# WOULD YOU BENEFIT FROM TOPPING UP YOUR STATE PENSION?

If you're aged 50+, act now to make sure you don't miss out. See inside for details.

Under 50 and a parent? Head straight to page 7 for information on how Child Benefit and the State Pension interact.

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# STATE PENSION TOP-UPS

Everyone loves a bargain, don't they? And paying voluntary National Insurance Contributions (NICs) to boost your State Pension can be just that.

State Pension top-ups can be extremely good value, potentially giving a return of your money in less than four years and thereafter offering 'free' (taxable) income for life.

**If you are aged 50+, or are considering your pension savings and retirement plans, now is the time to check whether you are eligible.**

**As always, individual positions will vary - and top-ups won't always deliver value.** You can now check your State Pension summary and National Insurance record via your online HMRC Personal Tax Account. Alternatively, you can contact the Future Pension Centre for information on your own situation.

Future Pension Centre

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# HOW DOES THE STATE PENSION WORK?

A new State Pension was introduced in 2016, and **the maximum payment is currently £230.25 per week, per individual** (£11,973 a year). To be eligible for the maximum payment you need a **full 35 years of NIC credits**. Anything between 10 and 35-years' credits will earn 1/35th of the maximum for each year. Less than 10 years' credits gives you nothing at all.

If you were in the workforce before 2016 you will also have some entitlement built up under the older state pension systems, so a hybrid calculation is used to work out your maximum eligibility. If you were 'contracted out' from the state second pension (or its predecessor, the state earnings related pension scheme (SERPS)) in the past, the rules around calculating your eligibility can be complicated. For such cases we recommend contacting the Future Pensions Centre for personalised information.

**The State Pension Age is currently 66, gradually rising to age 67 for those born after 6 April 1960, and age 68 for those born after 6 April 1977. This latter rise is subject to future review and may be brought forward.**

Future Pension Centre

# HOW CAN I CHECK MY ENTITLEMENT?

You can get a good idea of your position by logging on to your personal tax account, if you have one (for example, if you do self-assessment tax returns). This will show your:

- pension entitlement based on your current NIC record
- pension forecast assuming that you fill all your NIC years until State Pension Age
- NIC record year by year – so you can see any years which may be incomplete

HMRC Online Service

If you can't use the online service, you can submit a BR19 form instead

BR19 Form

Or contact the Future Pension Centre:

Future Pension Centre

# CAN I INCREASE MY STATE PENSION?

**If your forecast maximum is less than £230.25 per week, and you have missing NIC years in the past six years**, then you **may** be able to use voluntary NICs to increase your forecast.

**Before making voluntary contributions you may wish to contact the Future Pension Centre to get personalised information on whether making top-ups will actually make a difference to the amount of pension you receive.**

# ARE TOP-UPS WORTH IT?

The cost of voluntary contributions to 'fill' one whole year is generally around £900 (the cost can vary a little depending on which years are filled, and are lower for the self-employed). This will buy you about £340 of additional income (before tax) each year, from State Pension Age throughout your lifetime.

The two major considerations here are:

1. **Will I live long enough to benefit?**
2. **Will the government move the goalposts in the future**

# WILL I LIVE LONG ENOUGH TO BENEFIT?

For a basic rate taxpayer, you will have got your money back a little after three years after your State Pension Age.

A higher or additional rate taxpayer will have their outlay returned before the end of the fifth year.

If the additional income falls into the loss of personal allowance band (£100,000-£125,140), where the effective rate of tax rises to 60% (England, Wales and Northern Ireland), then the payback period rises to a little over six years.

Given average life expectancy at State Pension Age is around 16-21 years (depending on your own State Pension Age and biological sex), for most this will represent an extremely good potential return. However, there are no death benefits. So if you are unfortunate enough to die before State Pension Age, or in the first few years thereafter, you may not receive full value from your top-ups.

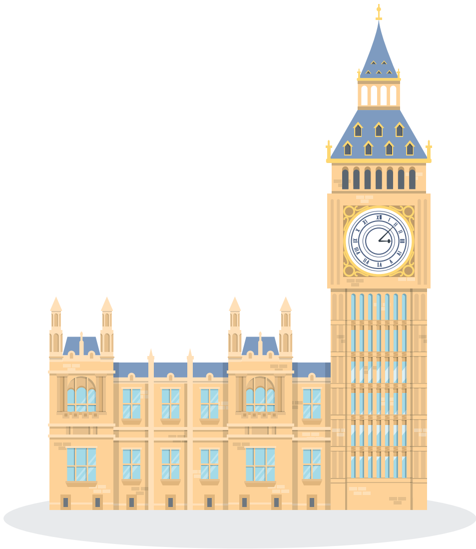
 

# WILL THE GOVERNMENT MOVE THE GOALPOSTS IN THE FUTURE?

The amount and operation of state pensions is set entirely by the government, there is no investment underpin. Currently, the State Pension is paid to all those who qualify under the rules above, and is promised to increase each year by the highest ‘triple-lock’ figure (average earnings, inflation or 2.5%). However, governments are free to change the amount, the level of increase, or method of operation in the future (for example, introduce a means test or change State Pension Age).

Many people therefore only consider making top-ups in the years approaching State Pension Age; when both their own future and the political landscape perhaps becomes a little more certain.

There are some other factors to consider. One of these, for those on low incomes, is whether you may receive the Pension Credit. If so, you may not receive full value from voluntary top-ups. In addition, NIC credits can be claimed manually in many scenarios – too many to list here, but for example: when on jury service, on statutory parental pay, caring for a family member. Clearly, these should be claimed for in full before looking at paying voluntary contributions.



# CHILD BENEFIT AND THE STATE PENSION

## TOO YOUNG? WATCH OUT FOR THE INTERACTION BETWEEN CHILD BENEFIT AND THE STATE PENSION

If you're not yet into your 50s, the above may not be relevant to you. You have many years to make up any incomplete NIC record, and the pensions landscape may look very different by the time you approach retirement.

In the meantime, however, parents or parents-to-be should be aware of a common pitfall which often means valuable automatic NIC credits are lost.

Those who have children, and where (at least) one parent is earning above £60,000, will gradually have their Child Benefit clawed back with the High Income Child Benefit Tax Charge, until it is fully lost at £80,000 of earnings. To save having to receive the benefit but then pay an additional tax charge, it may seem simpler to stop claiming the Child Benefit.

However, Child Benefit also confers automatic NIC credits for the partner claiming – valuable if one partner is not working. If it is claimed by the higher earning partner, they can then apply to have excess credits transferred to the non/lower-earning partner. It could therefore be worth continuing to receive the Child Benefit - and consider placing it in a separate account to pay back with your tax bill or simply opt out of receiving the payments.

**Important information:** Our views are based upon our understanding of current legislation in England, unless stated otherwise. Levels and bases of, and reliefs from, taxation are subject to change and their value to you will depend upon your personal circumstances.

**Risk Warning:** The past is not necessarily a guide to future performance. The value of your investment and the income from it can fall as well as rise and is not guaranteed. You may not get back the full amount invested. This document is provided for information only and does not constitute advice. You should not act on any of the information without seeking professional advice.



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