National Audit Office

Report
by the Comptroller
and Auditor General

Department for Work & Pensions

Introduction of the new state pension

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National Audit Office

Department for Work & Pensions

Introduction of the new state pension

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

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This report looks at the implementation of the new state pension by the Department for Work & Pensions and HM Revenue & Customs and whether it delivered value for money.

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Contents

The National Audit Office study team consisted of:
Richard Baynham, David Betteley, Jade Butler, Mark Edward, George French, Ian Hart and Charlotte Orr, under the direction of Max Tse.

This report can be found on the National Audit Office website at www.nao.org.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

Key facts

£89bn	407,000	2.1m
spending on state pension in 2015-16	people forecast to claim the new state pension in 2016-17	people have checked their state pension forecast since September 2014

0.5% of GDP	forecast reduction in spending on state pension and pensioner benefits in 2060, compared to forecast of expenditure under the previous state pension
£2 billion	forecast increase in net national insurance contributions in 2016-17 from introducing the new state pension in April 2016, one year ahead of the date originally proposed
50%	fewer people in 2030 will be eligible for Pension Credit than now
73%	of people who reach state pension age in 2030 will be better off under the new state pension
76%	of people who reach state pension age in 2060 will be worse off under the new state pension
77%	of people within 10 years of state pension age are aware of state pension changes
18%	of working age people know how much their state pension is likely to be

Summary

1 On 6 April 2016, the government introduced the new state pension. From this date, everyone who reaches state pension age will have their entitlement calculated using the new rules. The Department for Work & Pensions (the Department) calculates each person's entitlement based on qualifying years of national insurance contributions. The Department's transitional arrangements ensure that – for everyone who qualifies for the new state pension – their contributions to 6 April 2016 will be worth at least as much as they would have been under the previous system.

2 Introducing the new state pension lessens the long-term cost to government. In 2015-16, the state pension and pensioner benefits cost £117 billion (6.3% of GDP), including £89 billion on the state pension itself. The Department forecasts that in 2060 pensioner benefits will have risen to 7.6% of GDP, around 0.5% of GDP less than had the previous system continued. The government is also increasing the national insurance contributions that some employers and employees pay. It expects to raise an additional £2 billion in contributions in 2016-17.[1]

3 Because spending on state pension will increase at a slower rate, most people will receive less than previously projected in the long term. In 2060, 76% of people will receive, on average, £15 a week less. But people will be affected very differently depending on their circumstances. For example, self-employed people, low earners and some people who took time out of the labour market to look after children are likely to get higher rates of state pension. But other people may lose out; for example, those who do not have the minimum number of qualifying years, and some people who were in contracted-out defined benefit pension schemes who are close to state pension age in April 2016.

4 While the new state pension reduces direct government support, it aims to encourage people to save for their retirement by simplifying the rules and letting them know what they will get from the state. The government's intention is that this will help people to plan for retirement from a younger age and to save in other ways. For example, while the new state pension eliminates the earnings-related additional state pension entitlement, the Department is expanding private saving through automatic enrolment of workers into employers' pension schemes.

1 The government forecasts the annual gross increase in national insurance contributions to be £5 billion. The cost to government, as an employer, of increasing national insurance contributions is £3 billion.

5 Two departments are responsible for processing state pension claims:

- the Department pays the state pension and sets wider pensions policy. It has been responsible for communicating the changes and ensuring people receive the payments to which they are entitled.
- HM Revenue & Customs (HMRC) collects national insurance contributions and is responsible for calculating each person's initial state pension entitlement. HMRC is working with occupational pension scheme providers to ensure records of people's employment and pension history are correct.

Scope of this report

6 The effective introduction of the new state pension is important in its own right and as a core part of wider pension reforms. The new system changes the way state pension is calculated. People rely on government to get this calculation right and administer payments efficiently. More broadly, as the government encourages people to take greater responsibility to save privately for their retirement, it needs to increase awareness of likely retirement incomes and support long-term retirement planning. This report therefore covers:

- the objectives of the new state pension;
- the Department's implementation of the new state pension;
- the Department's processing of new state pension claims; and
- the effectiveness of the communication campaign.

7 This is one of a series of National Audit Office reports tracking the progress of pension reforms and wider pension liabilities.[2] We plan to produce further reports to evaluate the Department's progress in implementing pension reforms.

Key findings

Implementing the new state pension

8 **The Department introduced the new state pension one year ahead of the date originally proposed.** The 2013 white paper stated that the government would not introduce the new state pension before April 2017.[3] In March 2013, the government announced it would bring this forward to April 2016, introducing higher national insurance contributions one year earlier than originally planned (paragraphs 2.2 to 2.4).

2 Comptroller and Auditor General, *Evaluating the government balance sheet: pensions*, Session 2016-17, HC 238, National Audit Office, June 2016. Comptroller and Auditor General, *Automatic enrolment to workplace pensions*, Session 2015-16, HC 417, National Audit Office, November 2015. Comptroller and Auditor General, *Whole of Government Accounts*, May 2016. Comptroller and Auditor General, *Government interventions to support retirement incomes*, Session 2013-14, HC 536, National Audit Office, July 2013.

3 Department for Work & Pensions, *The single-tier pension: a simple foundation for saving*, Cm 8528, January 2013.

9 **The Department met its deadline by making the minimum necessary changes to its IT systems.** It recognised the risks of introducing the new state pension. From July 2013, it focused on adapting existing IT systems and deferred the development of a more ambitious digital solution that offered operational efficiencies and new customer services. The Department completed the system changes to allow the uninterrupted payment of state pension from the 'go-live' date in April 2016. It performed well against its identified critical success factors and the project was within budget, costing £57 million up to March 2016 (paragraphs 2.5 to 2.8 and 2.10).

10 **The Department has not yet introduced a new digital claims service.** It originally intended digital services to be available from April 2016. These would allow people to check a statement of their state pension entitlement, make a claim and report changes in their circumstances. The Department prioritised the digital pension statements service and introduced this in February 2016. The new digital service for making a claim is now due in April 2017 but the change of circumstances service is not expected before 2018 (paragraph 2.9).

11 **The Department is now expecting to make much smaller operational savings than originally planned from the new state pension.** It reduced the expected operational savings from £341 million to £73 million. The Department's decision to de-scope the project accounted for £157 million of this reduction. It reduced benefits by a further £80 million to reflect lower than expected efficiency savings. The costs of implementing the project are now expected to exceed the operational benefits by £25 million (paragraph 2.11).

Processing new state pension claims

12 **The departments are likely to maintain the accuracy of state pension payments.** The calculation of entitlement is based on the same national insurance data as the old system. The rule changes make the calculation simpler. HMRC routinely checks the completeness of national insurance contributions. Both departments comprehensively tested the changes to the systems for processing state pension claims, and the Department's quality checking shows low levels of error on new state pension payments. The two departments have worked together to identify risks to data quality, but the flow of data between the two departments for new state pension is not supported by a formal data assurance agreement. This increases the risk that future responsibilities for data assurance are unclear (paragraphs 3.2 to 3.9).

13 **HMRC is checking its national insurance data with pension schemes but take-up of the service, and therefore progress, is slow.** The introduction of the new state pension has allowed HMRC to bring forward the reconciliation of records that was previously done at the point of retirement. This will allow HMRC and pension schemes to check the accuracy of their records and provide people with a more accurate initial assessment of the state pension they have built up at April 2016. Pension schemes representing 14.2 million individual memberships (77% of all deferred and pensioner memberships) have registered with HMRC. Initial take-up of the service by pension scheme administrators was slow. By August 2016, HMRC had confirmed just 1.7% of deferred and pensioner memberships. HMRC also forecasts that it will receive 55% more queries than originally expected. It still aims to complete this work by December 2018 but may need extra resources to do so (paragraphs 3.10 to 3.14).

14 **There has been some deterioration in the time taken to process claims.** This relates partly to the introduction of the new state pension but also reflects wider demands on operational staff since April 2016. The Department's performance in processing claims began to recover in August 2016. The Department has previously achieved high levels of customer satisfaction and low levels of under and overpayments in processing state pension claims. Data on performance against these measures will be available in 2017 (paragraphs 3.15 to 3.18).

The communication campaign

15 **The communication campaign raised awareness of the changes to the state pension.** The Department focused on people within 10 years of state pension age and aimed to dispel common misconceptions. Based on our evaluative framework, we found the Department managed the campaign well, continuously monitoring its customer research and adapting its approach. The campaign improved general awareness of the changes to the state pension (paragraphs 4.2 to 4.6).

16 **The Department's attempts to improve people's understanding of their state pension have had limited success so far.** Recognising the variation in people's circumstances and the difficulty of tailoring messages, the Department's campaign aimed to increase people's understanding of their new state pension entitlement. Since September 2014, some 2.1 million people of all ages have checked their state pension entitlement. But in April 2016, 25% of working age people knew how changes to the new state pension will affect them and 18% knew what their state pension was likely to be. Before February 2016, only people within 10 years of state pension age could request a pension statement and these people have a better understanding of how they are affected (paragraphs 4.7 to 4.9).

17 The Department did not directly contact groups of people affected by the rule changes. The rule changes mean some people will gain while others lose out. In response to a report by the Work and Pensions Committee, the Department will write to over 100,000 people who are unlikely to reach the minimum number of qualifying years. However, it rejected calls to write to other groups likely to lose out because it could not accurately identify the people affected and did not think contacting people directly was an effective approach. Instead, it sought to reach these groups through its communications campaign. Our recent report highlighted a lack of clear information for people with guaranteed minimum pensions, and that it has been difficult for them to find information on how the reforms affect them (paragraphs 4.6 and 4.10 to 4.13).[4]

18 The current new state pension communications campaign is not likely to be a major factor in increasing people's saving for retirement. One of the Department's objectives of its state pension reform was to prompt people to take action and plan for their retirement from a younger age. There is no evidence yet that the new state pension has encouraged people to save more for their retirement. The Department recognised that the campaign on its own was unlikely to shift behaviours substantially in the short term. Its approach to changing behaviours largely relies on the success of automatic enrolment in increasing savings, rather than on simplifying the state pension (paragraphs 4.14 to 4.17).

Conclusion on value for money

19 The Department has successfully managed the introduction of the new state pension. It introduced the changes one year ahead of its original plans, allowing the government to increase national insurance revenues and bring forward long-term changes to improve the sustainability of state pension spending. In implementing the programme, the Department reduced risks by decoupling plans for new digital services and working with HMRC to conduct extensive testing of systems used to calculate entitlement. The cost of the programme is within budget and operational performance has largely been maintained. So far, the Department's implementation of the new state pension represents value for money.

20 Pensions reforms are long-term endeavours and the Department will need to tackle two important areas to achieve value for money as the reforms develop. First, the Department's focus on policy delivery has reduced the scope for operational savings and postponed the introduction of digital services. The Department has yet to reintroduce its original plans for a more fundamental digital transformation of pension administration. Second, achieving the longer-term objectives of the new state pension will depend on how it interacts with wider reform of the pensions system. The new state pension tackles concerns about state pension affordability but increases the need for people to make their own retirement provision. It is not yet clear whether the simplification of the state pension will improve understanding of retirement savings and how this will affect wider pension reforms supporting private saving.

4 Comptroller and Auditor General, *The impact of state pension reforms on people with Guaranteed Minimum Pensions*, Session 2015-16, HC 907, National Audit Office, March 2016.

Recommendations

21 Now that the new state pension has been introduced, the Department has opportunities to achieve operational efficiencies and improve people's understanding of their future pension planning. The recommendations are intended to help the Department respond to these challenges and achieve the longer-term objectives of the new state pension.

a The Department should develop proposals to evaluate the new digital services to fully understand their impact on administrative savings and customer service.

b As new information becomes available, the Department should exploit opportunities to test its systems, validate data quality and ensure its quality assurance framework addresses the cause of errors. The Department should also work with HMRC to establish a formal data assurance agreement for new state pension data.

c The Department should increase its emphasis on changing people's behaviours towards their future retirement provision and tackle the barriers to saving. Building on its communication campaign, the Department should develop a broader strategy covering the range of pension reforms and explore the benefits of:

- increasing the transparency of information provided to claimants by promoting its online service for people to find out more about their state pension entitlement and considering how best to inform people of their state pension 'starting amount' (ie their state pension entitlement as at 6 April 2016);
- working with other government departments to use existing channels to provide information more directly to people – such as HMRC's personal tax statements and the government's pensions dashboard – and better educate people on the need for retirement planning; and
- exploiting its engagement with charities, advice organisations, carers and the pensions industry to explore how to extend support to those who need it and ensure people directly affected by rule changes have clear information on the potential impacts.

