



Financial Services

The Halifax Pension Health Check

New research from Halifax Financial Services shows the centenarian age group is the fastest growing age group in the UK, rising by an astonishing 90 times over the last century, from just 100 centenarians in 1911, to 9,000 in 2006.*

The research of consumer pension awareness has been published to coincide with the one hundred year anniversary of the state pension, introduced by Lloyd George's government in August 1908.

Key findings of the research from Halifax Financial Services:

- **79%** of the population don't know when or how their personal pension will be paid out to them
- At retirement, **83%** are unaware how much of their personal pension they will be able to take as a tax free lump sum
- **61%** don't understand the difference between the meaning of a personal pension as apposed to a state pension
- **35%** of the public don't think they are entitled to a state pension, with **17%** of those believing you don't get a state pension if you have too many savings
- Reassuringly, **44%** understand the meaning of an annuity, with **65%** understanding that some pensions are linked to the stock market for long term rather than short term rises and falls
- The latest figures from the Department of Work and Pensions show that state pension income was **16%** as a proportion of the populations' weekly earnings in April 2008
- In 2006/7 the average weekly household spend was around **£443**, however the basic state pension amounted to **£93**

Karen Crowshaw, Managing Director Halifax Financial Services, commented:

"Our research highlights confusion over pensions amongst the British public. We are issuing a timely reminder for people to start thinking about their retirement plans."

"Costs are rising and people are living longer which means it is more important than ever before that people have the funds in place to support their lifestyle in retirement. It's important that people seek financial advice when arranging their pension."

ENDS

Editor's Notes

100th Anniversary of the Basic State Pension

The basic state pension was introduced in what became known as the "People's Budget" in August 1908 by David Lloyd George, the then Liberal Chancellor of Exchequer

The new benefit, designed to end poverty in old age, was payable at age 70 and initially set at 5 shillings a week – equivalent to 25 pence or about £21.50 in 2007 prices – subject to a means test and a moral character test.

There have been several key changes to the provision of the basic state pension since 1908. Most notably in 1948 when the Labour Government implemented the proposal in the 1942 Beveridge Report for a flat-rate non-means tested benefit from a flat-rate National Insurance Contributions. The new BSP for a single person was set at £1.30 per week – in comparison to average earnings of male full-time employees of £6.80 per week.

In 1975 State Earnings Related Pensions (SERPS) was introduced (in fact it replaced the Graduated Retirement Benefit). State pensions were already earnings related, as were contributions, however with SERPS pensions were paid for the best 20 years of each employees working life.

Until 1975 uprating of state pensions took place on an ad hoc basis; from November 1975 state pension have been uprated on an annual basis in line with either the RPI or earnings growth. As this was a period of constantly rising inflation, and consequently earnings growth, the measure attempted to bring stability to pensioner incomes.

With an ageing population there have been significant changes to the basic state pension since 1980. In that year the annual uprating of state pensions was linked to the RPI only. In 1986, there were a number of reforms to that cut the future value of SERPS and widen options for private pensions.

Further changes to state pensions were introduced in the Pensions Act 2007. These include, reducing the qualifying years to 30 for both men and women from 2010; reintroducing annual uprating of BSP to earnings (subject to affordability and the fiscal position in 2012); and raising the state pensionable age to 68 for both men and women (between 2024 and 2046) to reflect increasing longevity in society and make the state pension affordable in the long term.

Trends in Basic State Pension (see Chart 1)

