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## The pensions elephant in the room

For too many years politicians of every hue have shied away from making fundamental changes to the state pension. They have tinkered around the edges but never tackled the biggest issues – the confusion around how much someone is due to receive and the unfairness of the system that punishes those that have saved.

Currently, the state pension is made up of the basic state pension, the graduated pension, SERPS and S2P and, although you can get a state pension forecast, it is very difficult for anyone to know on any given day just what their state pension will be worth. If you don't know that, then how can you come to a decision on any additional savings you can or should make?

Then there is the extremely divisive issue of the pension credit which has seen those saving being penalised for doing so with means testing.

Steve Webb, the pensions minister, yesterday launched a green paper imaginatively titled “A state pension for the 21<sup>st</sup> century” in which he outlined two options. The first of those is effectively a tinkering of the current system and, in my opinion, would not lead to a satisfactory result – just yet more confusion.

The more ‘radical’ second option is the introduction of a single-tier pension of around £140 per week at today's prices – estimated to be £155 per week by the time of introduction. To qualify for the new state pension you would need a minimum of seven years of national insurance (NI) contributions while to get the full amount of the pension you would need 30 years of NI contributions as is the case now. But this will only be for new pensioners after the changes are implemented.

Having a known amount of state pension will enable people to make the decision on saving for retirement that much easier – especially knowing if they do then they won't get to retirement and find the extra saving decimated by means testing.

There will be winners and losers with the proposals but in general the second option is a big step in the right direction and should be welcomed.