

## **TECHNICAL NOTE – UK STATE PENSIONS**

The Basic State Pension is a government pension gained through National Insurance contributions paid or credited throughout a person's working life. The State Pension information in this technical note is relevant to individuals who will reach State Pension retirement age after 6 April 2010 and takes the Pensions Act 2007 changes to rules and conditions into account. A particular focus is to assist with calculating whether it is worthwhile to make voluntary contributions to cover previous missing qualifying years in your NI contribution record. A year is the UK tax year of 6 April to 5 April.

### **State Pension Age**

The State Pension Age for men is age 65. For women born before 6 April 1950 the State Pension Age is age 60. For women born on or after 6 April 1950 but before 6 April 1955, the State Pension Age will rise in steps from 60 to 65 between 2010 and 2020. For women born on or after 6 April 1955 the State Pension Age is 65.

The State Pension Age will increase for both men and women who retire between 2024 and 2046 from age 65 to 68 in steps.

### **A Full Basic State Pension**

If a person reaches State Pension Age on or after 6 April 2010, 30 qualifying years are needed for a full Basic State Pension. There is no minimum period. For 2009-10 year the full Basic State Pension is £95.25 for a single person. The pension is paid directly into a bank or similar account. It is possible to defer the pension to get a higher weekly amount or a one-off taxable lump sum payment instead. From 6 April 2010 male, female and civil partners can get up to a 60% of full Basic State Pension on their partners NI contribution record if this is greater than their Basic State Pension in their own right. From the same date the partner will not need to have started their own State Pension. The indexation of the Basic State Pension is going to change from prices to average earnings. Pensions are not increased for people living in some overseas countries including Australia.

### **Pension Credit**

Pension Credit replaced the Minimum Income Guarantee on the 6<sup>th</sup> October 2003. It is a guaranteed weekly income for those aged 60 and over (gradually increasing) and living in Great Britain. In 2009-10 it is a minimum of £130.00 p.w. if single and £198.45 for a couple.

## **Qualifying Years**

Years in which the minimum required National Insurance contributions have been made or credited count as a qualifying year. Some married women chose to have reduced contributions and not have the years counting. Contributions are deducted if earnings are above the primary threshold. Between the lower earnings limit and the primary threshold, the year is credited, but no deduction is made. Self Employed can pay flat rate Class 2 contributions.

In certain situations where you can't work or have carer responsibilities, a credit of a year is granted.

Some periods of residency in Australia before 28/2/2001 may count as a qualifying year.

## **Voluntary Contributions**

A person may be able to improve their UK Basic Pension by making voluntary contributions. Class 3 voluntary contributions can be paid every four or five weeks in arrears directly from a bank account or as a lump sum at the end of the tax year (within 42 days of year end).

Voluntary Contributions can be paid to cover years in which nil or not sufficient NI contributions were made. Normally must make the contribution within 6 years of the end of tax year the payment is for.

Some special provisions exist for additional Class 3 NI contributions for people reaching State Pension Age between 6 April 2008 and 5 April 2015, who already have 20 qualifying years. The additional 6 years must be paid within 6 years of reaching State Pension Age.

Additional contributions cannot be made for years covered by a married woman's reduced rate election.

Class 3 voluntary contribution rates in 2009-10 is £12.05. It is set annually by Parliament. Class 2 self employed contributions are cheaper (if relevant).

## **Paying a State Pension Overseas**

Pensions can be paid abroad, but increases in the pension rate has ceased for living in Australia because it no longer has a reciprocal social security agreement with the UK. The Basic State Pension is assessable income in Australia but with an 8% deductible

amount. It may be possible to claim a higher deductible amount in certain circumstances. More information is available from:

International Pension Centre  
Department for Work and Pensions  
Tyneview Park, Newcastle-upon-Tyne, NE98 1BA  
Tel: +44 191 218 7777

### **State Pension Forecast**

A State Pension forecast lets you know the estimated amount of the State Pension you may get based on your current NI contribution record, and an estimate with future accrual.

The forecast letter also lets you know what Class 3 National Insurance contributions can be made to fill in gaps in the NI record.

### **Additional State Pension**

The State Second Pension was introduced to reform the State Earnings Related Pension Scheme (SERPS). This entitlement is paid in addition to the Basic State Pension. There are changes from 2010 to assist carers to build up entitlements.

The method of accrual will change to a simple flat rate weekly top up to the Basic State Pension. From 2012 contracting out into a private pension scheme on a defined contribution basis will no longer be allowed, it will have to be defined benefit designed scheme.

There is a small non-contributory State Pension for people who are over 80 even if they have no NI record, on satisfying certain conditions. A Graduated Retirement Benefit is paid to employees who made NI contributions between 6 April 1961 and 5 April 1975.

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