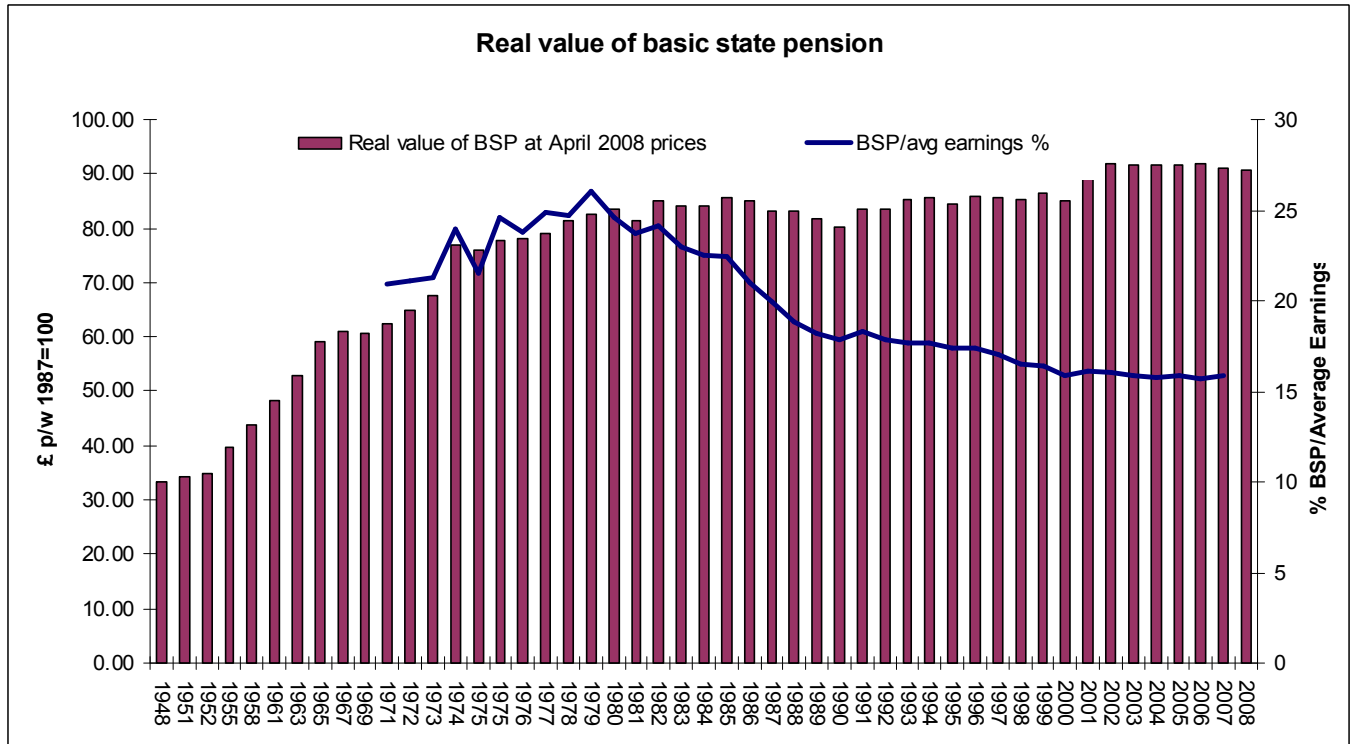
Since 1948 (when regular data on BSP is available) there has been an uninterrupted annual increase in the value of basic state pension from £1.30 per week to £90.70 per week in April 2008 (for a single person). An increase of almost 6,900% during the past 60 years! In today's prices (i.e. April 2008) the real value of weekly basic state pension has risen from £33 in 1948 to £90.70 in 2008- representing an increase of 173% in real terms since 1948.

However, increases in basic state pension have been slower in comparison to growth in average weekly earnings for those in full time employment. Real average earnings since 1971 (when records were first collected) have risen by £283 to £572 per week in April 2007- an increase of 92%. During the same period the real increase in basic state pension has increased by 46%.

Basic state pensions grew by almost 5% in real terms per each uprating between 1948 and 1980; since 1980 increases in basic state pension has grown in line with RPI.

The long term trend in basic state pension as a proportion of average earnings is steadily declining. Between 1971 and 1979 this proportion rose from 21% to a peak of 26%; falling to below 20% for the first time in 1987. By April 2007 basic state pension as a proportion of average weekly earnings had fallen to 16%. There are key reasons for this decline; one is breaking the annual uprating link between basic state pension and average earnings in 1980. Another important factor is the growth of occupational and private pensions during the period; hence some pensioners have other sources of retirement income.

Chart 1 Real Value of State Pension 1948-2008



Source DWP- Abstract of Statistics for Benefits, Contribution and Indices of Prices and Earnings 2008

About Halifax Financial Services

Halifax Financial Services, part of the HBOS group, is the largest bancassurance business in the UK providing a range of equity-based long-term savings and investments products. HBOS has over £109 billion in funds under management. HBOS is the number one provider of new investments in the UK.

It is always important to take a long term view on your savings.

Research

**The research was carried out by OnePoll.com in July 2008 using an online sample of 2,000 adults aged 16 and over.

The data for the BSP since 1948 is from the DWP- Abstract of Statistics for Benefits, Contribution and Indices of Prices and Earnings 2008.

*Centenarians are the fastest growing age group according to the Office of National Statistics <http://www.statistics.gov.uk/CCI/nugget.asp?ID=1875&Pos=1&ColRank=2&Rank=224>