Part One

The new state pension

1.1 On 6 April 2016, the government introduced the new state pension for people reaching state pension age from that date. This part sets out the main features of the new state pension and the objectives of the change.

About the new state pension

1.2 The new state pension is a benefit received by people reaching state pension age who have paid or been credited with sufficient national insurance contributions. It replaces a two-tier system, which combined a basic flat-rate pension, based on national insurance records, with an additional second state pension that was partially related to earnings. **Figure 1** overleaf compares the new state pension with the previous system.

1.3 To qualify for the full new state pension, which is £155.65 a week in 2016-17, a person will need the equivalent of 35 qualifying years of national insurance contributions. Those with fewer than 35 years will receive a pro rata payment, provided they have at least 10 qualifying years.

1.4 To take account of a person's national insurance contributions up to 5 April 2016 under the previous system, the government will calculate each person's state pension entitlement as at 6 April 2016. This will be the person's 'starting amount', to which he or she can add additional qualifying years.

1.5 The government's aim is to ensure that – at the point of transition – everyone who qualifies for the new state pension will receive at least as much as they would have done under the previous system. To achieve this, the Department makes two calculations of a person's entitlement up to the end of 2015-16: one using the new state pension rules and one using the previous rules. A person's starting amount will be the higher of the two calculations.

Objectives of the new state pension

1.6 The new state pension is part of a long-term programme of pension reforms (Appendix Three, Figure 23). In 2004, the Pensions Commission reported on the adequacy of the pension system. It made a series of recommendations in 2005 to improve the structure of the system and successive governments have taken forward the reforms, including automatic enrolment, state pension age increases, and the new state pension. More recently governments have introduced further reforms such as more generous annual increases to the state pension, flexibilities in taking out pension savings, and lifetime individual savings accounts.

Figure 1

How the new state pension differs from the previous system

	Main elements of the pre-April 2016 state pension	Main elements of the new state pension
Building up pension – before state pension age	Individuals build up their state pension: • Basic state pension – based on number of years of national insurance contributions, up to a maximum of £119.30 per week in 2016-17 • Additional state pension – amount payable depends on earnings, with maximum amount around £165 per week in 2016-17 • Members of contracted-out occupational pension schemes, and their employers, pay reduced rate of national insurance but do not build up any additional state pension	The government calculates everyone's state pension as at 6 April 2016: • State pension calculated using old and new rules – the higher amount will become the individual's 'starting amount' • If starting amount is higher than the maximum new state pension rate, the excess is a protected payment Building up new state pension after April 2016: • People can add qualifying years of national insurance contributions, up to the maximum of £155.65 per week in 2016-17 • Contracting out ended, along with reduced rates of national insurance
Calculation of pension – at state pension age	Individual's state pension is calculated: • Basic state pension – 30 qualifying years of national insurance contributions needed for the full rate. No minimum number of qualifying years required • Additional state pension – earnings related and calculated depending on the individual's employment history. No maximum number of qualifying years	Entitlement based on an individual's starting amount plus additional qualifying years: • 35 qualifying years on the national insurance record needed for the full rate of new state pension (in steady state) • A minimum of 10 years is needed to receive any payment
Uprating pension payments – after state pension age	State pension uprated each year: • The basic state pension is currently protected by the triple lock until 2020 • The additional state pension is uprated by the consumer price index	State pension uprated each year: • Until 2020, the government has committed to uprate the new state pension using the triple lock • Any protected payment is uprated using the consumer price index

Note

1 Triple lock uprates the state pension by the higher of 2.5% or growth in earnings or consumer price index.

Source: National Audit Office

1.7 To varying degrees, the changes to the pension system address three objectives: making state pension spending financially sustainable; improving fairness; and increasing the adequacy of retirement incomes. The overall effect is to control state pension spending growth in the long term while simplifying the system and helping individuals to take greater personal responsibility for saving for retirement. Our previous report on government interventions to support future retirement incomes discusses in more detail the interactions between reforms and these objectives.[5]

1.8 The new state pension addresses these three objectives by reducing overall spending on state pensions by removing the earnings-related state pension component, increasing support to groups with traditionally low entitlement levels and simplifying the state pension system so that people find it easier to plan for retirement. **Figure 2** overleaf summarises the problems that the new state pension is seeking to address and shows it:

- Improves financial sustainability by reducing the growth of state pension spending. Spending on state pension and pensioner benefits was £117 billion in 2015-16 (including £89 billion on the state pension), equivalent to 6.3% of GDP. Without the new state pension the Department forecasts this would rise to around 8.1% of GDP in 2060, compared to only 7.6% under the new state pension. In addition, the new state pension will reduce spending on Pension Credit, and increase national insurance revenues.

- Addresses concerns about fairness towards specific groups such as the self-employed. Unlike the previous system the new state pension treats self-employed people's contributions in a similar way to other employees. The effect of the new state pension will depend on individual circumstances and the Department's impact assessments have identified gainers and losers from the changes (**Figure 3** on page 15).

- Encourages people to plan and save privately for retirement by simplifying the state pension and letting people know what they will get from the state. Our analysis confirms that the new state pension will reduce complexity (Appendix Two, Figure 20). However, transition will take many years, during which some complexity will remain. People retiring up to the 2060s are likely to have paid some national insurance under the previous system, so their state pension will not simply be based on the new rules. The Department will also need to maintain two pension systems, one of which for people who reached state pension age before 6 April 2016.

5 Comptroller and Auditor General, *Government interventions to support retirement incomes*, Session 2013-14, HC 536, National Audit Office, July 2013.

Figure 2

Government's objectives for the new state pension

The objectives of the new state pension are to encourage saving for retirement; remove inequalities; and ensure the state pension system is more affordable long term

	Government assessment of the problem	Government's intended affects of the new state pension
Financial sustainability	Costs of state pension and pensioner benefits forecast to rise from 6.3% of GDP in 2015-16 to 8.1% of GDP in 2060. The number of people claiming state pension due to increase from 13.3 million in 2015-16 to 19.4 million in 2060-61.	By 2060, expenditure on state pension and pensioner benefits is forecast to be 7.6% of GDP. From 2040, most people will get less state pension than they would have under the previous system, with 76% of new pensioners in 2060 getting on average £15 a week less. From 2016-17, government will also raise an additional £2 billion each year because all employers and employees will pay the full rate of national insurance.
Fairness	State and private pension outcomes are lower for women. State pension outcomes were expected to be the same by 2050.	Women will achieve the same state pension payments as men 10 years sooner than under the old system.
	Self-employed people paid national insurance contributions on a different basis, which do not count towards the additional state pension.	Self-employed people now have the same access to the state pension as employed people – national insurance contributions are treated the same way.
Adequate retirement provision	13 million people are not saving enough for an adequate retirement. The complexity of the state pension system stops people from deciding how much to save for their retirement.	Calculation of state pension is simpler, giving greater certainty on level of state income in retirement. Easier for people to find out what their state pension will be, enabling more informed decisions on the level of savings needed for retirement.
	Basic state pension is set below means-testing threshold. Two million pensioners claim Pension Credit.	Halving the number of people eligible for Pension Credit by 2030 because full new state pension rate set above means-testing threshold and savings credit has been removed.

Source: National Audit Office

Figure 3

Gainers and losers under the new state pension

There are various reasons why people gain or lose from the rule changes

	Gainers	Losers
The new state pension starting amount calculation	People whose pre-2016 national insurance records have low amounts of additional state pension – such as low earners, the self-employed and those who took time out to care for children – are likely to have a higher starting amount under new rules	
Value of a new state pension year	People who could not build up additional state pension under the previous system – such as low earners and the self-employed – will build up state pension entitlement at £4.45 a week each qualifying year, rather than £3.98 a week under the previous system	People who paid full-rate national insurance would have built up basic state pension at £3.98 a week and additional state pension of at least £1.80 a week for each qualifying year under the previous system, compared with £4.45 a week under the new state pension
Building up new state pension years	People whose starting amount is less than the maximum new state pension can build rights to the new state pension at about £4.45 a week for each qualifying year	Under the previous system people could build up additional state pension every year until state pension age, so the maximum total state pension someone can build up might be lower now
Minimum qualifying period		People with fewer than 10 qualifying years will receive no state pension
Uprating and revaluation	Triple lock applied to the whole new state pension (£155.65 a week), which is £36.35 more than basic state pension would have been (£119.30 a week)	'Protected payments' will be uprated by consumer price index whereas the additional state pension was revalued by earnings up until retirement. Guaranteed Minimum Pensions will, in effect, no longer be uprated by the state through the additional state pension.
End of ability to derive rights		People will no longer be able to derive pension rights or inherit additional pension from a spouse or partner, although some transitional arrangements will apply.

Notes

1 All values based on 2016-17 state pension rates.

2 Triple lock uprates the state pension by the higher of 2.5% or growth in earnings or consumer price index.

3 A protected payment is the balance when a person's starting amount exceeds the maximum new state pension.

4 People who were members of contracted-out defined benefit occupational pension schemes between 1978 and 1997 accrued Guaranteed Minimum Pensions.

Source: National Audit Office

The business case for the new state pension

1.9 The Department's business case is a short-term snapshot of the impacts of the new state pension up to 2022-23 (**Figure 4**). The effect of changes to pension entitlements is small over this period as the full effect of policy changes takes time to work through. The business case is dominated by large increases in national insurance contributions expected from the removal of reduced rates for contracting out.[6] These are not overall savings to society (because increases in revenues to government are offset by matching costs to individuals and employers) but they do increase the affordability of state pensions to the state. The Department expects that the introduction of the new state pension will lead to small annual administrative savings, but once initial investment costs are also included, the programme's operational costs exceed its operational benefits between 2012-13 and 2022-23.

1.10 The level of new state pension payments reduces the need for an additional means-tested benefit and will help to reduce spending on Pension Credit – the existing means-tested top-up to the state pension.[7] In February 2016, more than 2 million people claimed Pension Credit and the Department spent £6 billion in 2015-16. By 2030-31, it expects 1.3 million people will be eligible and the annual cost will fall to £3 billion. This is despite an expected increase in the number of people claiming state pension from 13.3 million in 2015 to 15.5 million in 2030.

6 From 6 April 1978 to 5 April 2016, providers of defined benefit occupational pension schemes could 'contract out' of the additional state pension. Under contracting-out arrangements, employers and employees paid a reduced rate of national insurance. In return, employees would not build up entitlement to the additional state pension, and the pension scheme would provide a minimum pension to replace this. In 2015-16, employees who were contracted out paid 1.4% less national insurance, and employers paid 3.4% less.

7 The Department has also removed the savings credit element on Pension Credit.

Figure 4

Business case estimates for the new state pension project

The business case depends on increased income from national insurance contributions and annually managed expenditure for benefits to outweigh costs

	Latest estimate (£m)
Departmental costs	
Total investment costs	**74**
Department investment costs	40
HMRC investment costs	34
Total recurring costs	**24**
Department recurring costs	7
HMRC recurring costs	17
Departmental savings	
Total recurring savings	**73**
Department recurring savings	21
HMRC recurring savings	51
Other benefits	
Net annually managed expenditure savings	**115**
Net increased national insurance contributions	**12,351**

Notes

1 The business case covers 2012-13 to 2022-23.

2 Net annually managed expenditure savings mainly result from fewer people qualifying for Pension Credit under the new state pension.

3 Net increased national insurance contributions reflect additional employer and employee contributions resulting from the end of contracting out, offset by the additional cost to public sector pension providers of increased employers' national insurance.

4 Figures do not sum due to rounding.

Source: National Audit Office analysis

Part Two

Implementing the new state pension

2.1 In this part we examine how the Department for Work & Pensions (the Department) implemented the new state pension, including whether it introduced the programme on time and within budget, and managed the project effectively.

Implementation a year earlier than originally planned

2.2 In January 2013, the government committed to introducing the new state pension not before April 2017. In March 2013, it decided to bring forward implementation to April 2016. This means that everyone in employment will pay the same rate of national insurance contributions from 2016-17, raising an estimated additional £2 billion in this year.

2.3 The government's 2012 digital strategy committed all departments introducing new major transactional services to adopt a 'digital-by-default' standard.[8] The Department therefore initially set out to introduce the new state pension as a digital project involving new IT systems and changes to business processes.

2.4 The decision to bring implementation forward to April 2016 increased the risks faced by the Department. In July 2013, it mitigated the risks by developing a contingency plan to update legacy IT systems in case digital projects were delayed (**Figure 5**).

