who have made some provision for their retirement.

The total Pension Credit received is the combination of the two elements.²⁸

Under the [Pensions Act 2007](#) (s5) the Secretary of State is required to uprate the SMG annually at least in line with earnings.²⁹ There is no duty to uprate the other elements of Pension Credit. The legislation merely states that “if [the Secretary of State] considers it appropriate, having regard to the national economic situation and any other matters which he considers relevant”, the draft uprating order may increase benefit rates “by such a percentage or percentages as he thinks fit.”³⁰

The Savings Credit element was removed for people reaching SPA from 6 April 2016 when the new State Pension was introduced.³¹

2.1 Annual uprating orders

The annual increases in benefits and tax credits are legislated for in a statutory instrument – a Social Security Uprating Order. This is subject to the affirmative resolution procedure. Most SIs subject to the affirmative procedure are laid in the form of a draft Order, which is later printed and added to the numerical run of SIs when it has been approved by both Houses. Such orders cannot be made unless the draft order is approved by Parliament. To do this, a motion approving it has to be passed by both Houses. The responsibility lies with the minister, having laid the Instrument, to move the motion for approval.³²

A draft Social Security Uprating Order is usually published in November or December, following the announcement of the benefit rates for the

²⁷ [State Pension Credit Regulations 2002 \(SI 2002 No. 1792\)](#), reg 6; For more detail, see DWP, [A detailed guide to Pension Credit for advisers and others](#), September 2013; For an overview, see Pension Service leaflet, [Pension Credit: do I qualify and how much could I get?](#) April 2013

²⁸ Except that people under 65 only qualify for the Guarantee Credit

²⁹ [Pensions Act 2007, Explanatory Notes](#), para 47 and 157

³⁰ [Social Security Administration Act 1992, section 150 \(1\) \(l\) and \(2\)](#)

³¹ [Pensions Act 2014](#), s23 and Schedule 12 (part 3); For more detail, see Library Note SN06525 [The new single-tier State Pension](#) (section 6.8)

³² [House of Commons, Delegated Legislation – A brief guide, August 2011](#)

following year. Increases take effect in the week beginning with the first Monday in the tax year, or on such earlier date in April as may be specified in the order.³³ A Parliamentary Written Answer of July 2010 explained why this timetable for announcing and legislating for the increases was important:

Gordon Banks: To ask the Secretary of State for Work and Pensions pursuant to the answer of 28 June 2010, *Official Report*, columns 393-94W, on state retirement pensions, for what reasons the month of September is used as the base for these calculations. [5569]

Steve Webb: The Consumer Prices Index figure for September is the most up to date that can be used which allows time for the necessary activities involved in changing both the legislation and benefit systems in time for the uprating date in April. This was also true of the Retail Prices Index when that index was used as the benchmark for price inflation. The September figures are published by the Office for National Statistics in mid-October and feed into the forecasts prepared for the pre-Budget report. The Uprating Statement to Parliament is made in November or December followed by the Uprating Order which is laid and debated in the new year. This timetable is important so that new claims to state pensions and pension credit, which can be made up to four months in advance, can be processed using the correct rates of benefit. It also allows adequate time to notify all 19 million benefit recipients of any changes to their benefit.³⁴

For example, the rates for 2016-17 were announced at the time of Autumn Statement 2015.³⁵ The draft *Social Security Benefits (Uprating) Order 2016* was debated in Parliament in February 2016.³⁶ The increases under the [Social Security Benefits Uprating Order 2016 \(SI 2016/327\)](#) came into effect in April 2016.

The benefit rates for 2017-18 were announced on 28 November 2016.³⁷ They are in the [draft Social Security Benefits Uprating Order 2017](#).

