

## PREMIER PENSIONS MANAGEMENT

### TECHNICAL UPDATE: 10/09

#### Changes to State Second Pension

The State Second Pension (S2P) came into effect on 6 April 2002 to replace the State Earnings Related Pension (SERPS). Over the next couple of years, change are being made to the way in which S2P is calculated which, in some cases, will result in a significant reduction in benefits.

There are currently three bands to the calculation of an S2P benefit.

- a) The first band lies between the Lower Earnings Limit (LEL) and the Lower Earnings Threshold (LET) which are £4,940 and £13,900 respectively for tax year 2009/10.
- b) The second band lies between the LET and the Upper Earnings Threshold (UET) which is £31,800 for the current tax year.
- c) The third band covers earnings between UET and Upper Accrual Point (UAP), currently £40,040.

The S2P benefit is targeted (over full working life) as follows:

**Band 1:** 40% x earnings between LEL and LET

**Band 2:** 10% x earnings between LET and UET

**Band 3:** 20% x earnings between UET and UAP

We have already seen a reduction in S2P benefit this year with the introduction of the UAP replacing the Upper Earnings Limit (see Technical Update 05/09 for more information).

In April 2010, the Band 3 element will be halved when the calculation is changed from a target of 20% to 10% for earnings between UET and UAP. This will affect anyone earnings more than £31,800 p.a. in the current tax year.

Someone earning £35,000 p.a. will see their annual S2P pension reduce from £6,014 to £5,694, a reduction of about 5%.

For someone earning £40,000 p.a. the reduction will be larger, with the annual S2P going from £7,014 to £6,194, a fall of around 12%.

There will be no change in National Insurance Contributions for 2009/10 despite a fall in benefits. From April 2011, National Insurance Contributions are planned to rise by 0.5%.

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*This update includes general information and cannot be relied upon for individual schemes issues.  
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