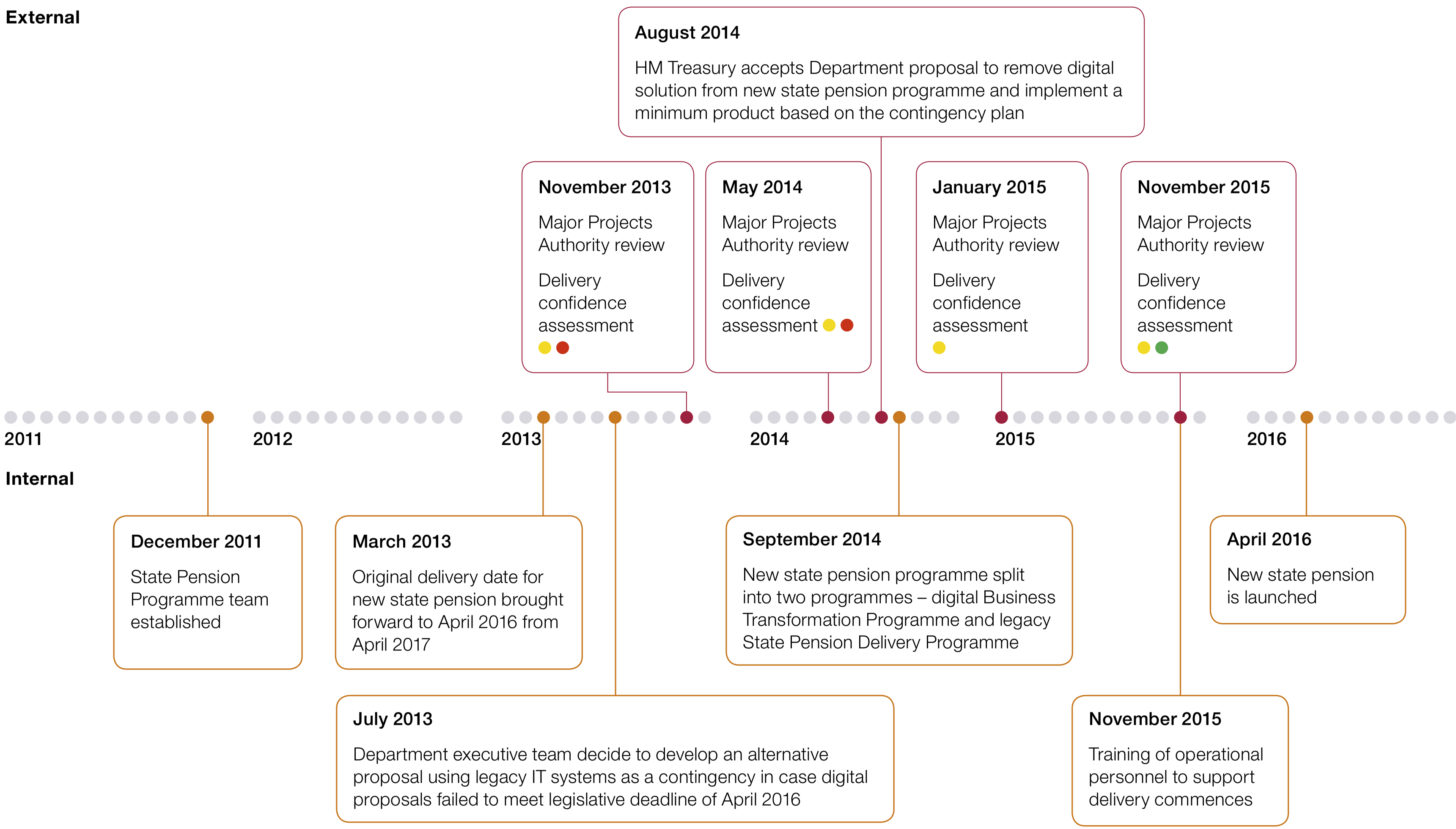
2.5 By April 2014, the Department was concerned that a digital service for claiming new state pension would not be ready by April 2016. In August 2014, it agreed with HM Treasury to split the new state pension programme and remove the digital services. It focused on its legislative commitment – to implement the new state pension by April 2016 – by updating existing IT systems and leaving business processes unchanged. The Department took forward its work on digital services through a separate programme which re-prioritised proposals and extended the implementation time frame.

8 Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/296336/Government_Digital_Stratetegy_-_November_2012.pdf

Figure 5

Milestones in implementing the new state pension

The Department took an early decision to develop a non-digital contingency solution



Note

1 The Major Projects Authority's used a five point 'traffic light' classification system for its reviews. Amber-red indicated that successful delivery of the project was in doubt. Amber-green indicated successful delivery appeared probable. The Major Projects Authority was replaced by the Infrastructure and Projects Authority in January 2016.

Source: National Audit Office analysis of departmental information

Successful implementation by April 2016

2.6 The Department met its legislative deadline by introducing the minimum necessary changes to its IT systems to enable the continued payment of state pension payments from April 2016. The Department's decision to split the programme reduced the risks. It has successfully introduced the new state pension without disruption to the live service, updating systems, completing staff training and ensuring that guidance was available to operational teams.

2.7 Our previous work has identified the characteristics of good practice in implementing welfare reform.[9] We used our core management cycle to assess the Department's performance (see Appendix Two, Figure 21). We found the Department had demonstrated good practice in:

- mitigating project risks by developing a contingency plan, undertaking scenario analysis and involving operational teams in reviewing planning assumptions;
- establishing a stable and experienced project team, and maintaining this over the life of the project; and
- collaborating effectively with HM Revenue & Customs (HMRC) on policy, operations and communications.

2.8 The project team also performed well when measured against the project's critical success measures (**Figure 6**). Internal audit and recent Infrastructure and Projects Authority reports were also positive. In June 2015, an internal audit report found the programme had effective management structures, risk management arrangements and controls.

Postponed digital claims service

2.9 The Department's original ambition to introduce a comprehensive digital service by April 2016 has not been achieved (**Figure 7** on page 22). It is introducing digital state pension services incrementally, and plans to spend £3.1 million to extend the life of its legacy IT systems beyond 2018. It prioritised a new digital statements service – jointly developed with HMRC – to make it easier for customers to find out more about their state pension and national insurance record. This was introduced in February 2016. The Department has restarted work on a digital claims service and expects a basic product to be available from April 2017. It does not expect the change of circumstances service to be available before 2018.

9 Comptroller and Auditor General, *Welfare Reform – lessons learned*, Session 2015-16, HC 77, National Audit Office, May 2015.

Figure 6
New state pension project critical success factors

The Department has largely performed well against short-term implementation objectives

Project implementation: Critical Success Factors	National Audit Office Review
From April 2016: • Customers able to submit, through all channels, claims and changes to new state pension, pension credit, and requests for pensions statements and pension sharing on divorce calculations. • Staff using updated IT systems to process new state pension. • Department and HMRC IT system changes implemented.	No significant or outstanding issues from checking of live cases. No reported interruption to service. IT system changes implemented and no major issues revealed in testing. Further changes to HMRC IT systems scheduled in 2016 and 2017.
From April 2016: • Department operations equipped to implement new state pension, maintaining processing and quality standards. • HMRC operations equipped to support new state pension implementation.	Guidance and implementation plan issued to operations teams. Operations teams received training and development pre April 2016. Readiness reviews completed and findings satisfactory. Claims processing performance initially worsened but has improved since August 2016 (see paragraph 3.16).
Programme implemented within budget.	Spent £57 million (budget £93 million) to March 2016.
Employers and pension scheme administrators equipped to support ending of contracting out.	Employers providing traceable pension scheme information as part of Real-Time Information. HMRC guaranteed minimum pensions checker service to support pension schemes with future pension calculations publicly available from April 2016 but subject to continued testing. Reconciling pension scheme contracted-out records with HMRC national insurance records is ongoing (see paragraphs 3.10 to 3.13).

Note

1 The Department also had a critical success factor for its communications campaign which we assess in Part Four.

Source: National Audit Office analysis of departmental information

Figure 7

Progress in implementing new digital services compared with original ambitions

Progress in delivering a comprehensive digital service has been slower than anticipated

July 2013 Optimum Target Operating Model for digital implementation by April 2016	Forecast total cost and annual benefit	Actual delivery by April 2016?	Progress
Checking pension statements online	Total cost: £9.0 million Administrative savings of £3.1 million per year Benefits for HMRC customers equivalent to £0.8 million in 2016-17	Yes	Hosted by HMRC. Publicly available since February 2016 but subject to continued testing and development. Gives predicted entitlement and national insurance record. Replaces legacy Real-time Pension Forecasting system. The legacy IT and clerical system supporting the Department's telephony and postal statement service will be decommissioned in summer 2017. New Retirement Pension Service Centre assisting non-digital customers available from autumn 2016.
Claiming state pension Auto transition for working age benefit claimants	Not available	No	Potentially from 2017 through Universal Credit. Legacy IT previously delivering automatic transition was decommissioned in December 2015.
Claiming state pension for non-benefit claimants	Total cost: £8.1 million Administrative savings of £5.5 million per year Customer benefits not quantified	No	Work restarted in December 2015, now called 'Get Your State Pension'. Expected minimum public service for national and international customers from April 2017 but will still rely on back-end legacy IT systems in the short term. Legacy 'State Pension online' service to be decommissioned summer 2017. Customer records for those who claimed before April 2016 likely to stay on legacy IT systems.
Changing circumstances (for existing claimants)	Not available	No	Potentially from 2018. Development work between July 2014 – April 2015, integrating with 'GOV.UK Verify' identity assurance programme. Not continued because Verify unable to support change of address at that time.

Source: National Audit Office

Project spending within budget

2.10 Up to March 2016, the Department had spent £57 million compared with a budget of £93 million because of lower than anticipated IT and HMRC operational costs (**Figure 8**). The Department now expects to spend £95 million to March 2020. We found that the Department had challenged suppliers when agreeing the cost of amendments to legacy IT systems.

Figure 8
New state pension project spending

The Department spent £57 million (61% of funding available) to the end of March 2016

	Actual spend to March 2016 (£m)	Forecast spend to March 2020 (£m)	Total (£m)
Funding available	**93**	**36**	**129**
Department	**36**	**10**	**46**
Staff	21	2	23
IT	11	1	12
Communications	3	7	11
Other	1	0	1
HMRC	**21**	**28**	**49**
Staff	13	21	34
IT	9	6	15
Total spend	**57**	**38**	**95**
Percentage of available funding spent	61		74

Notes

1 Funding available covers the period to end 2019-20.

2 Allocated funding for 2014-15 (£37 million of £129 million funding available) was also for digital projects between September 2014 and March 2015. In subsequent years, digital projects received a separate funding allocation.

3 Numbers may not sum due to rounding.

Source: National Audit Office analysis of departmental business case information

Predicted departmental benefits from the project have reduced

2.11 The Department initially forecast that introducing the new state pension would deliver operational savings of £341 million. This has now fallen to £73 million (**Figure 9**). Some £157 million of the reduction was because the Department decided to introduce the new state pension using legacy systems and defer the digital services. The Department further reduced the estimated benefits after it downgraded assumptions about staff savings and found a calculation error. The costs of implementing the project are now expected to exceed the operational benefits by £25 million.

Figure 9
Changes in the new state pension project business case

The Department has reduced its estimates of predicted departmental savings

	May 2014 (£m)	May 2016 (£m)	Movement (£m)
Department savings (benefits)	**341**	**73**	**(268)**
Removal of digital in November 2014			(157)
Downgrade of staff savings assumptions			(80)
Calculation error			(37)
HMRC revisions			6
Department costs	**280**	**98**	**(182)**
NET savings (cost)	**61**	**(25)**	**(86)**

Notes

1 Business cases cover the investment period 2012-13 to 2022-23. Data on forecast spend in Figure 8 is to the end of 2019-20, a shorter period than in the business case.

2 May 2014 business case includes the digital solution.

Source: National Audit Office analysis of departmental data

Part Three

Processing the new state pension

3.1 In this part we consider the steps the Department for Work & Pensions (the Department) and HM Revenue & Customs (HMRC) have taken to assess the risks to the accuracy of people's state pension payments. We also review the early impact on the Department's performance in processing new state pension claims.

Data used to calculate state pension payments has not changed

3.2 People rely on the departments to calculate their state pension accurately. It can be difficult for people to check their entitlement as calculations can be complicated, particularly where people have gaps in employment, were in a contracted-out pension scheme or worked abroad.

3.3 The source data used to calculate state pension entitlement has not changed. Each person's entitlement is based on their national insurance contributions, including credits they may have built up and any voluntary contributions. HMRC holds each person's national insurance record and calculates the amount they are entitled to. The Department then makes any final adjustments before payment is made.