³³ [Social Security Administration Act 1992, section 150 \(10\)](#)

³⁴ [HC Deb, 5 July 2010, c109W](#); See also [HC Deb 14 April 2000, c313-4w](#)

³⁵ HM Treasury, [Policy Costings, Pension Credit Savings Credit: freeze](#), November 2015

³⁶ [HC Deb 8 February 2016 c1352-63](#); [HL Deb 22 February 2016 GC 18ff](#)

³⁷ [HCWS287, 28 November 2016](#)

3. Policy development

3.1 Restoring the earnings link

A statutory duty to increase state pensions in line with prices was first introduced by section 39 of the *Social Security Act 1973* (although the first uprating on a statutory duty did not take effect until April 1975). However, the Labour Government elected in February 1974 introduced legislation requiring long-term benefits to be increased in line with earnings or prices, whichever was higher.³⁸ The Conservative Government elected in 1979 pronounced this “unsustainable” in the light of experience. The then Secretary of State for Social Services, Patrick Jenkin, argued that what really mattered was “the guarantee against rising prices.”³⁹ Section 1 of the *Social Security Act 1980* amended the *Social Security Act 1975* to link long-term benefit increases to prices, not earnings.

The Labour Government elected in 1997 resisted calls to restore the earnings link for some years, arguing that it did nothing to help the poorest pensioners, on whom they wanted to concentrate resources through the means-tested benefit, Pension Credit.⁴⁰ The legislation in force until 2011 required the basic State Pension (BSP) to be uprated *at least* in line with prices but did not prevent it from being increased by more than this if the Secretary of State chose to do so. Price inflation in the year to September 1999 was only 1.1% so the April 2000 pension increase came out at only 75p for a single pensioner. This notoriously small increase⁴¹ persuaded the then Chancellor, Gordon Brown, to announce a minimum increase in pensions. In his Pre-Budget Statement on 8 November 2000, the Chancellor announced above-inflation increases in the BSP.⁴² From 2002 onwards, the Labour Government was committed to uprating the BSP by the higher of 2.5 per cent and inflation.⁴³

In 2005, the Pensions Commission⁴⁴ recommended that the Government should restore the link with earnings. This was in order to “stop the spread of means-testing which would occur if present indexation arrangements were continued indefinitely.”⁴⁵ In a May 2006

³⁸ [National Insurance Act 1974, section 5; Social Security Act 1975, section 125](#)

³⁹ [HC Deb 13 June 1979, c 439](#)

⁴⁰ [HC Deb 1 April 2003 c677W](#) [Ian McCartney]

⁴¹ See, eg, “Paltry 75p a week rise is an insult to all pensioners”, *Sunday Express*, 23 April 2000, and “Pensions war hots up over 75p a week rise”, *Sunday Mirror*, 9 April 2000

⁴² [HC Deb 8 November 2000, c 326](#)

⁴³ [HC Deb, 27 November 2001, cc836-7; HC Deb, 15 June 2005, 441W; Pre Budget Report 2009](#), para 5.43

⁴⁴ Set up in 2002 to ‘advise on whether the existing system of voluntary private pensions would deliver adequate results’. For further details, see the archived [Pensions Commission](#) website.

⁴⁵ Pensions Commission, [A New Pension Settlement for the Twenty-First Century. Second Report](#), November 2005, Executive summary, page 10-12. See also SN 03111 [Pension contribution conditions](#) and SN 02234 [State Pension age - background](#) (7 February 2013)

White Paper, the Labour Government announced that it would restore the earnings link, probably from 2012:

3.24 During the next Parliament, therefore, we will re-link the uprating of the basic State Pension to average earnings. Our objective, subject to affordability and the fiscal position, is to do this in 2012 but in any event at the latest by the end of the next Parliament. We will make a statement on the precise date at the beginning of the next Parliament.⁴⁶

The aim was to enable the State Pension to provide a better platform for private saving:

If the state system is to serve as a foundation for their retirement planning, it must retain its level relative to these expectations. This will help to address the problem of undersaving by enabling people to predict with confidence what they are likely to receive from the State when they retire, and therefore what they will need to save in addition to meet their expectations.⁴⁷

The [Pensions Act 2007](#) included provision to restore the earnings link. Section 5 and provided for an announcement to be made on the date the link would be restored by 1 April 2011 and for the link itself to be restored by the end of the 2010 Parliament.⁴⁸ In the event it was restored from April 2011.⁴⁹

3.2 The triple lock

The 'triple lock' or triple guarantee refers to the commitment made in the Coalition Government's Programme for Government to uprate the basic State Pension by the highest of earnings, prices or 2.5%.⁵⁰

