HOUSE OF COMMONS LIBRARY

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State Pension payment arrangements

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The Government's preference is to make State Pension payments into a bank, building society or credit union account, as the most efficient and cost-effective way to do so. Payment into a Post Office card account (POca) remains an option until at least November 2021, although the Government has the option to extend the contract to 2024 (PQ 108720 24 October 2017; DEP 2017/0316; PQ 108721).

The Government has launched a new service to help people who may need help to access their benefit or State Pension payment during the Coronavirus outbreak. It has contacted 27,000 out of approximately 900,000 users of the POca who it thinks may need support:

> **Access to State Pension and benefits for people asked to shield themselves**
>
> There are approximately 900,000 users of the Post Office Card Account (POca) system for accessing their pensions or benefits. These POca customers ordinarily need to leave the house to access payments at the Post Office. The Department has worked closely with the National Shielding Service which is contacting clinically vulnerable citizens who have been advised by NHS England to shield as a result of the Coronavirus pandemic.
>
> We launched a new service on 10th April through which we have contacted 27,000 citizens who have POca accounts and we considered who may need support to access their Benefit or State Pension payment.
>
> The Department has worked tirelessly to identify those older, vulnerable customers who urgently require help to access their payments. For those needing help, DWP Visiting Officers are able to discuss a number of options available to customers over the phone and we have worked closely with Post Office Ltd to provide contact free cash payments by Royal Mail Special Delivery to support the most vulnerable, with guaranteed next day delivery. This cash service adds to a range of measures we are using to support these individuals shielding at home. (HCWS200 27 April 2020).

There are Coronavirus FAQs on the POca website.

Payment arrangements

The State Pension is a weekly benefit, generally only paid in multiples of a week. It is usually paid four-weekly in arrears. From 2010, individuals are allocated a payday according to the final two digits in their National Insurance number. (SI 1978/1968, reg 22C; Gov.UK/The new State Pension: what you'll get)

Before the introduction of the new State Pension on 6 April 2016, payment started from the first payday after the individual reached State Pension age, meaning there was often a gap at the beginning of the claim. The same principle applied at the other end of an award, so that when the pensioner died, their state pension was payable to the end of that benefit week.

With the introduction of the new State Pension, the rules were changed to allow part-week payments at the start and end of a State Pension claim. Although people may have to wait a few days for their first payday (as before), they will receive an amount in arrears to cover the gap (Explanatory Memorandum to SI 2015/1985, para 7.14)

1. State Pension payment arrangements

The State Pension is "usually paid every 4 weeks into an account of your choice."[1]

The Government's preference is to make payments into a bank, building society or credit union account, as the most efficient and cost effective way to make payments. Payment into a Post Office card account (POca) remained an option until at least November 2021:

> In 2014 Government committed to maintain POca until at least 2021, to ensure that people who cannot use a mainstream account can continue to access their benefits and pensions. Government's existing POca contract with the Post Office, which expires in November 2021, has an option to be extended for up to 3 years to 2024. A decision on any extension will be taken at the appropriate time, informed by both customers' needs and the need to make sure the taxpayer sees Value for Money.[2]

The Government has the option to extend the Poca contract for up to three years to 2024:

> …whilst the majority of benefit and pension payments are paid into a bank account we do recognise that some customers remain unable to access such services. As you are aware Government committed to maintain POca until at least 2021, to ensure that people who cannot use a mainstream account can continue to access their benefits and pensions. Government's existing POca contract with the Post Office, which expires in November 2021, therefore has an option to be extended for up to 3 years to 2024. A decision on any extension will be taken at the appropriate time, informed by both customers' needs and the need to make sure the taxpayer sees Value for Money.
>
> The default positions is that benefit payments are made by direct credit transfer into a bank, building society, credit union or Post Office Card Account. Where a person does not have an account, or has an account but doesn't want to be paid by direct credit transfer to it, the only other option is Simple Payment. This involves people being issued with a Simple Payment card, which they can use to collect their benefit payment from any "PayPoint" outlet displaying the Simple Payment sign. PayPoint outlets can be found in newsagents, convenience stores or supermarkets. Simple Payments replaced cheque payments; benefit payment by cheque was finally phased out in July 2013.[3]