3.4 HMRC conducts automated and clerical checks to confirm the completeness and accuracy of the national insurance contributions into its National Insurance and PAYE system. In 2015-16, 96% (£86 billion) of national insurance contributions paid via employers were submitted through HMRC's Real-time Information (RTI) system (**Figure 10** overleaf).[10] Our financial audit work provides assurance that, once received into RTI, contributions are input accurately into HMRC's systems.[11]

3.5 HMRC recognises that people's national insurance contribution records can occasionally be incomplete or inaccurate because, for example, contributions may be recorded to the wrong account or credits are not allocated. HMRC believes the onus is on people to check their national insurance record. People have always had the option to do this and could request information from HMRC. In reality, this has been difficult for people to do. People have not been aware of this service and have found it difficult to interpret the information. The introduction of the online Check Your State Pension service in February 2016 has now made people's state pension forecasts and national insurance records more accessible.

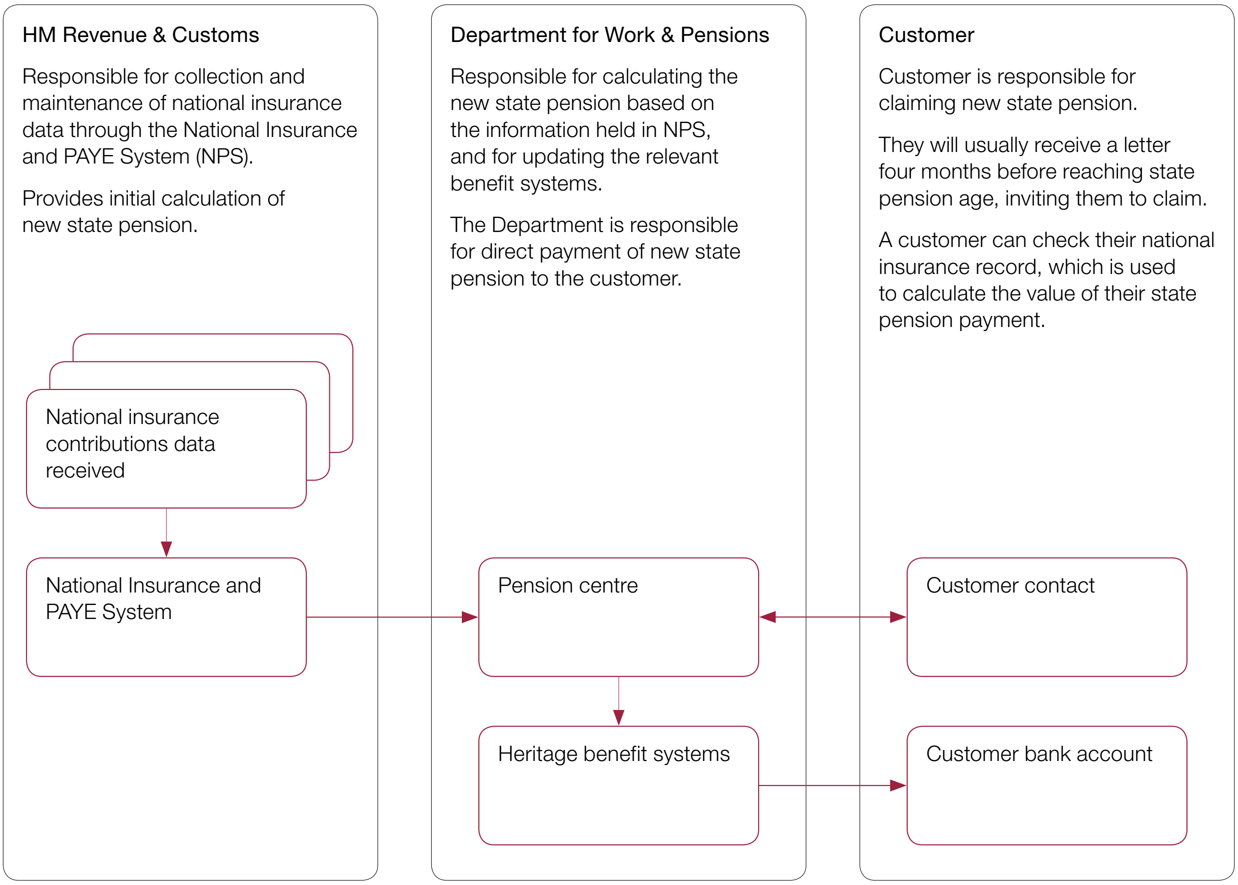
10 Cash based figures for Great Britain only. Contributions via employers (Class 1) will include contributions from employers and employees on a cash basis with deductions made for statutory sick pay and statutory maternity pay which are reimbursed by the Department.

11 Our financial audit is conducted in line with auditing standards and financial reporting requirements.

Figure 10

How new state pension is calculated

HMRC makes the initial calculation of entitlement and passes this to the Department



Source: National Audit Office

3.6 The Department does not review the accuracy or completeness of the underlying national insurance data used to pay state pension. It relies on HMRC to accurately record national insurance contributions and calculate each person's initial state pension entitlement. It does not receive any specific assurances from HMRC on data quality. Although the departments have a general memorandum of understanding for the exchange of data, there is no formal agreement that refers to the calculation of state pension entitlement. The lack of a formal agreement increases future risks; for example that changes might be made to systems or processes without understanding fully the effect on data quality.

System changes were tested comprehensively

3.7 The departments made changes to 14 main IT systems used to calculate and pay state pension. They conducted extensive testing. This included assessing how their systems interacted by setting up a 'shared environment', testing a wide range of scenarios and reviewing live customer claims before making payments in April 2016. The testing was timely and provided the departments with assurance on the accuracy of new calculations.

3.8 The Department checks the accuracy of its processing and estimates the level of errors caused by administrative mistakes. In previous years, the level of error has been very low. In 2015-16, overpayments were just 0.1% of expenditure (£110 million) and underpayments were 0.3% (£260 million). Its testing does not, though, review the completeness of HMRC's national insurance data or assess the risk of fraudulent claims. Neither department has undertaken a full assessment of the completeness of the historic national insurance records used to calculate people's state pension entitlement, although HMRC conducts checks to ensure the completeness of data received from employers.

New opportunities to refine processing and increase transparency

3.9 In addition to introducing the new state pension, the departments have implemented initiatives which will improve data quality, make contributions information more readily available and strengthen monitoring. These include:

- HMRC reconciling its national insurance data with defined benefit pension schemes that were contracted-out before 6 April 2016. It has not systematically recorded the number of changes made to national insurance records but a one-off review found that nearly 5% of 58,500 queries raised by schemes on pensioner members resulted in a change to members' national insurance records. However, only 68 (0.1%) led to a change in the state pension award for the pensioner. In August 2016, the Department started to monitor changes made to state pension payments.

- The new online service **Check Your State Pension** was introduced in February 2016. This provides people with more information on the calculation of their entitlement and the chance to check their contributions more easily.

- The Department will publish its first estimate of the level of error in new state pension in May 2017.

Reconciliation of national insurance records

3.10 The Department is calculating everyone's entitlement to state pension as at 6 April 2016 when the new system was introduced. It does this by calculating each person's 'starting amount', reflecting contributions to April 2016. Future entitlement will then be built under new scheme rules. The completion of HMRC's reconciliation exercise is important in ensuring that starting amounts are accurate.

3.11 HMRC's Scheme Reconciliation Service aims to help pension scheme administrators reconcile data on their scheme membership with HMRC's national insurance records. It was introduced in April 2014 and HMRC aims to complete reconciliation work by December 2018. Use of the service is voluntary. Initial take-up of the service was slow, with a low volume of queries from pension scheme administrators in the first 10 months. By August 2016, pension schemes representing 14.2 million individual memberships (77% of pensioner and deferred pension scheme members) had registered with the service. HMRC also plans to include a further 6.2 million active memberships from December 2016.[12]

3.12 HMRC has not always met its aim of responding to schemes' queries within three months although its performance has improved since March 2016 (**Figure 11**). In September 2015, it established a customer relationship team to liaise with pension schemes. HMRC is also exploring ways of automating the way its handles simple membership queries to improve its response time. In August 2016, none of the outstanding queries were over three months old.

3.13 Progress in reconciling scheme data has been slow. As at August 2016, HMRC had received 1.6 million queries from schemes and processed 1.3 million of these. However, it had only confirmed 1.7% of all registered deferred and pensioner scheme memberships. In September 2016, HMRC reviewed the volume of queries received to date and forecast that it will receive 55% more queries than the 4.5 million originally expected. HMRC is considering the resources needed to complete scheme reconciliation by December 2018.

3.14 HMRC has introduced other services to support pension schemes and improve its processing. In April 2016, it introduced an online guaranteed minimum pension checker, developed by HMRC and available publicly since April 2016 for use by pension schemes.[13] By August 2016, the service had completed 972,000 checks, significantly above the 550,000 checks in 2016-17 HMRC had initially expected. HMRC also required employers to submit information on pension schemes in their RTI returns until March 2016, which improves its efficiency of processing.[14]

12 Based on 18.4 million deferred and pensioner members in defined benefit pension schemes reported in: Office for National Statistics (2015) Occupational Pension Schemes Survey, 2014.

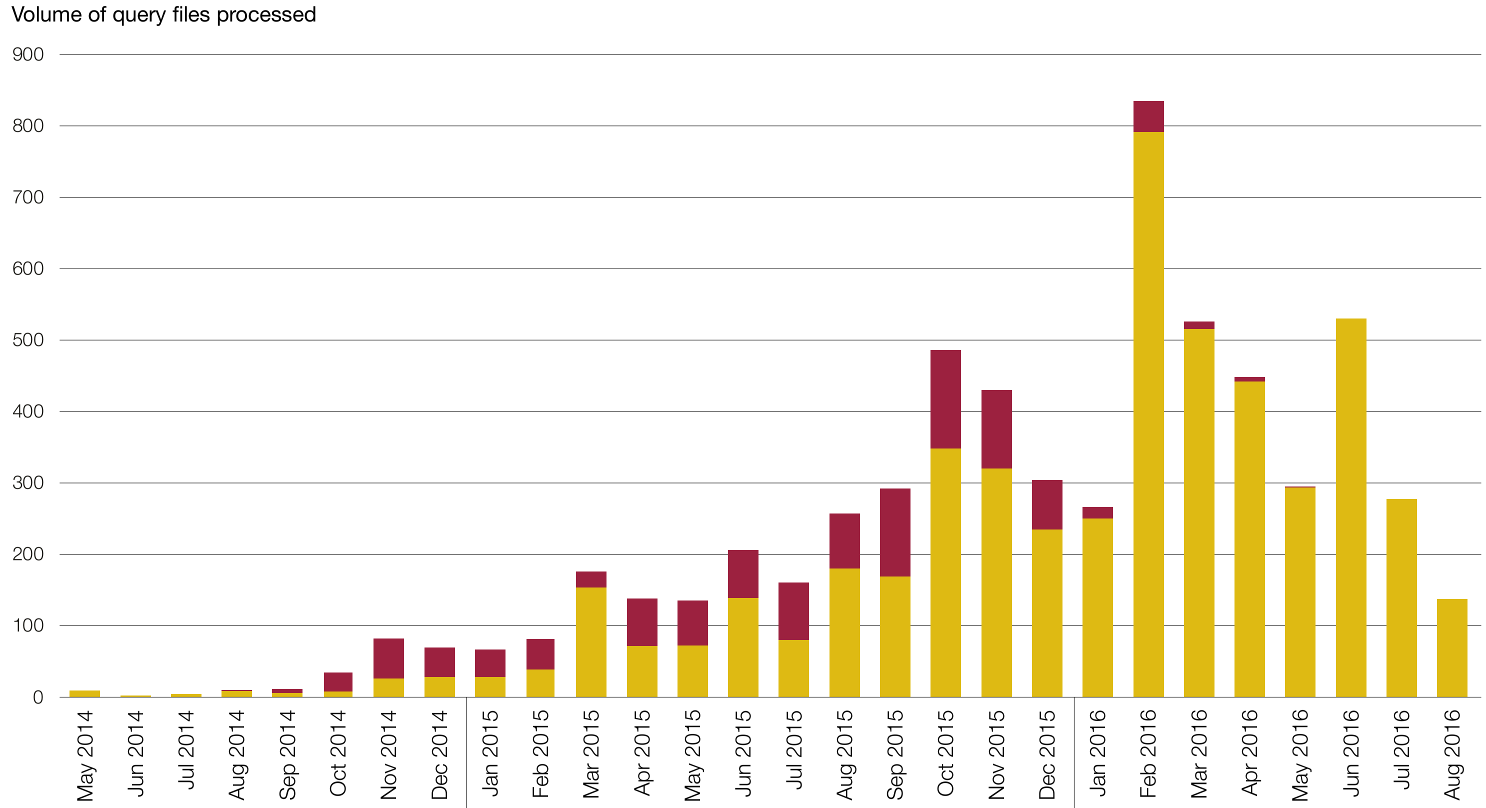
13 This service gives previously contracted-out schemes an instant and indexed account of their guaranteed minimum pension liabilities for individual memberships.