Following the 2015 general election, the current Government said it would maintain the triple lock on the State Pension.⁵¹ It later confirmed that this would apply to the new State Pension as well as the basic State Pension.⁵²

In the 2016 Autumn Statement, Chancellor of the Exchequer Philip Hammond said public spending priorities for the next Parliament would be reviewed at the next spending review:

We manage public spending so that we can invest in the public's priorities. The Government have underlined those priorities with a series of commitments and protections for the duration of this Parliament. I can confirm today that, despite the fiscal pressures, we will meet our commitments to protect the budgets of key public services and defence; keep our promise to the world's poorest through our overseas aid budget; and meet our pledge to our country's pensioners through the triple lock. But as we look ahead to the next Parliament, we will need to ensure that we

⁴⁶ DWP, [Security in retirement: towards a new pensions system](#), Cm 6841, May 2006

⁴⁷ Ibid, para 3.21

⁴⁸ Section 5; DWP, [Security in retirement: towards a new pensions system, CM 6841, 25 May 2006](#), para 3.21

⁴⁹ [HL Deb 14 March 2011 c75](#); [SI 2010/2650](#); [Social Security Benefits Uprating Order 2011 – Explanatory Memorandum, para 7.4](#)

⁵⁰ [The Coalition: Our Programme for Government, May 2010](#)

⁵¹ HM Treasury, [Summer Budget 2015](#), 8 July 2015, HC 264 para 1.139; See also OBR, [Fiscal Sustainability Report, June 2015, table 3.1](#)

⁵² See, for example, [HL Deb 28 April 2016 c1235](#)

tackle the challenges of rising longevity and fiscal sustainability, so the Government will review public spending priorities and other commitments for the next Parliament in light of the evolving fiscal position at the next spending review.⁵³

For more detail, see Library Briefing Paper CBP-7812 [State Pension triple lock](#) (February 2017).

3.3 Switch to the CPI

As outlined above, section 150 of the *Social Security Administration Act 1992* requires the State Second Pension to be uprated in line with the “general level of prices obtaining in Great Britain estimated in such manner as the Secretary of State thinks fit”.⁵⁴ From 1988 until 2011, the measure used was the annual movement in the September RPI.⁵⁵

The Conservative Liberal Democrat Coalition Government announced in its June 2010 Budget that it would switch to using the CPI for the price indexation of benefits and tax credits from April 2011. The CPI would also be the measure of prices used in the triple guarantee for the purpose of uprating the BSP (except that in April 2011, the RPI would be used):

1.106 The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients’ inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright), and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. **This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues.**⁵⁶

The Government’s view is that the CPI is “a more appropriate measure of benefit and pension recipients’ inflation experiences than RPI”.⁵⁷ However, it has also said it is prepared to consider changes in the light of new arguments or evidence.⁵⁸ The Opposition has supported the switch to the CPI on a temporary basis only. In July 2011, the then Shadow Pensions Minister, Rachel Reeves said:

While we support the use of CPI, not RPI, in the short term as a means to reduce the deficit, we do not believe that, on a

⁵³ [HC Deb 23 November 2016 c906](#)

⁵⁴ Section 150 (1) *Social Security Administration Act 1992*

⁵⁵ HM Treasury guidance - [A note on the operation of pensions increase legislation for public service pension schemes](#), 24 May 2001, Annex D, page 21; [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010; Box 2B

⁵⁶ HM Treasury, [Budget 2010](#), HC 61, June 2010; See also [HC Deb, 14 June 2010, c284](#)

⁵⁷ [HC Deb, 3 February 2011, c897W](#); DWP, ‘[Analysis of the relative suitability of the Retail Prices Index \(RPI\) and the Consumer Prices Index \(CPI\) for reflecting cost of living increases for pensioners](#)’, House of Commons Deposited Paper 2011-0011

⁵⁸ [Pensions Bill Committee debate, 14 July 2011, c303](#)

permanent basis, it is the right way to uprate pensions or other benefits. [...] it makes no sense that pensioners and those on the lowest incomes who are least able to bear the burden will be punished by such a change, even when our economy is back on track and the deficit has been eliminated.⁵⁹

The switch to the CPI is discussed in more detail in RP 13/01 [Welfare Reform Uprating Bill](#) (section 5).

