

PENSIONS ACT 2007

EXPLANATORY NOTES

SUMMARY AND BACKGROUND

State Pensions Measures

Deemed earnings factors for purposes of additional pension

Current position

50. The state second pension was introduced in 2002. It replaced the state earnings related pension scheme to provide a more generous additional state pension for:
- employed earners with earnings equal to the lower earnings limit for a full tax year;
 - carers who have no earnings or earnings below the annual lower earnings limit, in any year throughout which:
 - they are awarded child benefit for a child under 6;
 - they are entitled to carer's allowance; or
 - they receive home responsibilities protection (paragraph 31 refers);
 - disabled people with broken work records in any year throughout which they:
 - receive severe disablement allowance; or
 - are entitled to long-term incapacity benefit.
51. In addition, those entitled to severe disablement allowance or long-term incapacity benefit must satisfy a labour market attachment condition when they reach state pension age. This condition requires that they have worked and paid Class 1 National Insurance contributions for at least one-tenth of their working life since 1978.
52. Carers and disabled people in these groups are treated as if they have earnings at the qualifying earnings factor (52 times the lower earnings limit) and, along with employed earners who have earnings at the lower earnings limit but below the low earnings threshold, are also boosted to (i.e. deemed to be earning at) the low earnings threshold¹. In other words, these groups are treated as having Band 1 earnings (see paragraph 59) for the purposes of calculating entitlement to state second pension for a given tax year.
53. Employed earners with earnings above the low earnings threshold would accrue state second pension according to their band of earnings (see paragraphs 58-63).

¹ £13,000 per annum in 2007/2008