On 1 October 2019, Pensions Minister Guy Opperman said plans were underway for a replacement from November 2021:

> The Department's contract with Post Office Limited for the Post Office Card Account ends in November 2021, this is the reason why plans are underway for a replacement. The replacement service will ensure that customers who remain unable to open or manage a standard account, are provided with a payment mechanism to receive their payment of pension and benefit from

1 Gov.UK/The new State Pension/what you'll get
2 PQ 108720 24 October 2017; PQ 108721 24 October 2017
3 DEP 2017/0316; PQ 108721

> DWP. Commercial arrangements are underway to engage with potential suppliers in preparation for competitive tender later this year.[4]

There are FAQs on the POca website.

On the basis that the POCa has limited features, the Government has written to people encouraging them to open a mainstream account:

> Valerie Vaz: To ask the Secretary of State for Work and Pensions, whether his Department plans to continue payment of benefits through the Post Office Card Account for the next five years.
>
> Priti Patel: Post Office Card Accounts provide a useful service to many people and there are no plans to change provision. The Department recognises, however, that working age claimants may also be receiving wages. As the account does not receive wages or allow for direct debit or standing order facilities, Post Office Card Accounts are not suitable for all of their needs. Those claimants are therefore being encouraged to open main stream bank accounts including credit union accounts. The Post Office Card Account contract was awarded from 01 December 2014 and expires on 30 November 2021 and there are no plans to amend that term.[5]

A factor in this may be the relative cost to DWP of processing different types of payment:

> The cost to Government for making payments into a Post Office Card Account are £0.50, into a bank account £0.04497 and by Simple Payment £3.60. These costs are applicable to both pension and benefit payments.[6]

1.1 Payments during the COVID 19 outbreak

On 27 March 2020, the Pensions Minister said the Government was urgently looking into ways to provide payments to those at home without access to mainstream banking solutions.[7]

The Government has launched a new service to help people who may need help to access their benefit or State Pension payment during the Coronavirus outbreak. It has contacted 27,000 out of approximately 900,000 users of the Poca who it thinks may need support:

> **Access to State Pension and benefits for people asked to shield themselves**
>
> There are approximately 900,000 users of the Post Office Card Account (POca) system for accessing their pensions or benefits. These POca customers ordinarily need to leave the house to access payments at the Post Office. The Department has worked closely with the National Shielding Service which is contacting clinically vulnerable citizens who have been advised by NHS England to shield as a result of the Coronavirus pandemic.
>
> We launched a new service on 10th April through which we have contacted 27,000 citizens who have POca accounts and we

4 PQ 290396, 1 October 2019; see also, HL 310, 30 October 2019
5 PQ 36900, 12 May 2016; PQ 211235, 27 October 2014
6 PQ 211235, 27 October 2014; See also Post Office Card Account holders, Revenue Benefits webiste, 25 October 2016
7 PQ 32667 27 March 2020

> considered who may need support to access their Benefit or State Pension payment.
>
> The Department has worked tirelessly to identify those older, vulnerable customers who urgently require help to access their payments. For those needing help, DWP Visiting Officers are able to discuss a number of options available to customers over the phone and we have worked closely with Post Office Ltd to provide contact free cash payments by Royal Mail Special Delivery to support the most vulnerable, with guaranteed next day delivery. This cash service adds to a range of measures we are using to support these individuals shielding at home. (HCWS200 27 April 2020).

There are Coronavirus FAQs on the POca website.

This means that only around 3% of those who use POca to collect their pension or benefits have been contacted. According to the *Sunday Times* there has been a 25% fall in withdrawals from Post Offices since the start of the Coronavirus outbreak. Former Pensions Minister said DWP should "publish data on how many pensioners have stopped collecting cash since the crisis began and set out a strategy for reaching them."[8]

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8 Elderly forced to visit Post Office to get pension despite lockdown, *Sunday Times*, 6 May 2020; 'Just three per cent of pensioners dependent on Post Office cash have been contacted, Minister admits', *Daily Telegraph*, 29 April 2020 (£)

2. Pension payday

2.1 People who reached pension age before 6 April 2010

The State Pension is a weekly benefit, paid in multiples of a week.[9]

It is generally paid four weekly in arrears,[10] but regardless of frequency, it remained a weekly benefit.[11]