3.4 Pension Credit

As explained in [section 1.4](#) above, different arrangements apply to the uprating the two elements of Pension Credit: Guarantee Credit and Savings Credit.

Guarantee Credit

When Pension Credit was introduced in October 2003, the statutory requirement under the *State Pension Credit Act 2002* was for the Secretary of State to review the level of the Pension Credit each year and to increase it if he considered it “appropriate” to do so.⁶⁰

In 2005, the Labour Government announced that the Standard Minimum Guarantee (SMG) in Pension Credit would rise in line with average earnings at least until 2008.⁶¹ In the May 2006 Pensions White Paper, it said this would continue for the longer term:

3.60 The Government has committed to uprating the Guarantee Credit in line with earnings until 2008. We can now announce an intention to continue this uprating strategy over the long term. This will ensure that the gains we have made against pensioner poverty are secure into the future. As now, the Guarantee Credit will provide a guaranteed minimum level of income in retirement for those who have been unable to provide adequately for their own retirement. It will also provide a higher income for people with severe disabilities and other specific groups.⁶²

This became a statutory requirement from 2008/09 under the [Pensions Act 2007](#) (s5).

Over the years 2011-12 to 2015-16, the Government uprated the Standard Minimum Guarantee in line with the cash increase in the basic State Pension. This was a higher increase than required by the legislation, in order to ensure that the poorest pensioners did not receive a smaller increase than the one being paid for the basic State Pension.⁶³ In April 2016, earnings was higher than CPI inflation or 2.5%, so both the SMG and the bSP were uprated in line with earnings.⁶⁴

⁵⁹ [Pensions Bill Committee debate, 14 July 2011, c296](#) [Rachel Reeves].

⁶⁰ [State Pension Credit Act 2002](#), Sch 2, para 16

⁶¹ HM Treasury, [Budget 2005](#), para 5.63; [HC Deb 22 February 2005](#), c 197 [Alan Johnson]; [HC Deb 16 March 2005, cc 265-266](#) [Gordon Brown]

⁶² DWP, [Security in retirement: towards a new pensions system](#), Cm 6841, May 2006

⁶³ HM Treasury, [Autumn Statement 2014](#), para 1.235; HM Treasury, [Autumn Statement 2013](#), Cm 8747; [HC Deb, 6 December 2012, c1030](#); [HC Deb, 6 December 2011, c163](#); HM Treasury, [Budget 2010](#), June 2010, para 1.107

⁶⁴ HM Treasury, [Autumn Statement 2015](#), Cm 9162, November 2015, para 1.134

Savings Credit

The aim of Savings Credit is to reward people aged 65 and over who have made additional provision for their retirement. It accrues at the rate of 60p of qualifying income above a threshold up to a maximum figure. Initially, the threshold was aligned with the basic State pension (BSP) and the maximum was set at 60 per cent of the difference between the BSP and the Guarantee Credit. However, the Labour Government became concerned that this would result in an increasing proportion of the pensioner population would become entitled to Pension Credit:

The maximum Savings Credit award is set at 60 per cent of the difference between the basic State Pension and the Guarantee Credit. The gap between these two has been widening as one increases with average earnings and the other increases by less. Because it draws momentum from both, the maximum Savings Credit grows faster than either of these uprating factors in isolation, which means it grows faster even than the Guarantee Credit, and therefore faster than earnings.

If current uprating policies were pursued indefinitely, an increasing proportion of the pensioner population would be entitled to the Savings Credit. It has never been the Government's intention that a significant majority of the pensioner population would, in the long term, be eligible for Pension Credit. Our reforms confirm this.⁶⁵

It therefore announced changes to the uprating of Savings Credit, with the intention of curtailing the spread of means-testing. The Savings Credit threshold would be increased in line with earnings from 2008. From 2015, the maximum Savings Credit would be frozen in real terms:

3.64 The Savings Credit will continue to reward people who make provision for their retirement. However, as State Second Pension matures, more and more people will have built up State Second Pension entitlement. We agree with the Pensions Commission's assessment that the starting point for calculation of the Savings Credit should be raised as this happens. From 2008 we will uprate the lower threshold of the Savings Credit by earnings. From 2015 the maximum Savings Credit will be frozen in real terms.

