State Pension Guide

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Financial Education for the Nation

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This guide will help you understand the State Pension. It focuses on what's called the 'new' state pension, which is what you'll receive if you are:

- a man born on or after 6 April 1951
- a woman born on or after 6 April 1953

If you were born before these dates, then the 'old' or basic state pension rules apply to you instead, and you should visit www.gov.uk/state-pension for details.

ELIGIBILITY

Your state pension is based on your National Insurance contributions (NICs) during your working life (or National Insurance credits received, if you have been a parent, a carer or low earner for example).

If you've had any career gaps, or earned below the qualifying threshold, you may not receive your full allowance, reducing your income in later life.

If this is the case, you may benefit from paying voluntary national insurance contributions to cover any gaps in your NI record, you can maximise your state pension.

In almost all cases, you'll need at least 10 years of paying NICs or receiving National Insurance credits to receive a state pension of any amount (this does not need to have been 10 years in a row).

You need 35 qualifying years of NICs to receive a full new state pension. A qualifying year is a financial year in which you're under state pension age for the entire year, and where you pay sufficient NICs, or receive credits, to add a year to your entitlement.

CHECKING YOUR STATE PENSION FORECAST

Step two of The Money Plan is to get financially well organised and I include in this "Know your retirement benefits". Therefore you should find out how much you're currently forecast to receive. This is easily done online through the Government Gateway, or if you prefer by using a BR19 application form.

Online you will be told your current earned state pension based on NICs paid to to date and your weekly state pension forecast based on your assumed NICs contributions in the future. Using the BR19 forecast form, shows similar information.

The full state pension is currently **£164.35 per week**, or **£8,546.20 per year**. If your forecast amount is already at this level, you're at the maximum and you cannot top up your pension further.

MISSING YEARS

If your projected state pension amount shown online is less than the full allowance, you need to look at your NICs history to see if this is correct, you can only see your NIC history online. If there are gaps which you do not feel are correct you should send evidence (such as a P60) to the below address, to have them credited;

Individuals Caseworker
National Insurance contributions and Employers Office
HM Revenue and Customs
BX9 1AN

TOPPING UP

If you are forecast to receive less than the full state pension allowance, you can top up missing years or part-years on your record of NICs, provided you are still below state pension age and you were not exempt from paying NI.

You can top up missing years or part-years of NICs from 2006/07 to 2015/16 until 5 April 2023. After 2015/16, any NIC gaps must be topped up within six years of occurring.

Year	Cost of one weeks' worth of NIC
2006/07 - 2009/10	£13.25
2010/07	£12.05
2011/07	£12.60
2012/07	£13.25
2013/07	£13.55
2014/07	£13.90
2015/07	£14.10

So if you paid no NICs during 2010/11, topping up that year will cost you £626.60 (52 x £12.05).

If you paid 35 weeks of NICs during 2010/11, you need only top up a further 17 weeks of NICs (£204.85) to turn that into a qualifying year.

WHY TOP UP

Topping up is done via payment of Class 3 NICs, which means they are voluntary. We've already seen above that each additional year you top up with voluntary contributions will add 1/35th of the state pension to your starting amount, or around £4.70 per week.

That equates to around £244 extra per year once you start receiving your state pension – so in the example above, if you were to top up the full year at £626.60, you would recoup your money in around two-and-a-half years of state pension payments.

Another way to look at this is you are buying an annuity for £626.60 which gives you an income for life of £244pa or almost 40%.

HOW TO TOP UP

Paying Class 3 contributions is simple. You can:

- Pay monthly via Direct Debit
- Use online or telephone banking, including BACS and CHAPS
- Send a cheque

It is no longer possible to pay through the Post Office.

See this page on the Gov.uk website for details of how to pay via each method.

HOW IT IS CALCULATED

Each qualifying year from 2016/17 until the financial year before you reach state pension age will increase your state pension by £4.70 per week (1/35th of the £164.35 maximum, because you need 35 years of NICs to qualify for the full amount).

If your projected State Pension comes to more than £164.35, then you do not need to top up because you will reach the full state pension allowance by the time you start receiving it.

WHEN DO I GET MY STATE PENSION

The rules on when you can start receiving your state pension have altered drastically in recent years, especially for women: in 2018, the state pension age is 65 for both men and women, the state pension age will rise to 66 for everyone in October 2020, and to 67 between 2026 and 2028.

You can easily obtain you state pension age by visiting https://www.gov.uk/state-pension-age.

