

NIFA LOSS OF PENSION READY RECKONER



NIFA For estimating the loss of the Second State Pension

Quantifying the loss of pension benefits under the Second State Pension ("SZP") is far from straightforward, yet the losses can be considerable. The tables overleaf can be used to determine whether or not it is cost effective to instruct a forensic accountant to undertake a detailed calculation, specific to the circumstances of any given case.

The basis of SZP

With effect from 6 April 2002 the new Second State Pension replaced the State Earnings Related Pension Scheme "SERPS" as the provider of additional pension in respect of earnings on or after that date. Employees' benefits built up under SERPS are preserved.

SZP introduced a system whereby employees accrue pension entitlement at three different rates over three bands of earnings.

To qualify for the scheme the employee must earn more than the Qualifying Earnings factor or ("QE"), also known as the Lower Earnings Limit ("LE"). This is £4,108 in 2004/5. In order to maximise the benefit to the lower paid, a Lower Earnings Threshold ("LET") was introduced (£11,600 in 2004/5). Anyone earning more than the QE but less than the LET is deemed to earn at the level of the LET.

No pension benefit accrues in respect of earnings above an Upper Earnings Limit ("UEL"), £31,720 in 2004/5.

Between the LET and UEL is an Upper Earnings Threshold ("UET"). This is defined by the formula:

$$UET = (3 \times LET) - (2 \times QE)$$

Pensions benefits then accrue at the following rates:

| | |
|---------------------------------|-----|
| Band 1: Up to the LET | 40% |
| Band 2: Between the LET and UET | 10% |
| Band 3: Between the UET and UEL | 20% |

The various limits and thresholds are set by the government and are increased each year broadly in line with price inflation or national average earnings, although it is proposed that the LET should rise by a minimum of 2.5% each year.

NIFA Ready Reckoner tables

These tables set out the loss of SZP benefits suffered by males and females of various ages for a range of level of earnings.

The tables are intended to be a rough guide only. Specific detailed calculations will be required in cases where, for example, a claimant is continuing to earn after the trial date or where it is predicted that his or her income would have risen above the rate of inflation had the cause of the claim not occurred (for example by virtue of promotion).

LOSS OF SECOND STATE PENSION FOR MALES

(Given annual earnings (£7000))

| | < 10 | 15 | 20 | 25 | 30 | 40+ |
|----|--------|--------|--------|--------|--------|--------|
| 20 | 12,440 | 13,865 | 15,947 | 18,030 | 21,550 | 22,943 |
| 25 | 12,558 | 13,909 | 16,101 | 18,205 | 21,763 | 23,165 |
| 30 | 12,517 | 13,956 | 16,052 | 18,151 | 21,702 | 23,094 |
| 35 | 12,223 | 13,631 | 15,679 | 17,730 | 21,205 | 22,557 |
| 40 | 11,627 | 12,970 | 14,919 | 16,873 | 20,186 | 21,464 |
| 45 | 11,144 | 12,437 | 14,307 | 16,185 | 19,373 | 20,585 |
| 50 | 10,890 | 12,161 | 13,992 | 15,831 | 18,905 | 20,130 |
| 55 | 9,899 | 11,069 | 12,738 | 14,419 | 17,299 | 18,325 |
| 60 | 7,721 | 8,659 | 9,970 | 11,298 | 13,603 | 14,342 |

LOSS OF SECOND STATE PENSION FOR FEMALES

(Given annual earnings (£7000))

| | < 10 | 15 | 20 | 25 | 30 | 40+ |
|----|--------|--------|--------|--------|--------|--------|
| 20 | 14,552 | 16,220 | 18,655 | 21,092 | 25,210 | 26,839 |
| 25 | 14,681 | 16,366 | 18,823 | 21,283 | 25,443 | 27,082 |
| 30 | 14,596 | 16,273 | 18,717 | 21,165 | 25,306 | 26,929 |
| 35 | 14,260 | 15,903 | 18,292 | 20,685 | 24,739 | 26,317 |
| 40 | 13,565 | 15,131 | 17,406 | 19,685 | 23,551 | 25,042 |
| 45 | 13,021 | 14,532 | 16,717 | 18,910 | 22,635 | 24,051 |
| 50 | 12,753 | 14,242 | 16,386 | 18,539 | 22,209 | 23,573 |
| 55 | 11,626 | 12,909 | 14,959 | 16,933 | 20,316 | 21,521 |
| 60 | 9,018 | 10,114 | 11,645 | 13,195 | 15,887 | 16,751 |

Underlying assumptions

1. That the claimant was not "Contracted Out" of SZP
2. That the claimant is unable to work after the date the claim arose.
3. That the claimant's earnings would, if it were not for the reason for the claim, have remained static.
4. That it is appropriate to apply multipliers from tables 33-34 of the 4th edition of the Ogden Tables at a discount rate of 2.5%. It is recognised that the Courts have, on occasions, been reluctant to apply these multipliers. However it is NIFA's view that they are appropriate.
5. The trial date is 31 December 2004.

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