14 This enables HMRC to automatically close contracted-out records up to April 2016 without schemes having to send termination notices.

Figure 11

HMRC's performance in responding to queries from pension schemes – against its three month response time ambition

Performance has improved since March 2016



	May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	Jun 2015
Out three months	0	0	0	1	5	26	56	41	38	39	22	66	63	67
In three months	9	2	4	9	6	8	26	28	28	40	154	72	72	139

	Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Aug 2016
Out three months	80	77	123	138	109	69	16	43	10	6	1	0	0	0
In three months	80	180	169	348	321	235	250	792	516	442	294	530	277	137

Notes

1 HMRC measures performance by files processed. A single file may have between one and a 1,000 individual queries.

2 HMRC appointed a Customer Relationship Manager in May 2015 before establishing a full team in September 2015.

Source: National Audit Office presentation of HM Revenue & Customs' data

Processing of claims deteriorated in 2016

3.15 The Department expects to process 407,000 claims for the new state pension in 2016-17.[15] This is fewer claims than in 2015-16, because the Department has accelerated equalising the state pension age. As a result, women born after 6 April 1953 will receive their pension later than previously planned.

3.16 The Department's performance against its processing targets worsened between March and July 2016, even though it received 7% fewer claims than in the same period in 2015 (**Figure 12**). The Department says it had reduced capacity to process new state pension claims as the Pensions Directorate reallocated staff to cope with increased demand for its telephony services. This was partly because its online portal had not been updated to include the latest dates for state pension equalisation for women but also reflects an increased volume of enquiries relating to the new state pension. It restored the online service in July 2016 and processing performance has since improved.

3.17 The Department's compliance with its rules for processing claims is well below target. It has identified the five critical points for complying with the overall process, and performance for these is also below target. The Department's level of compliance with its processes has stayed at the same level since the introduction of the new state pension. It says that most performance issues do not relate to factors that affect the accuracy of calculating new state pension payments but, nonetheless, improving compliance will reduce the risk of errors. Historically, the Department has achieved low levels of over and underpayments. Data on performance since the introduction of the new state pension will be available from May 2017.

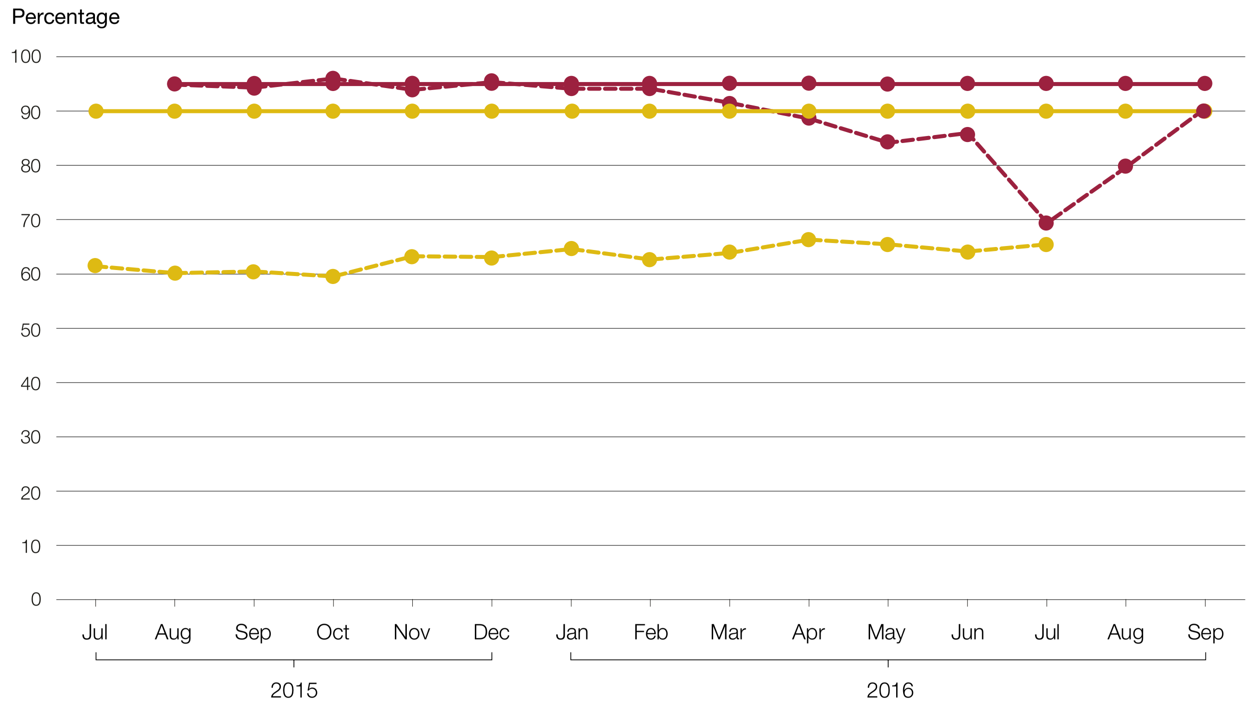
3.18 The Department also monitors how satisfied people are with the service they receive. Rates for 2016-17 are not yet available, but Department performance has been strong in the past with 97% of state pension claimants satisfied in 2015-16.

15 The Department also expects to process an additional 30,000 state pension deferred claims under old rules in 2016-17.

Figure 12

Claim processing and process compliance performance against targets

Performance in processing claims initially deteriorated but has improved since August 2016



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Claim processing: target		95	95	95	95	95	95	95	95	95	95	95	95	95	95
Claim processing: actual performance		95	94	96	94	95	94	94	92	89	84	86	69	80	91
Process compliance: performance agreement target	90	90	90	90	90	90	90	90	90	90	90	90	90	90	90
Process compliance: actual performance	61	60	60	60	63	63	65	63	64	66	65	64	65		

Notes

1 Claim processing target and performance is for all state pension new claims processed in any one month, the percentage that are processed by 'Claim From Date' or within 10 days of customer 'Initial Date of Contact'. Claims from outside Great Britain are excluded.

2 Process compliance target and performance combines state pension new claims and changes of circumstance. The Department conducts reviews of claims to assess whether it has followed financial and process guidance.

3 The Department first started monitoring state pension claim processing performance using this measure in August 2015.

Source: National Audit Office analysis of departmental performance data

Part Four

Communicating the changes to the state pension

4.1 Improving understanding of the state pension is one of the Department for Work & Pensions' (the Department's) objectives to encourage retirement saving. In this part we examine the effectiveness of the Department's communication campaign. We assess its management of the campaign and whether this raised awareness of state pension changes, improved people's understanding of their personal implications and prompted people to take action.

The campaign showed many aspects of good practice

4.2 Communicating the impact of pension reforms is not straightforward. The government has introduced various reforms to promote private saving for retirement, particularly through automatic enrolment. The simplification of the state pension aims to improve people's understanding of their long-term retirement income, and support a behavioural shift towards greater responsibility for saving. But pension rules are complicated, people face many options and it is not easy to generalise about the impact of policy changes on individuals, given the number of factors that affect their entitlement.

4.3 The Department's communications campaign began in November 2014 and used a multichannel approach, including radio and digital advertising, press, social media, the GOV.UK website and stakeholder engagement. The Department's objective was to increase people's awareness and understanding of the new state pension, prompt them to find out more about their entitlement and take action to improve their retirement income.

4.4 Because of the limited time before the new state pension was launched, the Department initially targeted people within 10 years of state pension age. In the year up to February 2016 these were the only people who could request a new state pension statement. The Department developed a phased approach and focused on dispelling common misconceptions, such as all people would immediately receive the full flat-rate.[16] The Department continuously monitored the impact of the campaign, refocusing its communication channels and tailoring its messages. It intends to target a wider audience with later phases of the campaign after April 2016. Our full assessment of the Department's campaign, which cost £3 million, is in Appendix Two, Figure 22.

16 In 2016-17, 13% of people reaching state pension age will receive the full flat-rate pension of £155.65 per week, 32% will receive more as a consequence of additional state pension built up under the previous system. The remaining 55% will receive less than £155.65, mainly because they do not have 35 qualifying years or have been members of contracted-out pension schemes. The proportion of people receiving the full flat rate will rise steadily over time, exceeding 80% by 2030.

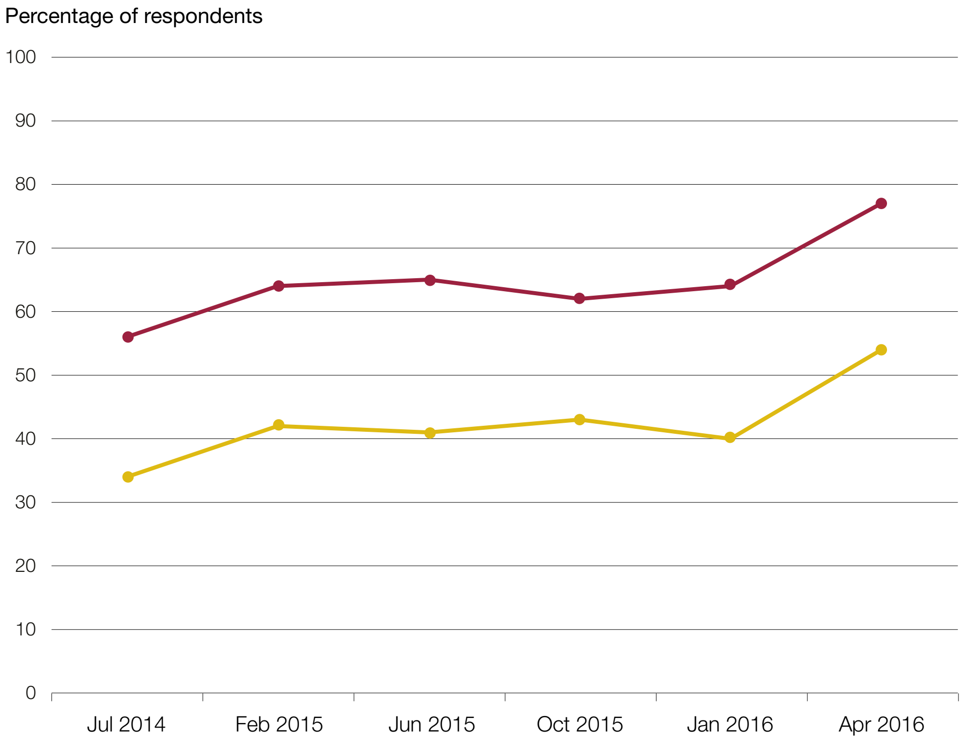
Awareness of changes to the new state pension has improved

4.5 The Department's campaign has improved general awareness about the new state pension, especially among people closest to retirement (**Figure 13**). In April 2016, 77% of those within 10 years of state pension age were aware of planned changes.

Figure 13

Summary of customer research – peoples' awareness of planned changes to the state pension

Awareness of changes to the state pension has increased during the communications campaign



	Jul 2014	Feb 2015	Jun 2015	Oct 2015	Jan 2016	Apr 2016
● Future pensioners within 10 years of state pension age	56	64	65	62	64	77
● All future pensioners	34	42	41	43	40	54

Notes

1 Sample sizes: July 2014 – 2,212; February 2015 – 1,798; June 2015 – 1,944; October 2015 – 2,042; January 2016 – 1,832; April 2016 – 1,838.

2 All future pensioners consists of people aged 22 to state pension age.

Source: National Audit Office

4.6 The campaign did not include unsolicited mass mailings of people affected. In November 2014, the Department tested a direct mail campaign to explain the new state pension. It concluded that a large-scale direct mail campaign was unlikely to engage target groups. Around a third of recipients accurately remembered receiving the letter. These people showed greater general awareness of the new state pension, and were slightly more likely to seek further information. But they did not show a greater understanding of the new system, including how much the new state pension would be or where to go to find out more.