For people who reached State Pension age before 6 April 2010, payments start from the payday (normally Monday) after the start of entitlement (or the period claimed if that is later.[12] DWP explains:

> **State Pension payments**
>
> State Pension is normally paid directly into a bank or building society account. When a person claims their State Pension, we will ask them to give details of the account they want their State Pension to be paid into. If they are genuinely unable to manage an account, we can arrange to pay them by cheque. They should contact us to discuss this.
>
> State Pension payments will begin on a payday. This will be either the first payday after the start of:
>
> - entitlement; or
> - the period claimed; whichever is the later.
>
> If the start of entitlement or the start of the period claimed is a payday, payments will begin on that day.
>
> *[SS (C&P) Regs 1987 regulations 16 and 21-22]*
>
> The State Pension payday is normally Monday.
>
> *[SS (C&P) Regs 1987 Sch 6]*
>
> > ***Example***
> >
> > *Ruth is 60 on 12 December 2008 – her first payday is Monday 15 December 2008. Liz is a widow and is 60 on 12 December 2008 – her first payday is Tuesday 16 December 2008. Note: Widows keep Tuesday payday when changing to State Pension.*
>
> The first payment may be slightly less than the full amount due while the exact amount is worked out. The amount owed will be paid later. The first payments may be sent by cheque rather than paid directly into the nominated bank account. The person must cash any cheque within one month from when it is dated.
>
> Paying the pension direct into an account is the safest way for us to pay people and lets them choose how and when they get their money. They can use a bank or building society account. Most accounts let people use a cash machine so they can get their money at any time. Several major banks and building societies

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[9] *Social Security Contributions and Benefits Act 1992*, 44 (3); *Pensions Act 2014*, s3; *State Pension (Amendment) Regulations 2016 (SI 2016/227)*

[10] *Social Security Claims and Payments Regulations 1987 (SI 1987/1968)*, reg 22

[11] Social Security (Contributions and Benefits) Act 1992, section 44(3); See also HC Deb 16 November 2004, cc 1328W

[12] Ibid, Sch 6 (5)

also let people collect cash from some of their accounts at their local post office.

However, if a person's State Pension is less than £5 a week it is normally paid once a year (for the year passed) by cheque. If they prefer, the yearly payment can be made directly into a bank account. This will usually be done shortly before Christmas.[13]

Reason for the rules

The principle that pensions should only be payable from a given pay day is actually a very longstanding one which goes back to before the introduction of the National Insurance system in 1948. As long ago as February 1940, MPs were questioning its fairness, and Ministers were replying that any loss at the beginning was compensated for by a gain at the end:

> **Contributory pensions (date of payment)**
>
> Mr Cassells asked the Financial Secretary to the Treasury what is the approximate annual saving to the Treasury under the Widows', Orphans and Old Age Contributory Pensions acts in respect that pension between the ages of 65 and 70 years is payable each Thursday in advance, with payment only commencing on the first Thursday following the date on which the pensioner attains the age of 65 years?
>
> Captain Crookshank: under the terms of the Pensions Acts, a full week's pension is payable on the first weekly pay-day after the date on which the pensioner becomes entitled to pension and on every subsequent pay-day whilst he or she is alive and entitled to pension, including the week in which the pensioner dies. In some cases there will be a few days for which pension is not received at the beginning; in others there will be a few days for which pension is paid after death. On balance there is no saving from this method of payment.[14]

Pension pay-day used to be Thursday.[15] It changed to Monday with effect from 28 September 1984, but only for pensioners who became entitled on or after that date.[16]

Ministers have provided a number of justifications for the practice: the fact that people are likely to have their last week's pay in hand, the continuation of full payment until the next payday following death and the need for post offices to spread the collection load. In reply to a PQ in June 1997, the then Social Security Minister, John Denham, said:

> Retirement pension is a weekly benefit paid in advance from the first pay day, usually a Monday, on or after the 65th birthday. In assessing the impact on income, account needs to be taken of the fact that whilst retirement pension is paid in advance, income received immediately preceding retirement, such as earnings and most social security benefits, are generally paid in arrears. Most