3.65 The impact of this, alongside our reforms to the structure and coverage of the other aspects of the State Pension and the introduction of a low-cost scheme of personal accounts, will be a considerable reduction in the numbers of people whose entitlements will be means-tested in the future. Under current uprating policies projected forward, around 70 per cent of pensioner households will be entitled to some Pension Credit by 2050. Under our reforms, that figure will be reduced to around a third. This will further help to clarify people's savings decisions and retirement planning. Figure 3.v shows how entitlement to Pension Credit is projected to develop into the future under current policy and after the reforms to the state pension system.⁶⁶

The objective was to ensure that "means-tested provision continues to be focused on those with small savings". Entitlement to Savings Credit

⁶⁵ DWP, [Security in retirement: towards a new pensions system](#), Cm 6841, May 2006, Box 3B

⁶⁶ Ibid

would reduce over time because “less income will become eligible for Savings Credit than in the current system”.⁶⁷ In June 2006, the then Work and Pensions Secretary, John Hutton, was asked whether people might question the fairness of this in the future. He said:

I think it is a question for all of us to address. I have just been pressed over here by someone suggesting that we should continue to restrict the spread of means-testing, and I agree, we should. This is what it means. This is how we do it. You cannot query the means but then desire the outcomes. There is no comfort blanket here, I am afraid.⁶⁸

In 2010, the increase in average earnings (1.3 or 2.0%⁶⁹) was lower than the change in prices so the Savings Credit threshold might have been expected to increase in line with this. However, the basic State Pension was increased by 4.6% and, in order to preserve the differential, a similar factor was used to increase the Savings Credit threshold.

In October 2010, the Conservative-Liberal Democrat Coalition Government announced that the maximum Savings Credit award would be frozen for four years, “thereby limiting the spread of means testing up the income distribution and saving £330 million a year by 2014-15.”⁷⁰ Pensions Minister, Steve Webb, explained the Government’s approach as follows:

[...] to help manage expenditure, the Chancellor used his spending review statement to announce that we will freeze the savings credit maximum. Over time, the savings credit has resulted in more and more pensioners being caught up in the means-tested system. Freezing the savings credit maximum helps us to focus resources on the poorest pensioners. [...] We have chosen to focus scarce resources on the basic pension through the earnings link and to constrain the rise in savings credit, which is a relatively ineffective way of reaching poorer pensioners. It has a take-up rate of barely 50%. Half the people who are entitled do not even have it; everyone claims their pension.⁷¹

However, in the event, the Government has gone further than this. In April 2012, the Savings Credit threshold was increased and the maximum Savings Credit reduced to pay for the above-earnings increase in the Standard Minimum Guarantee.⁷² The same happened in 2013, 2014 and 2015, when Steve Webb said:

I am therefore pleased to announce that we shall over-index the standard minimum guarantee so that the increase for our poorest pensioners—those with least opportunity to increase their income in later life—will be in line with the cash value for the basic state pension. [...] As in previous years, resources needed to pay the above-earnings increase to the standard minimum guarantee will

⁶⁷ Work and Pensions Committee, [Pension Reform](#), Fourth Report 2005-06, HC 1068-II, [Ev 406, para 8](#).

⁶⁸ *Ibid.*, Q 348

⁶⁹ The increases in the headline rate of average earnings and average weekly earnings to July 2010

⁷⁰ HM Treasury, [Spending Review 2010](#), page 70

⁷¹ [HC Deb, 10 December 2010, c314](#)

⁷² [HC Deb, 29 November 2011, c802](#); [HM Treasury, Autumn Statement 2011, Cm 8231, November 2011](#), para 1.143; [HC Deb, 6 December 2011, c163 \[Steve Webb\]](#)

17 State Pension uprating - 2010 onwards

be found by increasing the savings credit threshold, meaning that those with higher levels of income may see less of an increase than they would otherwise have done.⁷³

In March 2014, he said that it was unlikely that any Pension Credit customer would be worse off in cash terms:

The overall impact of benefit up-rating on a customer's income depends on a wide variety of factors (including for example any changes to their non state pensions that occur around the same time) which means we cannot accurately measure these impacts. However, the increases in the basic State Pension under the terms of the triple lock, have been more significant than the reductions in the savings credit. Overall it is unlikely that any Pension Credit customer should be worse off, in cash terms, as a result of the uprating decisions made over the last three years.⁷⁴

Further detail was provided in a letter to Peers considering the Uprating Order in 2015:

Without constraint Savings Credit would increasingly bring more people higher up the income distribution within scope of Pension Credit. This would undermine the savings principle if allowed to go unchecked. Increasing the Savings Credits threshold alongside the increase in the basic State Pension means that people will see greater rewards from contributory saving and a reducing reliance on means-tested benefits overall.

Take up of Savings Credit alone is low, with up to half of those entitled not claiming. In the current climate we think it right to target Pension Credit expenditure on the poorest pensioners and to ensure the poorest pensioners gain from the full cash increase in the basic State Pension.

Without raising the Savings Credit threshold and reducing the Savings Credit maximum, increasing the Standard Minimum Guarantee would cost approximately £200 million a year compared to the statutory minimum increase.

The latest published figures show around 1 million single pensioners and 300,000 couples in receipt of Savings Credit in May 2014. These people are likely to be impacted by the increase in the Savings Credit threshold. However, the overall impact on up-rating on a customer's income depends on a wide variety of factors. For example, those with additional amounts for severe disability or caring will see more of an increase. Over 500,000 Savings Credit recipients qualify for these additional amounts within Pension Credit and will benefit from these amounts being increased by CPI. It is unlikely that anyone should be worse off as a result of uprating.⁷⁵

Savings Credit was reduced again in April 2016. The then Pensions Minister Baroness Altmann explained:

As far as the savings credit is concerned, it is true that the savings credit maximum rate is being reduced, but this should be more than offset by the increase in the basic state pension, and the triple lock. As well as being catered for, depending on what happens to each individual element of a pensioner's income, the fact that the maximum savings credit is falling by approximately

⁷³ [HC Deb 4 December 2014, c443](#)

⁷⁴ [PQ226249 9 March 2015](#)

⁷⁵ [DEP 2015-0297](#)

£2 a week will be more than offset by the £4 or £3.35 increase. Our forecasts are that pensioners will, on average, still be £2 a week better off in cash terms. I am assured that there will be absolutely no cash losers from this. The expectation is that the poorest pensioners will still see an increase in their overall income.⁷⁶

In April 2017, there will be a one per cent increase in the maximum Savings Credit award. However, the Savings Credit threshold will increase by 2.6% (i.e. by more than earnings, prices or 2.5%). Relatively high increases in the threshold have the effect of reducing entitlement.

3.5 Uprating in 2017/18

The benefit rates for 2017/18 were announced on 28 November. Work and Pensions Minister Caroline Noakes said:

The annual up-rating of benefits will take place for state pensions and most other benefits in the first full week of the tax year. In 2017, this will be the week beginning 10 April. A corresponding provision will be made in Northern Ireland.

The annual up-rating process takes into account a variety of measures:

- The basic and new State Pension will be increased by the Government's 'triple lock' manifesto commitment, meaning that they will be up-rated in line with the highest of prices, earnings or 2.5%.
- The Pension Credit Standard Minimum Guarantee will be up-rated in line with the annual rise in earnings, as reflected in Average Weekly Earnings (AWE).
- Benefits linked to the additional costs of disability, and for carers, are increased by the annual rise in prices, as reflected in the Consumer Price Index (CPI). A number of other elements – including Non-Dependant Deductions (NDDs) – will also be up-rated in line with prices. The majority of working-age benefits have been frozen at their 2015-16 levels for four years under the Welfare Reform and Work Act 2016.

The list of proposed benefit and pension rates also includes a change to the Carer's Allowance Earnings Rule, which will be increased for 2017-18 from £110 to £116 a week.⁷⁷

Headline figures are that in April 2016:

- The basic State Pension will increase by 2.5% - or by £3 - from £119.30 to £122.30;
- The additional State Pension will increase by 1% - in line with CPI inflation;
- The new State Pension will increase by 2.5% - or by £3.90 - from £155.65 to £159.55 pw;
- The Standard Minimum Guarantee will increase by 2.4% - or by £3.75 – from £155.60 to £159.35.