Many people do not understand how the changes affect them

4.7 The Department's expectation is that people who understand their pensions – including what they will get from the state – will plan for their retirement from a younger age. General understanding of changes to the state pension has improved since June 2014, particularly among people within 10 years of the state pension age. For example, in April 2016, two-thirds of working age people knew there was a link between national insurance and the state pension received, and that under the new system people would need a minimum number of years to get a state pension.[17]

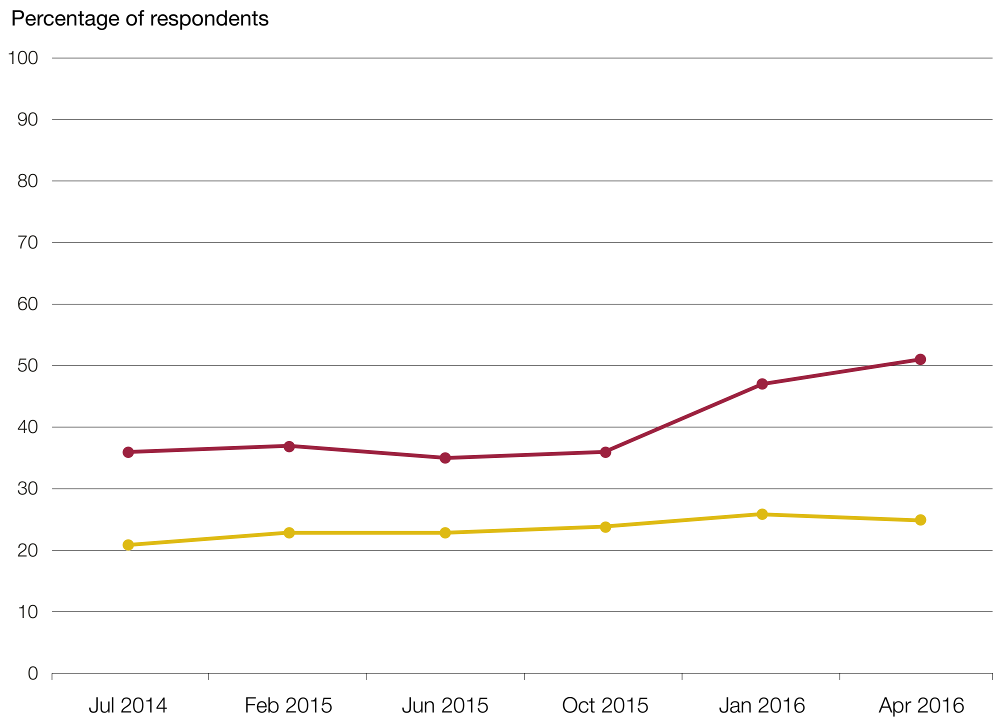
4.8 But many people still do not understand how they are directly affected by the new state pension, meaning they are less likely to act as the Department intends. Survey results show 25% of working age people know how the change will affect them, including around half of those within 10 years of retirement (**Figure 14**). In April 2016, fewer than half of people within 10 years of their state pension age knew what their state pension is likely to be, and for all working age people, 18% knew (**Figure 15** on page 36).

17 For all working age people, knowledge of the link between national insurance and the state pension, and knowledge that people would need a minimum number of qualifying years to get a state pension, increased from 58% in June 2014 to 66% in April 2016. For those within 10 years of the state pension age, knowledge of the link between national insurance and the state pension increased from 68% to 84%, and knowledge that people would need a minimum number of qualifying years to get a state pension increased from 73% to 81%.

Figure 14

Summary of customer research – peoples' understanding of how changes to the state pension will affect them

A quarter of working age people know how the new state pension will affect them



	Jul 2014	Feb 2015	Jun 2015	Oct 2015	Jan 2016	Apr 2016
Future pensioners within 10 years of state pension age	36	37	35	36	47	51
All future pensioners	21	23	23	24	26	25

Notes

1 Sample sizes: July 2014 – 2,212; February 2015 – 1,798; June 2015 – 1,944; October 2015 – 2,042; January 2016 – 1,832; April 2016 – 1,838.

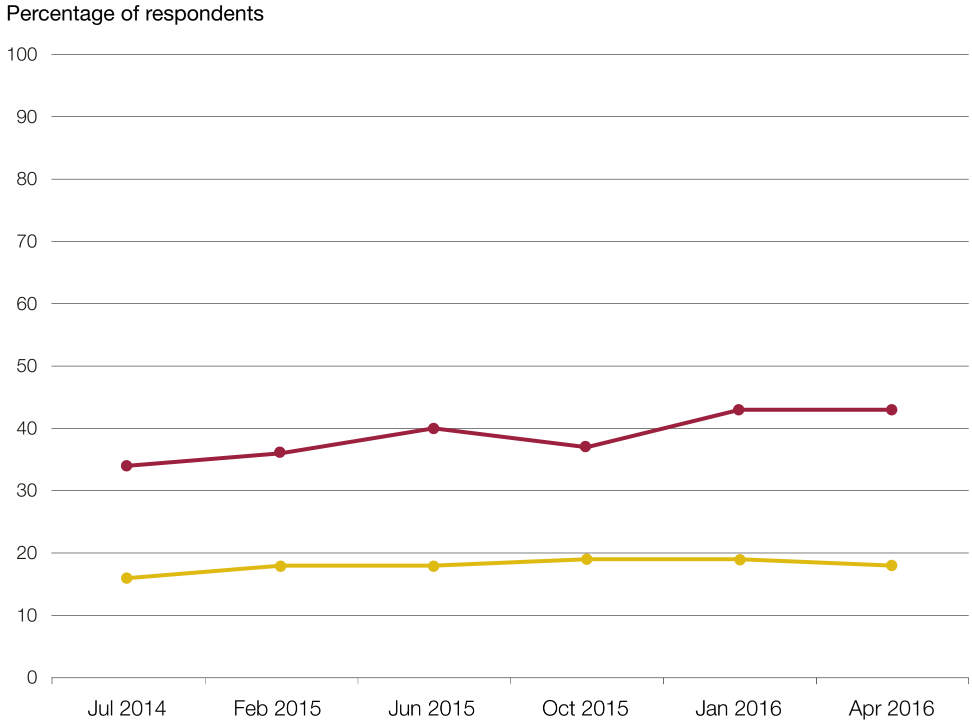
2 All future pensioners consists of people aged 22 to state pension age.

Source: National Audit Office

Figure 15

Summary of customer research – peoples' understanding of how much their state pension is likely to be

Fewer than half of those nearing state pension age know how much their state pension is likely to be



	Jul 2014	Feb 2015	Jun 2015	Oct 2015	Jan 2016	Apr 2016
● Future pensioners within 10 years of state pension age	34	36	40	37	43	43
● All future pensioners	16	18	18	19	19	18

Notes

1 Sample sizes: July 2014 – 2,212; February 2015 – 1,798; June 2015 – 1,944; October 2015 – 2,042; January 2016 – 1,832; April 2016 – 1,838.

2 All future pensioners consists of people aged 22 to state pension age.

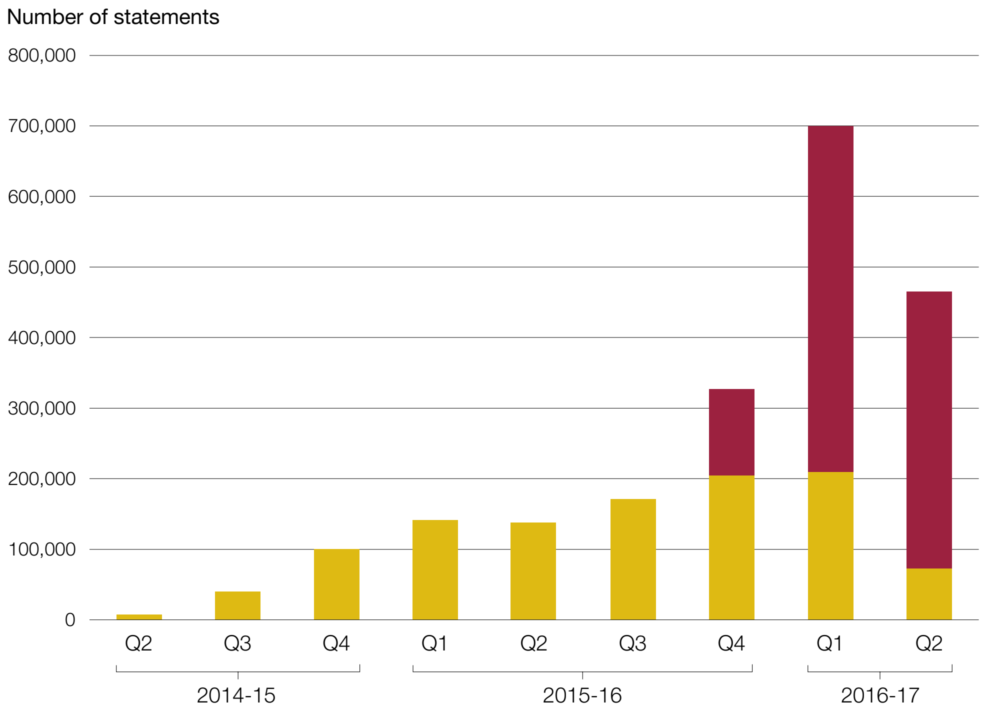
Source: National Audit Office

4.9 The Department's campaign sought to prompt people to find out more about their state pension entitlement, initially focusing on people closest to retirement. From September 2014 to January 2015, the Department made paper state pension statements available to people five years from state pension age, and from February 2015 to March 2016, it extended this to people within 10 years. Between September 2014 and March 2016, the Department issued 801,000 state pension statements (equivalent to 11% of people over 55 years old). Since April 2016, the Department made paper statements available to all ages and has issued a further 282,000. In February 2016, the Department launched an online service to allow people of all ages to check their forecast state pension entitlement. By the end of August 2016, over one million people had used the digital service (**Figure 16**).

Figure 16

Number of people checking their state pension entitlement

Since September 2014, over 2 million people have checked their state pension entitlement



	2014-15 Q2	2014-15 Q3	2014-15 Q4	2015-16 Q1	2015-16 Q2	2015-16 Q3	2015-16 Q4	2016-17 Q1	2016-17 Q2
Unique visits to online service							122,421	490,137	392,258
Paper statement issued	7,630	39,649	99,865	140,783	137,890	170,945	204,478	209,277	72,558

Notes

1 For paper statements, Q2 2014-15 starts on 1 September 2014 and Q2 2016-17 ends on 31 August 2016.

2 For online service, Q4 2015-16 starts on 1 February 2016, when the service was first launched. Q2 2016-17 ends on 31 August 2016.

Source: National Audit Office

4.10 The Department's campaign has been criticised in both the press and Parliament for not clarifying complex changes, or providing people with personalised explanations of what the new state pension means for them.[18] We reviewed 224 newspaper articles regarding the new state pension published between November 2014 and July 2016. Just under 60% were critical of the reform, particularly about confusion over the effect of the changes on people.[19] A number of factors may affect understanding of pension reforms and only some of the articles referred directly to the communications campaign.

4.11 In March 2016, we reported that the there has been a lack of clear information for people with guaranteed minimum pensions about the impact of state pension reform, and that those likely to lose out had not been able to find the information they need.[20] In March 2016, the Work and Pensions Committee also challenged the Department's decision not to target its communications campaign at subgroups likely to lose out under the new state pension. The Department has since agreed to write to over 100,000 people within nine years of state pension age and whose national insurance record suggests that they will not meet the 10 years minimum qualifying period for the new state pension. The Department plans to evaluate whether this one-off exercise has been effective in encouraging these people to act.

4.12 The Department rejected the Committee's recommendation to write to two further groups adversely affected by the new state pension. These were:

- people, largely women, who are no longer able to derive pensions based on their spouse's national insurance record;[21] and
- people reaching state pension age from 6 April 2016 who are eligible for guaranteed minimum pensions which the government will no longer uprate through the state pension to take account of inflation.[22]

The Department said that it could not accurately identify who might be adversely affected in order to write to them. The Department has, instead, sought to reach these groups through working with stakeholders and its existing communications campaign, to prompt people to request state pension statements and consult the GOV.UK website.

18 Work and Pensions Committee, *Communication of the new state pension*, Eighth Report of Session 2015-16, HC 926, March 2016.

19 Of the 224 we reviewed: 131 (58%) were negative; 80 (36%) were neutral; and 13 (6%) were positive about the reform.

20 Comptroller and Auditor General, *The impact of state pension reforms on people with Guaranteed Minimum Pensions*, Session 2015-16, HC 907, National Audit Office, March 2016.

