



Presenting his Budget statement, Chancellor George Osborne said: "Over time we will simplify the tax system for pensioners by doing away with the complexity of the additional age-related allowances for anyone reaching the age of 65 on or after 6 April 2013 and I will freeze the cash value of the allowance for existing pensioners until it aligns with the personal allowance.

"We want to simplify the Basic State Pension and its interaction with the second state pension. So I can confirm that we will introduce a new single tier pension for future pensioners, set above the means test. This is currently estimated at around £140. It will be based on contributions. And it will cost no more than the current system in any year. We will bring forward further details later this spring."

The complexities of the upcoming automatic enrolment process meant that alongside the existing state pension setup, some employees enrolling into a workplace pension scheme would actually have found themselves penalised financially when they reached retirement – a wholly unattractive prospect.

Budget 2012

Pensioners will receive a flat-rate state pension from 2016

The Chancellor Mr Osborne confirmed during his Budget 2012 speech a pledge to combine the two state pensions into one simplified pension, as well as increasing the state pension age automatically in line with rises in longevity.

The full Basic State Pension is currently £102.15 a week, rising to £107.45 from April this year. Pensioners will receive a flat-rate state pension, initially it is estimated that it will be worth about £140 a week for those with a 30-year national insurance record, from 2016.

Long-awaited change

The government says the long-awaited change, which will see the current basic state pension and second state pension (S2P, formerly known as Serps) replaced

by a single scheme, will cost no more than the existing state pension system.

Small or no contributions

This means that while those on low incomes who have made small or no contributions to S2P will benefit from a higher pension than they could currently expect, people who earn higher salaries may lose out. The current full basic state pension is £102.15 a week (rising to £107.45 from April 2012), but those at the top end of the salary scale can expect up to £180 a week in combined pension payments.

Retiring after implementation

The flat rate pension will only apply to those retiring after

implementation. Pensioners already receiving the state pension will not move onto the new scheme.

Mr Osborne also announced that an automatic review of the state pension age (SPA) would be introduced to take account of increases in longevity. Details of how this will be done will be published alongside the Office for Budget Responsibility fiscal sustainability report.

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