

# Changes to your pension explained

The state pensions system is to be given a complete overhaul in a bid to make sure it pays to save for retirement.

Work and pensions secretary Iain Duncan Smith said the existing state pension was too complex and means testing for pensioners discouraged many people from saving at all for retirement.

He said pensions required the same kind of simplification that he was bringing to the benefits system through the universal credit.

There has been speculation that a single-tier pension could be worth about £140 a week, although that level of detail was not addressed by Mr Duncan Smith.

A move to a flat-rate state pension would remove disincentives for lower earners to build up savings, and such a change would be likely to benefit mothers who currently lose out on their pensions because of career breaks for raising children.

“We have to fundamentally simplify the system and we have to make it crystal clear to young savers that it pays to save,” Mr Duncan Smith said.

He warned that younger workers were becoming “increasingly cynical” about saving and would not be able to afford a stable and secure retirement unless the government did “something radically different”.

The state pension age is set to be increased because people are living longer, and the default retirement age is to be abolished in October. The government has also moved to require employers to enrol staff automatically in private pension schemes.

But Mr Duncan Smith said those moves were not enough and the government had to look at state provision as well.

“The state pension system is so complex that most people have no idea what it will mean for them now and in their retirement,” he said.

“And too many people on low incomes who do the right thing in saving for their retirement find those savings clawed back through means-testing. We have to change this.”

Robert Clarke, an independent financial adviser at Almary Green, said: “It is a great idea as the state pensions system is horrendously complicated – but as with all initiatives like this, be very aware when a politician uses the words ‘fundamentally simplify’, as the end result usually ends up as being horrendously complicated.

“The current system does lead to people who scrimp and save being no better off than if they had not bothered to do anything.

“If someone has the means and attitude to save for their future, they should not be penalised for it. Means-testing needs to be looked at.”

John Nunn, senior financial planning consultant at accountants PKF, said the prospect of flat-rate basic pensions of about £140 a week and a much simplified structure was appealing – but he warned that somewhere along the line, someone would have to pay. The devil will be in the detail and it could be that the retirement age will be pushed further back,” he said.

“That is going to make it difficult for people in their 30s having to plan 35 years ahead and even then find out that the goalposts are moved.”