21 The Department told the Work and Pensions Committee that an effective, targeted direct mail approach is not available, because it was not possible to identify who all the affected people may be. The Department said this is because it cannot predict whether someone will be widowed in the future, and it does not have accurate information about a person's marital status. The Department concluded that it should supplement its approach of encouraging people to seek personalised information on their state pension through raising awareness and working with stakeholders. For example, it said that it had worked with Age UK, to develop comprehensive fact sheets, and had placed information in media likely to be consulted by the affected groups. Work and Pensions Committee, *Communication of the new state pension*: *Government Response to the Committee's Eighth Report of Session 2015-16*, First Special Report of Session 2016-17, HC 229, June 2016, paragraphs 20-23.

22 The Department told the Work and Pensions Committee that it estimated that by 2020 around 25% of these people who have reached state pension age will lose, with an average loss of £2 per week, whereas 75% of people with a pre-1988 guaranteed minimum pension will gain from the new state pension by, on average, £4 a week. It said it was not planning any specific measures to raise awareness among this cohort other than its existing communications campaign. Work and Pensions Committee, *Communication of the new state pension: Government Response to the Committee's Eighth Report of Session 2015-16*, First Special Report of Session 2016-17, HC 229, June 2016, paragraphs 24-25.

4.13 There remain misconceptions about the new state pension. For example, about 60% of people think that if someone retires after April 2016, having worked for 35 years or more, they will always get the full amount of state pension. In fact, the amount they receive will depend on their National Insurance record, taking account of any periods when they were contracted-out.

People are not yet saving more for their retirement

4.14 The Department's objective is that the new state pension will encourage people to plan for their retirement. It is still early days, but there is no evidence yet that people have actively begun to save more towards their pension (**Figure 17** overleaf). Around 45% of working age people have taken some action in the last six months in relation to pensions or retirement, mainly through speaking to others. Eleven per cent said they have started saving or are saving more.

4.15 One reason people do not save for a pension is lack of knowledge about their future retirement income. The communications campaign has sought to address this. But the Department acknowledges that a communications campaign alone is insufficient to prompt behaviour change. The Department has identified that there are many other reasons why people do not save for pensions. These include lacking the money to invest, because of other financial commitments; showing inertia about starting a pension; and lacking confidence to make financial decisions (**Figure 18** on page 41).

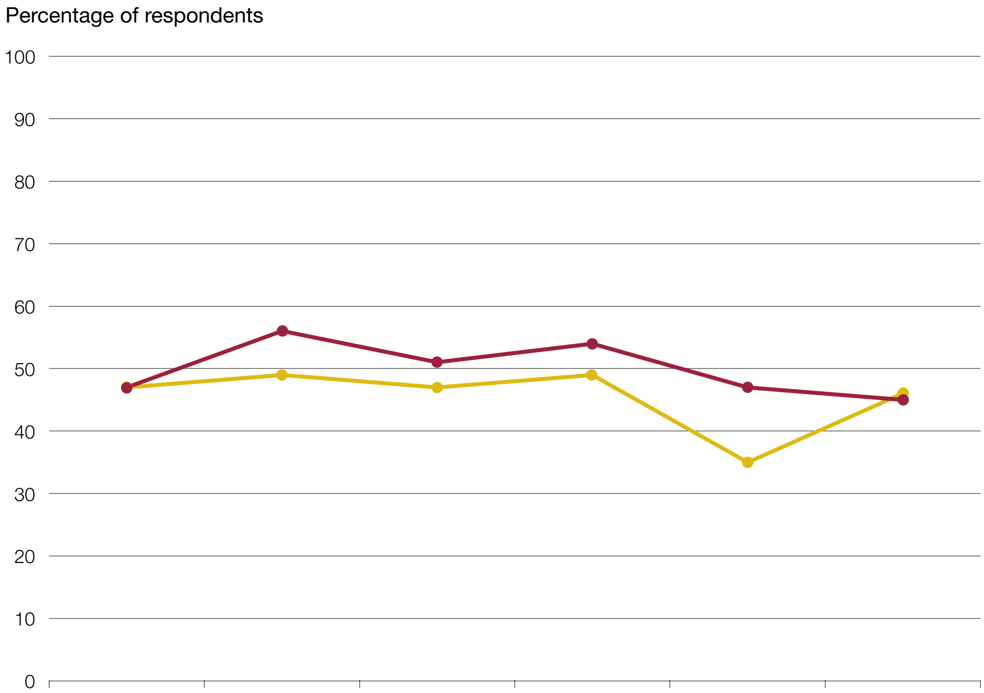
4.16 The Department has not yet tackled all of the barriers that discourage people from saving for their retirement, although other pension reforms help. For example, the government estimates that, by 2019-20, people will save an extra £17 billion a year in workplace pensions through automatic enrolment. As eligible workers do not need to do anything to become a member of a workplace pension through automatic enrolment, the reform builds on evidence of inertia in people's savings decisions to encourage more people to save for retirement. The government estimates that, by 2018, 10 million workers will have started saving, or will be saving more, because of automatic enrolment.

4.17 The Department plans to spend £7 million on state pension communications between 2016 and 2020. Now it has introduced the new state pension, it recognises the need to adapt its communications campaign to achieve the project's long-term objectives. The Department aims to raise awareness of the importance of checking state pension entitlement among a wider audience. To help with this, it intends to align its campaign with its Pension Wise and automatic enrolment campaigns. The Department also intends to highlight planned rises in state pension age, and specifically the date people can start to claim their state pension.

Figure 17

Summary of customer research – people who have acted in the past six months in relation to saving for later life

People are not doing more to save for later life



	Jul 2014	Feb 2015	Jun 2015	Oct 2015	Jan 2016	Apr 2016
Future pensioners within 10 years of state pension age	47	56	51	54	47	45
All future pensioners	47	49	47	49	35	46

Notes

1 Sample sizes: July 2014 – 2,212; February 2015 – 1,798; June 2015 – 1,944; October 2015 – 2,042; January 2016 – 1,832; April 2016 – 1,838.

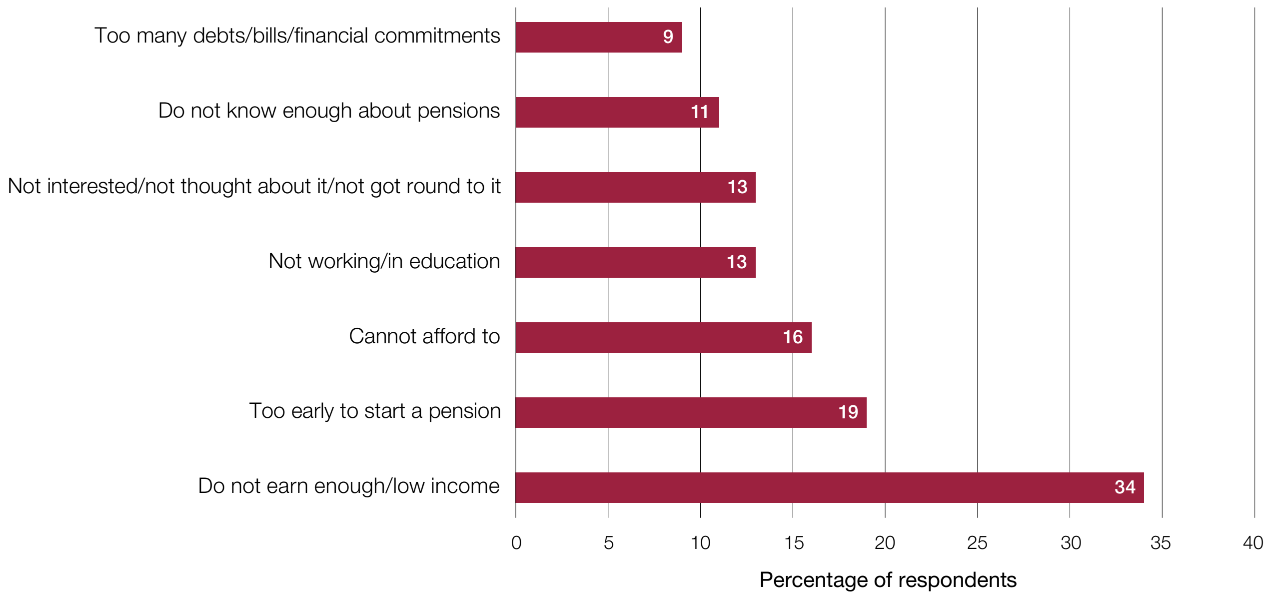
2 All future pensioners consists of people aged 22 to state pension age.

3 Respondents were asked which, if any, of the following actions they had done in the past six months: spoken to others; started saving/saving more; looked for information online; contacted the Department or the Pensions Advisory Service; asked for a state pension statement.

Source: National Audit Office

Figure 18
Self-reported reasons for not having a private pension

Economic circumstances are an important reason why people do not have a private pension



Notes

1 Based on 736 respondents who do not have a private pension. Department for Work & Pensions, *Attitudes to Pensions: the 2012 survey*, Research Report 813, 2012.

2 Survey was conducted before the introduction of automatic enrolment.

Source: National Audit Office

Appendix One

Our audit approach

1 This study looked at the implementation of the new state pension by the Department for Work & Pensions (the Department) and HM Revenue & Customs (HMRC) and whether it delivered value for money. We reviewed:

- the objectives of the new state pension;
- the Department's implementation of the new state pension;
- the Department's performance in processing new state pension claims; and
- the effectiveness of the communication campaign.

2 Our audit approach is summarised in **Figure 19**. Our evidence base is described in Appendix Two.

Figure 19
Our audit approach

The Department's objectives

The new state pension aims to create a simple, single-tier state pension which encourages people to save for their retirement. The Department estimates that overall spending on the state pension will reduce. The Department's objective was to implement changes to the state pension by the legislative deadline of April 2016.

How this will be achieved

After April 2016, anybody reaching state pension age will receive state pension under the new scheme. Everyone has access to their state pension statement online to allow people of all ages to check their entitlement and effectively plan for their retirement.

Our study

Our study looks at the implementation of the new state pension, the Department's early performance in processing pension claims and the effectiveness of the communication campaign.

Our evaluative criteria

The Department has implemented the programme according to its planned timetable, budget and critical success factors

The Department processes claims efficiently and calculates entitlement accurately

The Department has effectively communicated the impact of the new state pension

Our evidence

(see Appendix Two for details)

We assessed performance by:

- comparing the original timetable and the revised timetable;
- reviewing the costs of the programme to date and future projected costs; and
- reviewing against the core management cycle.

We assessed performance by:

- reviewing the changes to the Department's and HMRC's systems and control processes;
- assessing the Department's and HMRC's management information on new state pension calculations;
- reviewing our findings from the financial audit process; and
- reviewing internal audit reports.

We assessed performance by:

- interviewing external stakeholders to get their views on the impact of the new state pension;
- reviewing the Department's marketing and communication of the scheme against the evaluative framework; and
- reviewing wider pension reforms to consider associated risks and challenges.

Our conclusions

The Department has successfully managed the introduction of the new state pension. It introduced the changes one year ahead of its original plans, allowing the government to increase national insurance revenues and bring forward long-term changes to improve the sustainability of state pension spending. In implementing the programme, the Department reduced risks by decoupling plans for new digital services and working with HMRC to conduct extensive testing of systems used to calculate entitlement. The cost of the programme is within budget and operational performance has largely been maintained. So far, the Department's implementation of the new state pension represents value for money.

Pensions reforms are long-term endeavours and the Department will need to tackle two important areas to achieve value for money as the reforms develop. First, the Department's focus on policy delivery has reduced the scope for operational savings and postponed the introduction of digital services. The Department has yet to reintroduce its original plans for a more fundamental digital transformation of pension administration. Second, achieving the longer-term objectives of the new state pension will depend on how it interacts with wider reform of the pensions system. The new state pension tackles concerns about state pension affordability but increases the need for people to make their own retirement provision. It is not yet clear whether the simplification of the state pension will improve understanding of retirement savings and how this will affect wider pension reforms supporting private saving.

Source: National Audit Office

Appendix Two

Our evidence base

1 We reviewed whether the Department for Work & Pensions' (the Department's) implementation of the new state pension project was value for money by analysing and evaluating evidence collected between May and September 2016. We assessed performance to date in implementing the new system, and identified the risks and challenges the Department faces in the future to achieving the policy objectives.

2 Our audit approach is outlined in Appendix One. Our evaluative criteria draw upon various National Audit Office frameworks and previous reports. We used these evaluative frameworks to identify the evidence we needed to make a balanced, informed judgement on the performance of the Department. We agreed the use of the frameworks with the Department.