A common mistake people make is to think of retirement as the point at which they receive their state pension. While the two dates can be the same, however you can receive your state pension and continue to work. **You start receiving your state pension based on your age, not on your working status**.

DEFERRING YOUR STATE PENSION

You do not automatically receive your state pension, you have to claim it. You'll receive a letter from the government at least two months before you reach your state pension age, which will explain how to claim.

If for any reason you wish to delay receiving your state pension, you can simply ignore the letter and it will be automatically deferred. This may increase the amount you receive when you do claim it.

Your State Pension will increase every week you defer, as long as you defer for at least 9 weeks.

Your State Pension increases by the equivalent of 1% for every 9 weeks you defer. This works out as just under 5.8% for every full year.

The extra amount is paid with your regular State Pension payment.

Example:
You get £164.35 a week (the full new State Pension). This works out as £8,546.20 a year.

By deferring for one year, you'll get an extra £493 a year (just under 5.8% of £8,546.20).

This example assumes there is no annual increase in the State Pension. If there is an annual increase, the amount you could get could be larger.

Although this is an excellent guaranteed return, an important consideration to note is that if you defer your state pension for one year, your pension in year two, the year you claim, will be higher by just under 5.8% and every year thereafter, however you will not receive the deferred years income, this is effectively being used to increase your future pension. So, it will take approximately 20 years to recoup the deferred year.

TAX IMPLICATIONS

We all pay tax if our total annual income, in a tax year, is more than our personal allowance. Your state pension is often the first line of income taxed, so it will usually fall within your personal allowance and is therefore not commonly taxed.

However, your total annual income might also include a private pension, property income and/or investment income as well as your state pension, all of which may push you past your personal allowance. You should be aware of this when considering your state pension and potentially topping it up.

You should seek advice from a Certified Financial Planner if you are concerned about your tax in later life. You can find qualified professionals via the Wayfinder website.

STATE PENSION AND INHERITANCE

The new State Pension system was introduced on 6 April 2016. The benefits payable on your death will depend on when you or your partner reached or will reach their State Pension age. There will be transitional arrangements, so that in some circumstances, people who have made national insurance contributions or have credits under the current system will still be able to inherit state pension from a late spouse or partner.

- There is no inheritance by a surviving spouse or civil partner of the new state pension or extra state pension built up from deferral of a new State Pension.
- When both partners reach State Pension age after 6 April 2016, a surviving spouse or civil partner will be able to inherit 50% of any protected payment (the additional pension earned under the old system which is in excess of the new State Pension) that exists.
- A new state pensioner may still inherit an old system deferral payment from their late spouse or civil partner.
- Members of a couple in which only one of them reaches their State Pension age under the previous system may be able to increase their State Pension using their partner's National Insurance record. They can also inherit some additional State Pension from their deceased spouse or civil partner as under the present system.

CLAIM A DEFERRED STATE PENSION

There are 4 ways to claim:

- Online at www.gov.uk/get-state-pension.
- Download the State Pension claim form and send it to your local pension centre.
- Claim from abroad (including the Channel Islands).
- Over the phone on the details below.

STATE PENSION CLAIM LINE

Telephone: 0800 731 7898
Textphone: 0800 731 7339
Monday to Friday, 8am to 6pm (except public holidays)

Warren's bestselling book The Money Plan which is available on Amazon priced £11.79, gives easy-to-use systems and guides for better money management. He also shares his thoughts and tips at warrenshute.com

USEFUL LINKS

Below is a list of the links and services mentioned in this guide.

- **www.gov.uk/state-pension**
  Information for state pension details for a man born before 6th April 1951 or a woman born before 6th April 1953.

- **www.tax.service.gov.uk/check-your-state-pension**
  Government service to help you find your pension forecast.

- **www.gov.uk/government/publications/application-for-a-state-pension-statement**
  Application for state pension statement.

- **www.gov.uk/state-pension-age**
  Find the earliest age you can start receiving your state pension.

- **www.gov.uk/pay-voluntary-class-3-national-insurance**
  This will give you the information you need in order to top up your state pension.

- **www.gov.uk/new-state-pension**
  Information about the new state pension.

- **www.financialplanning.org.uk/wayfinder/find-planner**
  A link to help you find qualified financial planner in your area.

- **www.gov.uk/get-state-pension**
  This page will help you claim a state pension.

- **www.gov.uk/government/publications/the-basic-state-pension**
  This is the state pension claim form.

- **www.gov.uk/find-pension-centre**
  Find your local pension centre.

- **www.gov.uk/state-pension-if-you-retire-abroad**
  Claiming your state pension if you are overseas.