[13] Pension Service, A detailed guide to state pensions for advisers and others, NP46 (August 2008), p64
[14] HC Deb 21 February 1940, cc 1366-1367
[15] See Regulation 5 (6) and 15(9), *Social Security (Claims and Payments) Regulations* SI 1975/560 and
Regulation 10 (4) (b) and 10 (5) of the *National Insurance (Claims and Payments) Regulations* SI 1948/1041
[16] Regulation 2, *Social Security (Claims and Payments) Amendment Regulations* SI 1984/550

> pensioners are therefore entitled to a week's pension within a week of receiving their last income. Account also needs to be taken of the fact that, as a consequence of the pension being paid in advance, any change of circumstances which would result in reduction of benefit, such as hospitalisation, is effective only from the next pay day. In addition, no benefit is recoverable in respect of the week in which the pensioner dies.
>
> The estimated gross annual cost of paying retirement pension for the days between state pension age and the first retirement pension pay day is £22 million.
>
> We will announce shortly our pensions review which will examine all aspects of the basic pension and its value. We will consider any representations that are submitted on this issue. We will retain the basic state pension as the foundation of pension provision, increasing it at least in line with prices.[17]

The Department for Social Security (a precursor of the Department for Work and Pensions) has in the past offered the following justification:

> Retirement Pension is a weekly benefit because generally it follows employment for which wages are paid at regular intervals. This is why regulations provide that the pension should be a weekly benefit and is not payable for part weeks or at different rates for different parts of a week. This does mean that no pension is paid for any odd days between retirement and the first following pay-day but there is 'another side to the coin'. Regulations also provide that any change of circumstances which would result in a reduction or cessation of pension should not take effect until the following pay day.
>
> Since October 1984 the pay day for new pensioners has been Monday. The Post Office has to have fixed pay days for certain categories of beneficiaries so that they can spread the load over the week and provide a satisfactory service. They have to make available the necessary cash without over provision and knowing what pay days their customers have enables them to do this.
>
> The fact that Retirement Pension is paid in advance is very important. This enables someone to retire, receive his last wage or salary and then collect a full week's pension no more than 6 days later. In this respect the pensioner is better off than he would be if the pension was a daily benefit paid in arrears. So although it is true that no pension is actually paid for the days before the pay day following retirement it is equally true that everyone will be entitled to a full week's pension within a week of retirement.

In June 2007, the then Pension Reform Minister James Purnell said:

> Mr. Dai Davies: To ask the Secretary of State for Work and Pensions for what reason the first payment of a state pension is made from the nearest Monday to a pensioner's qualifying birthday. [143691]
>
> James Purnell: Entitlement to a state pension begins on the payday on or following the day on which a person reaches pension age. Historically pensioners had a Thursday payday, but it was changed to a Monday for new claimants in September 1984 to spread the flow of customers using Post Offices more evenly. In some circumstances pensioners can be given a different payday.[18]

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17 HC Deb 21 July 1997 c473-4W
18 HC Deb 21 Jun 2007 c 2247W

Ministers estimated the cost of paying people from their birthday:

> **Mrs. Spelman:** To ask the Secretary of State for Work and Pensions how much money has been saved in each year since 2001 through starting retirement pension payday on the Monday after a person's birthday rather than on the birthday itself; and if he will make a statement. [11725]
>
> **Mr. Timms:** There have been no overall savings under the current regulations which provide for the payment of state pension in whole weeks at the start and end of a claim.
>
> If payment were to have been made for part weeks at the start of a claim only, and there had been no recovery of overpaid benefit at the end of a claim, we estimate additional expenditure of up to £20 million would have been incurred in each year since 2001. [19]

It remained government policy for there to be a single payday:

> **Mr. Lancaster:** To ask the Secretary of State for Work and Pensions if he will change the policy on the starting date for an individual's state pension from the Monday after their 65th birthday, to the day of their 65th birthday. [26109]
>
> **Mr. Timms:** Entitlement to state pension begins with the pay-day on or following the day on which the individual attains state pension age—currently age 60 for women and 65 for men. The payday is commonly a Monday. There are no plans to change these arrangements. [20]

2.2 Between 6 April 2010 and 5 April 2016

The rules for working age benefits changed in April 2009 to align payment arrangements across a range of social security benefits and to improve transition from one benefit to another. Jobcentre Plus explained:

> Instead of receiving different benefits on different days people will have one pay week-ending day allocated to them that is determined by their National Insurance number.
>
> Also, payments will normally be made a minimum of fortnightly in arrears instead of the current situation where some benefits are paid weekly and others fortnightly in arrears instead of the current situation where some benefits are paid weekly and others fortnightly. The aim is to simplify the benefits system as people will retain the same pay weekending day whichever benefit they are awarded from Jobcentre Plus.[21]

In November 2009, the then Pensions Minister, Angela Eagle, said the arrangements for the State Pension and Pension Credit would change for people who reach State Pension age on or after 6 April 2010:

> **The Minister for Pensions and the Ageing Society (Angela Eagle):** I am pleased to announce our intention to introduce amending regulations to align the payment arrangements for state pension and pension credit with the arrangements for working age benefits. We plan to introduce a new part-week payment for people who move onto state pension from a working age benefit, to ensure that they do not experience a break in

[19] HC Deb 14 July 2005 c 1278W; HC Deb 9 July 2001 c370W
[20] HC Deb 15 November 2005, c 1158W
[21] Jobcentre Plus, 'Changes to pay periods and pay week-ending days', 2009

> payments. DWP customers would also be able to keep the same payday and pattern of payments when they reach pension age. In line with current practice for working age benefits, people who reach state pension age on or after 6 April 2010 will be allocated a payday based on the last two digits of their national insurance number, and will be paid in arrears. Customers will continue to have a choice around how frequently they are paid. This is not a savings measure, and existing recipients of state pension and pension credit will not be affected by these changes.[22]

Four changes were made for people reaching State Pension age from 6 April 2010, for whom the State Pension and Pension Credit are paid:

- In arrears, not in advance;
- Weekly, fortnightly or four-weekly (or at intervals of 13 weeks where the beneficiary agrees);
- On a payday allocated according to the final two digits of the customer's NI number.
- There is a new part-week payment of State Pension for customers who previously received a social security benefit that stopped when they reach pension age and there is a gap in their entitlement until the start of their first full benefit week for State Pension. In addition, the existing provisions for part-week payments of State Pension Credit are changed. When a customer moves to the Guarantee Credit in Pension Credit from another income-related benefit, any part-week payment of State Pension will be taken into account when calculating their Pension Credit.[23]
- The changes did not affect existing pensioners.[24]

As before, there was potential for a gap at the beginning of the claim:

> The State Pension is not necessarily paid from the day a person reaches State Pension age. For people who claim their State Pension having retired from work or from a situation of not receiving any other State benefit, there is normally a gap in payment at the beginning of their claim. This is because State Pension is paid in whole weeks and the person receives their first whole week of pension [for the week] that follows their first payday. This has been the case since the State Pension scheme began in 1948.
>
> The size of the gap is determined by the date a person reaches State Pension age and the last two digits of their National Insurance number because these factors determine the start and end of their benefit week. For example, a man was 65 on Monday 2 July 2012, his National Insurance number ends in a number between 20 and 39 and so he is allocated a Tuesday payday. This means that his benefit weeks begin on Wednesday and end the following Tuesday on his payday. So, the first whole benefit week that follows his birthday on the 2 July runs from Wednesday 4 July to Tuesday 10 July. This leaves a gap of two days. Only people who reach State Pension age on the first day of their benefit week

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22 HC Deb 4 November 2009 c47-48WS
23 *Social Security (Miscellaneous Amendments) (No. 6) Regulations 2009 (SI 2009/3229);* which inserted a new reg 22C into *(SI 1987/1968)*
24 Ibid, para 8.3

> will experience no gap; for everyone else it will be anything between one and six days.[25]

As explained above, although no pension was paid for any odd days between State Pension age and the first following payday, there is 'another side to the coin'. Regulations also provide that any change of circumstances which would result in a reduction or cessation of pension, should not take effect until the following pay day. The principle that pensions should only be payable from a given payday was described as a longstanding one that did not result in savings to the Exchequer.[26]

2.3 From 6 April 2016

The new State Pension was introduced on 6 April 2016 for people reaching State Pension age from that date.[27] There is now provision for payment in respect of a part week at the beginning and end of the claim. So, while an individual may still have to wait for a few days for their first payday, they will receive an amount in arrears to cover the gap. A PQ was asked on this last month:

> Alan Brown: To ask the Secretary of State for Work and Pensions, pursuant to the Answer of 19 July 2016 to Question 42832, if he will allow part payments to cover the one to six day period between people reaching State Pension Age and their allocated pension payday.
>
> Richard Harrington: New rules apply in the new State Pension scheme introduced from 6 April 2016. Individuals who reach State Pension age on or after that date are paid their new State Pension from the date they reach their State Pension age. Payments are made in arrears on a payday based on the individual's National Insurance number. This means that in most cases the first payment may be in respect of a part of a week – that is from the day the individual reaches State Pension age to their first normal payday. The new State Pension is payable until the date of their death and a part week payment may also apply at the end of their claim.
>
> Under the State Pension system that applies to people who reached State Pension age before 6 April 2016, for those who did not move from a working age benefit to State Pension, the State Pension is payable only in full benefit weeks. This means that depending on the individual's payday, as determined by their National Insurance number, their payment may not have begun from the day they reached their State Pension age. These arrangements for full week payment apply to both the start and the end of their claim for their State Pension and a full week is paid in respect of the week in which their death occurs.[28]

The timing of State Pension payments for people reaching State Pension age on or after 6 April 2016 was provided for in the *Pensions Act 2014 (Consequential, Supplementary and Incidental Amendments) Order 2015 (SI 2015/1985)* (article 9). This inserted new regulations 22CA and 22DA into the existing claims and payments regulations:

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25 Source: DWP

26 HC Deb 21 February 1940 cc 1366-1367

27 *Pensions Act 2014*; Library Briefing Paper The new State Pension - background (CBP 6525, August 2016)

28 PQ 43605 5 September 2016

- **Regulation 22CA** specifies that the new State Pension is paid in arrears, at intervals of one week, two weeks, four weeks, or 13 weeks, if the beneficiary agrees.
- **Regulation 22DA** specifies that the new State Pension is payable in respect of the period "*beginning on the day on which the person reaches pensionable age or the first day in respect of which the person makes a claim for their state pension*". The first payment is paid pro-rata, calculated at a daily rate, if the period it covers (between State Pension age date and first payment day) is less than a week. This eliminates the possibility of a "payment gap" at the beginning of a claim.

Gov.UK explains:[29]

> After you've made a claim you'll get a letter about your payments.
>
> The new State Pension is usually paid every 4 weeks into an account of your choice. You're paid in arrears (for the last 4 weeks, not the coming 4 weeks).
>
> There are different rules if you live abroad
>
> **Your first payment**
>
> Your first payment will be within 5 weeks of reaching State Pension age. You'll get a full payment every 4 weeks after that.
>
> You might get part of a payment before your first full payment. The letter will tell you what to expect.
>
> **Your payment day**
>
> The day your pension is paid depends on your National Insurance number.
>
> You might be paid earlier if your normal payment day is a bank holiday.
>
> The day your pension is paid depends on your National Insurance number.

The last 2 digits of your NI number	Payment day of the week
00 to 19	Monday
20 to 39	Tuesday
40 to 59	Wednesday
60 to 79	Thursday
80 to 99	Friday

The Explanatory Memorandum gave the following commentary:

> 7.12 The rules about when a state pension award starts and ends will be different. Under the old state pension scheme the state pension is generally payable only for complete weeks. This means that, for example, in the case of a person who reached state pension age on Thursday 5 November 2015, but whose "benefit week" runs from Wednesday to Tuesday, no state pension would

29 Gov.UK, The new State Pension/what you'll get

be payable for the first 6 days falling before Wednesday 11, the start of their first benefit week. The same principle applies at the other end of an award – when the pensioner dies, their state pension is payable to the end of that benefit week.

7.13 Limited arrangements to make part-week payments at the start of a state pension claim were implemented in 2010 to mitigate the impact on people receiving a working-age benefit of the introduction of part-week payments up to state pension age. However, for reasons to do with the cost of making the additional initial payment and updating IT systems, this was not extended more widely.

7.14 The introduction of the new state pension has provided the opportunity to include part-weeks at the start and end of a claim as part of the wider reforms. New regulation 22DA, inserted by article 9(11), accordingly provides for the new state pension to be payable from the day on which a person reaches state pension age up to and including the date of their death.

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