3 We considered how the Department will meet its objectives for the new state pension by:

- reviewing documentation that sets out the policy intention and design of the new state pension to understand how far the project meets these objectives and the impact of the changes on particular groups of people;
- interviewing staff at the Department and HM Revenue & Customs (HMRC);
- reviewing third party reports and meeting with the Pensions Policy Institute, the Pensions and Lifetime Savings Association and Citizens Advice to ascertain their views on the new state pension;
- using our in-house economics expertise to review the Department's impact assessments; and
- comparing the changes to the new state pension against seven principles set out in our November 2005 report *Dealing with the complexity of the benefits system* to assess whether the new state pension reduces complexity. Our assessment is summarised in **Figure 20.**[23]

23 Comptroller and Auditor General, *Dealing with the complexity of the benefits system*, Session 2005-06, HC 592, National Audit Office, November 2005.

Figure 20

How the new state pension reduces complexity

The new state pension addresses seven principles for dealing with complexity in the benefits system

Principle	How the new state pension address the principle
Designing new benefits to reduce complexity	Replaces two-tier system of basic and additional state pension, in which each part of entitlement builds up differently, by a single-tier system
	Ends contracting-out from the state second pension – reducing the complexity of some state pension calculations
	State pension is built at the same rate for each qualifying year
	In steady state, the new state pension's full rate will be the same for everybody who satisfies the qualifying conditions
Systematically removing anomalies	Equalises state pension income for men and women over a decade earlier to the early 2040s
	Self-employed national insurance contributions will build up state pension rights at the same rate as for the employed
Simplifying customer input	Gives people clarity over what their state pension will be worth when they retire
	Reduces means-testing by setting the full rate above the basic level for Pension Credit support and removing the savings credit element
Simplifying processes and rationalising requirements	Bases eligibility for the full rate on 35 qualifying years of national insurance contributions or credits
	Translates people's pre-implementation national insurance records into a single starting amount
Sharing information and avoiding duplication of effort	HMRC stops tracking guaranteed minimum pension rights of people in contracted-out occupational pension schemes between 1978 and 1997, and provides self-service access for pension scheme providers to a guaranteed minimum pensions calculator
	HMRC to provide scheme reconciliation service up to 2018 to help pension schemes calculate their members' pension entitlement
Using technology to protect customers from complexity	Adapts the Department's systems to calculate and pay new state pension to those reaching state pension age after 6 April 2016, while maintaining payments to existing pensioners following former rules
	Digital service will allow users to manage their national insurance account and state pension entitlement
Making the most of external scrutiny mechanisms	Project is subject to the Department's 'three lines of defence' assurance model
	Subject to Infrastructure and Projects Authority Gateway Reviews, which most recently assessed the project as 'Green'

Note

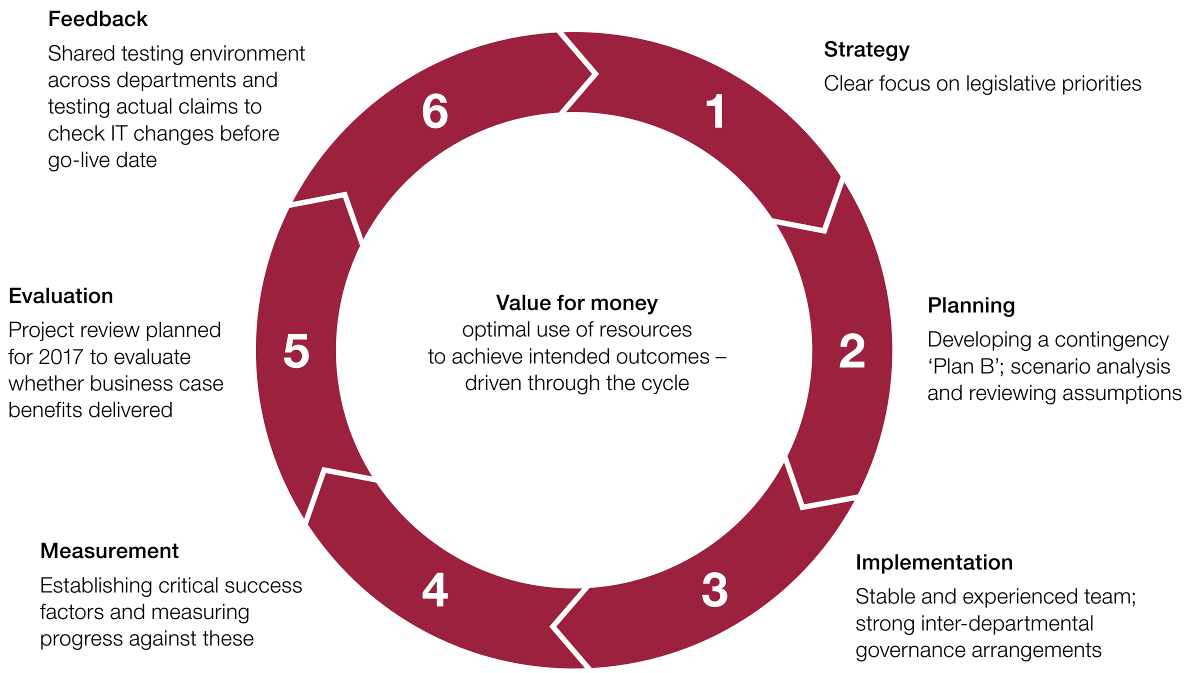
1 Based on principles set out in Comptroller and Auditor General, *Dealing with the complexity of the benefits system*, Session 2005-06, HC 592, National Audit Office, November 2005.

Source: National Audit Office

4 **We assessed the Department's performance in implementing the project by:**

- comparing the original scope and timetable for implementing the new state pension with what was delivered in April 2016 to understand how these had changed, including the implications of removing the digital services from the project;
- comparing business cases between May 2014 and May 2016 to see how costs and benefits have changed;
- comparing costs to-date with budget;
- reviewing performance against the project's critical success factors, drawing upon internal audit and Infrastructure and Projects Authority reports, to understand how the Department compared against a range of evaluative criteria; and
- using the National Audit Office's core management cycle to assess the Department's performance against the characteristics of good practice associated with implementing welfare reform. A high level summary of the findings is in **Figure 21**.

Figure 21
Using the core management cycle



Source: National Audit Office

5 We assessed the Department's and HMRC's performance in processing new state pension claims by:

- identifying the changes to the systems which support payment of the new state pension. Where changes were made to IT systems, we reviewed the extent to which HMRC and the Department adequately tested these to ensure the accuracy of pension calculations;
- drawing on our financial audit of HMRC and the Department's systems to establish the level of assurance that could be placed on their systems and underlying data sources;
- interviewing HMRC staff, and reviewing documents and performance information to assess progress in reconciling national insurance records with pension schemes; and
- reviewing operational data to assess performance and how this has been affected by the introduction of the new state pension.

6 We assessed the effectiveness of the Department's communication campaign by:

- reviewing its communications strategy and supporting documents to understand the Department's approach;
- reviewing data from the Ipsos MORI tracking survey to assess the impact of the communications campaign;
- collating data on the number of state pension statements that have been issued;
- reviewing press coverage of the communications campaign, including 224 press articles on the new state pension published between November 2014 and July 2016;
- reviewing third party evidence to ascertain their views on the introduction of the new state pension, including the Work and Pensions Committee's report and supporting evidence from its inquiry on communicating the new state pension; and
- assessing the communications campaign against seven key questions set out in the National Audit Office's framework 'Auditing the use of behavioural insights'. Our assessment is summarised in **Figure 22** overleaf.

Figure 22
Analysis of the communications campaign

The campaign included many characteristics of good practice

Key Question	Our assessment of the communications campaign
Targeting: Is the Department clear about what it is trying to achieve?	Distinguished between future and current pensioners, focusing on people within 10 years of state pension age Purpose of campaign was to raise awareness of state pension changes, improve understanding and prompt action Objectives aligned with new state pension project Sought to dispel the 'myth' that all people will receive the full amount and confirm that state pension will continue to be based on national insurance contributions
Analysis: Does the Department have an evidence based understanding of behavioural insights?	Approach informed by departmental and wider research on attitudes towards saving for retirement Conducted audience research to test campaign messages Conducted research to design general principles of the communications campaign (eg focusing on helping people to self-identify)
Planning: Has the Department integrated its knowledge of behaviour into policy design?	Considered the desired behaviour change – research indicated that greater certainty on the amount of state pension would encourage people to save more for their retirement Used a wide range of communication channels Decided large scale direct mail campaigns were unlikely to engage target groups, following a pilot scheme
Testing: Has the Department tested its approach to changing behaviour?	Conducted trials to test timing, message and channels Trials evaluated by Ipsos MORI
Implementation: Has the Department implemented the approach effectively?	Monitored and responded to feedback from various sources: • People – Ipsos MORI tracker • Stakeholders – regular surveys to monitor engagement • Staff – to assess awareness • Operations – monitored customer contact with Department and resources implications
Measurement: Is the Department measuring the results?	Measured against critical success factors: (i) raised awareness; and (ii) more people know what their state pension will be to enable them to plan for retirement Regular Ipsos MORI tracking surveys to monitor performance in increasing people's awareness, understanding and actions regarding the new state pension Monitored whether campaign resulted in increased number of people contacting the Department with queries
Evaluation and adaptation: Has the Department reviewed its results, made changes as necessary, and is there a plan for ongoing monitoring?	Analysed tracker survey results Used results to develop a phased communications approach.

Note

1 Based on National Audit Office internal guidance on auditing the use of behavioural insights.

Source: National Audit Office

Appendix Three

Major developments in pensions policy

Figure 23
Pension reforms since 2006

Pension policy has changed significantly in the last 10 years

	2006	2007	2008	2009	2010
Strand 1: state pension and benefits		Pensions Act: plans restoring link of basic state pension to earnings from 2012 and phasing out related state second pension			Reduces qualifying years for full state pension to 30 and extends entitlement to state second pension to carers
Strand 2: encouraging saving	Lifetime and annual allowances introduced to simplify pension tax relief rules	Pensions Act: sets up Personal Accounts Delivery Authority (forerunner of the National Employment Savings Trust (NEST)	Pensions Act: provides for automatic enrolment and NEST		The Consumer Financial Education Body is established, the forerunner of Money Advice Service
Strand 3: extended working lives	Employment Equality Act: regulates against age discrimination	Pensions Act: sets timetable for future rises in state pension age from 65 to 68			Start of phased increase of state pension age for women from 60 to 65

Source: National Audit Office

2011	2012	2013	2014	2015	2016
Adopts ‘triple lock’ for annual increase in basic state pension, restoring link to earnings	Government commits to introduce single-tier flat-rate state pension	Government announces single-tier state pension will be introduced in 2016-17	Pensions Act: single-tier state pension replaces basic and additional state pensions on 6 April 2016	Pensions Freedom: radical changes to the pension saving system implemented	
Sets 2012 to 2018 timetable for automatic enrolment	Automatic enrolment begins. Further reductions in annual and lifetime pension tax allowances	New objective for the Pensions Regulator to support pension funding arrangements that are sustainable	Pensions Act: new national insurance rate to allow top-up of state pension. Abolition of requirement to buy an annuity	Tax free annual pension allowance reduced for those earning over £150,000	Lifetime individual savings accounts available for under-40s from April 2017 – to allow people to save for pension or house deposit
Pensions Act: brings forward to 2020 rise in state pension age to 66 and end of Default Retirement Age			Pensions Act: provides for regular review of state pension age and brings forward the rise to 67 to 2026		

Appendix Four

State Pension Delivery Programme

1 The new state pension is one of several projects within the Department for Work & Pensions' State Pension Delivery Programme (**Figure 24**). Collectively, the Department intends these projects to fulfil changes to the state pension brought about by the 2011 and 2014 Pension Acts.

Figure 24

The State Pension Delivery Programme

The new state pension is part of a wider change programme that impacts state pension customers

New state pension	Delivered April 2016	Introduces single-tier state pension on 6 April 2016
Changes to state pension age	In progress	Equalises men and women's pension age at 65 by November 2018, before increasing state pension age to 66 by 2020 and 67 by 2028
State pension top-up	Delivered 2015	Allows people who had reached state pension age before 6 April 2016 buy increased state pension rights through a lump sum payment
Pension Credit, assessed income periods	Delivered April 2016	Replacement of assessed income periods with a system in which people who receive Pension Credit must tell the Department of changes to their pensions, savings or investments as they occur
Pension Credit, savings credit	Delivered April 2016	Savings credit removed for those reaching state pension age from 6 April 2016
Winter fuel temperature link	Delivered 2015	Removal of winter fuel payments to people living in Cyprus, France, Gibraltar, Greece, Malta, Portugal or Spain because the average winter temperature is higher than the warmest region of the UK

Source: National Audit Office

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