Orchid Financial Services Ltd

The state pension explained

How much do you know about changes to the state pension?

At first glance the state pension is much simpler than other types of pension. You pay national insurance contributions (NICs) throughout your working life in return for a steady income once you reach state pension age.

Without having to make decisions about your contributions, types of investment or how you access it; the state pension is unlikely to be a priority in your retirement planning.

However, an increasing state pension age and changes to the system may mean that what you are entitled to and when you'll receive it may not be what you expected.

Age

The state pension age of 60 for women and 65 for men is a thing of the past.

Increased life expectancy and a baby boomer generation reaching retirement age have seen the cost of providing the state pension shoot up for the government.

To tackle this, women's state pension age has been gradually increasing so it will be the same as men's by 2018.

After 2018, the state pension age will gradually increase for everyone until it reaches 68 between 2044 and 2046 – and there may be further increases in the future.

This means your state pension age is determined by date of birth and gender. Women born in the 1950s are most significantly affected by the recent changes.

The table below illustrates how women born just a few months apart may reach state pension age at very different times and ages.

Name	Date of birth	Reach state pension age	Age
Margaret	17 January 1952	6 November 2013	61 years, 9 months, 20 days
Jean	17 January 1953	6 November 2015	62 years, 9 months, 20 days
Eva	17 January 1954	6 May 2019	65 years, 3 months, 19 days

How much?

How much you get will depend on when you reached (or reach) state pension age. A flat-rate state pension replaced the two-tier system for people who reached state pension age on or after 6 April 2016.

If you reached state pension age before 6 April 2016, you'll get your pension under the old rules.

The two-tier system

The pre-6 April 2016 state pension was made up on two parts: **the basic state pension** and the **additional state pension**.

The maximum basic state pension is £122.30 per week in 2017/18 if you have 30 qualifying years on your national insurance (NI) record.

If you don't get the full state pension you may qualify for a 'top-up' through your spouse or civil partner's NICs.

The additional state pension is based on NICs, earnings and whether you've claimed certain benefits.

The new state pension

You will be eligible for the new state pension if you are:

- a man born after 6 April 1951
- a woman born after 6 April 1953
- and you have at least ten qualifying years on your NI record.

You'll need 35 qualifying years of NICs to receive the current maximum amount of £159.55 a week.

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A qualifying year is a tax year in which you've paid or have been credited with enough NICs to qualify for the state pension.

	Old state pension	New state pension
Minimum NICs	1 year	10 years
NICs needs to get full amount	30 years	35 years
Maximum weekly amount	£122.30*	£159.55

*plus any additional state pension

Calculating the new state pension

At first glance the new system appears easy to understand but the flat rate is in fact a misnomer – you may get more or less than £159.55 a week even if you have the full 35 years on your NI record.

The government uses your NI record to calculate what it calls your 'starting amount'.

The starting amount will be the higher of either:

- the amount you'd receive under old state pension rules
- the amount you'd get if the new state pension had been in place when you started working.

The government says your starting amount won't be less than under the old system. However, if you were 'contracted out' of the additional state pension scheme at some point in your career you may have a lower starting amount.

Conversely, if you have built up additional state pension under the old rules you are likely to get more. If your starting amount is more than the full state pension, the difference is called a 'protected payment' which is paid in addition to your state pension and increases each year in line with inflation.

Steps to take now

The state pension is likely to be just one part of your retirement income, but knowing what you are entitled to and when you will get it will help you plan your retirement strategy. Here are some things to focus on:

Check your state pension age online at www.gov.uk/state-pension-age

Find out how much you'll receive by getting a state pension forecast either online, by phone or post. Visit www.gov.uk/check-state-pension for more information on how to do this.

Find out if you have any gaps in your contributions or credits by checking your NI record. You can do this online or request a print copy. Visit www.gov.uk/check-national-insurance-record to find out how to do this.

Increasing your state pension

If your state pension income is less than you anticipated, you may need to revise your retirement saving strategy to achieve your retirement income target.

There are many ways to increase retirement income and it is important to consider all sources of income, not just the state pension.

Ways to increase your state pension include:

Working and continuing to pay national insurance will build the number of qualifying years on your NI record and boost your entitlement to the state pension.

Make voluntary national insurance contributions if you have gaps in your NI record. You can usually make voluntary contributions for the last six tax years. For example, you have until 5 April 2018 to fill in any gaps from 2011/12.

Deferring your state pension claim could increase how much you receive when you decide to take it, although a decision to defer can also be complex. Someone who reaches state pension age on or after 6 April 2016 should see their state pension increase by around 5.8% for every full year they defer

This equates to £479 a year for someone entitled to the full new state pension. However, you should seek professional advice to understand how this would affect you.

As you don't receive your state pension automatically once you reach state pension age – you have to claim it – there are no specific steps take to delay taking it.

National insurance credits can fill in gaps in your NI record. You may be entitled to them if you are not paying NI because you are ill or unemployed.

Talk to us about retirement planning.