

PENSIONS ACT 2007

EXPLANATORY NOTES

SUMMARY AND BACKGROUND

State Pensions Glossary

Pension categories

6. There are four categories of state pension provided under the SSCBA1992:
 - Category A
 - Category B
 - Category C (now obsolete)
 - Category D
7. A Category A pension is contributory. It consists of two parts, either or both of which may be payable:
 - Basic state pension – dependent upon the number of qualifying years a person has in their working life;
 - Additional state pension (also referred to as state second pension) – dependent upon earnings, or deemed earnings in a person’s working life since April 1978.
8. A Category B pension is also contributory. Like a Category A pension, it can consist of either a basic state pension, an additional state pension, or both. It is payable by virtue of a spouse’s or civil partner’s qualifying years and earnings.
9. A Category D pension is non-contributory. It is payable when a person:
 - reaches age 80; and
 - satisfies certain residence conditions; and either
 - is not entitled to another category of state pension; or
 - is entitled to one at a lower rate than the Category D rate.

Earnings Limits

10. See below an explanation of the terms relating to the different earnings limits for the purposes of accruing state pension.
11. LEL - the “lower earnings limit” (currently £87 per week) is the minimum level of weekly earnings on which a person is treated as paying National Insurance contributions for benefit purposes. A person receiving contribution credits or paying flat rate voluntary or self employed contributions is treated as having earnings at the LEL for each weekly credit or contribution. The LEL is currently linked to the standard rate of

*These notes refer to the Pensions Act 2007 (c.22)
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basic pension. Under the reforms this link will be broken when basic pension starts to be increased in line with average earnings.

12. PT – the “primary threshold” (currently £100 per week) is the minimum level of weekly earnings on which an employed person pays National Insurance contributions. It is the weekly equivalent of the standard personal allowance for Income Tax.
13. UEL – the “upper earnings limit” (currently £670 per week) is the maximum level of weekly earnings on which an employed person pays National Insurance contributions other than at the 1% NHS contribution and under the current scheme accrues state second pension. It is set at approximately seven times the PT (see above). Under the reforms to state second pension the UEL will be replaced by an upper accruals point which will not be linked to the PT.
14. QEF – the “qualifying earnings factor” is the minimum level of earnings on which a person must have paid, been treated as having paid, or been credited with National Insurance contributions in a tax year in order to make it a qualifying year for basic pension – the QEF is currently £4,524 per annum, 52 times the weekly LEL (see above)
15. LET – the “low earnings threshold” (currently £13,000 per annum) relates to state second pension only. It is:
 - the level of earnings up to which, under the current scheme, state second pension accrues at the 40% rate and, under the simplified scheme as set out in this Act, state second pension will accrue at the flat rate; and
 - the amount of earnings a person is deemed to have if they earn above the QEF but below the LET or they are accruing state second pension because they are a carer or are sick or disabled.
16. The LET is increased annually in line with growth in average earnings.
17. UET – the “upper earnings threshold” – this term relates to state second pension only and is used to refer to the top of the band of earnings over the LET on which state second pension accrues at the 10% rate. The UET is set at 3 times the LET minus two times the QEF – so currently it is $(£13,000 \times 3) - (£4,524 \times 2) = £29,952$ which is rounded to £30,000.