⁷⁶ HL Deb 22 February 2016 GC26; HM Treasury, [Policy Costings. Pension Credit Savings Credit: freeze](#), November 2015; [SI 2016/227 – Explanatory Note](#)

⁷⁷ [HCWS287 28 November 2016](#)

These rates are in the draft [Social Security Benefits Up-rating Order 2017](#).

3.6 Rates for 2010/11 to 2017/18

The rates of the BSP and Pension Credit for the years 2010-11 to 2017-18 are below:⁷⁸

⁷⁸ Table produced by Richard Keen and Vyara Apostolova Social and General Statistics Section.

£ per week

	2010-11		2011-12		2012-13		2013-14		2014-15		2015-16		2016-17		2017-18	
	£ per week	% incr.	£ per week	% incr.	£ per week	% incr.	£ per week	% incr.	£ per week	% incr.	£ per week	% incr.	£ per week	% incr.	£ per week	% incr.
State Pension - basic (full)																
Individual on own contribs (<i>Category A or B</i>)	97.65	+2.5	102.15	+4.6	107.45	+5.2	110.15	+2.5	113.10	+2.7	115.95	+2.5	119.30	+2.9	122.30	+2.5
Spouse or civil partner (<i>Category B lower</i>)	58.50	+2.5	61.20	+4.6	64.40	+5.2	66.00	+2.5	67.80	+2.7	69.50	+2.5	71.50	+2.9	73.30	+2.5
Couple on one person's contributions (<i>Category A + Category B lower</i>)	156.15	+2.5	163.35	+4.6	171.85	+5.2	176.15	+2.5	180.90	+2.7	185.45	+2.5	190.80	+2.9	195.60	+2.5
New State Pension																
Full amount												155.65	<i>N/A</i>	159.55	+2.5	
Pension Credit																
Standard minimum guarantee - Single	132.60	+2.0	137.35	+3.6	142.70	+3.9	145.40	+1.9	148.35	+2.0	151.20	+1.9	155.60	+2.9	159.35	+2.4
Standard minimum guarantee - Couple	202.40	+2.0	209.70	+3.6	217.90	+3.9	222.05	+1.9	226.50	+2.0	230.85	+1.9	237.55	+2.9	243.25	+2.4
Savings Credit threshold - Single	98.40	+2.5	103.15	+4.8	111.80	+8.4	115.30	+3.1	120.35	+4.4	126.50	+5.1	133.82	+5.8	137.35	+2.6
Savings Credit threshold - Couple	157.25	+2.5	164.55	+4.6	178.35	+8.4	183.90	+3.1	192.00	+4.4	201.80	+5.1	212.97	+5.5	218.42	+2.6
Savings Credit maximum award - Single	20.52	+0.6	20.52	+0.0	18.54	-9.6	18.06	-2.6	16.80	-7.0	14.82	-11.8	13.07	-11.8	13.20	+1.0
Savings Credit maximum award - Couple	27.09	+0.2	27.09	+0.0	23.73	-12.4	22.89	-3.5	20.70	-9.6	17.43	-15.8	14.75	-15.4	14.90	+1.0
Benchmarks for uprating																
Retail Prices Index (RPI)		-1.4		+4.6		+5.6		+2.6		+3.2		+2.3		+0.8		+2.0
Consumer Prices index (CPI)		+1.1		+3.1		+5.2		+2.2		+2.7		+1.2		-0.1		+1.0
Earnings (a)		+1.8		+2.0		+2.8		+1.6		+1.2		+0.6		+2.9		+2.4

Notes (a) Earnings growth measured by AEI up to 2011-12 inclusive; AWE thereafter (AWE figure for 2011-12 was +1.3%). % changes are calculated based on the difference between benefit components (£ per week) stated in the above table; because benefits are rounded to the nearest 5p the % change quoted above may be different from the benchmark uprating factor used.

Source [DWP, Proposed benefit and pension rate 2017-2018](#)

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