new State Pension Your questions answered

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1. Top 10 Questions

1. What's wrong with the current State Pension and why is it changing?

The current State Pension system is extremely complex with layers of rules. People don't know how much State Pension they will get and this makes it difficult to make an informed choice about saving for retirement.

The new system is much clearer and provides a solid foundation upon which people can build up their retirement savings.

The current system has benefited some groups more than others. Some women, carers and self-employed people haven't previously received much by way of additional State Pension, and are likely to benefit from the changes.

2. So what is the new state pension?

A State Pension is a regular payment from the government most people can claim when they reach State Pension age. Not everyone gets the same amount. How much you get depends on your National Insurance record.

The new State Pension system will change how people's State Pension is calculated. It will be introduced in April 2016 and will affect everyone who reaches State Pension age on or after 6 April 2016.

3. How much State Pension will I get?

People who haven't been part of the National Insurance system up to now – will need to have 35 qualifying years when they reach State Pension age to get the full weekly amount £155.65 in 2016/17.

Most people will have an existing National Insurance record. This record will be taken into account when their new State Pension is calculated. If they start the new State Pension with less than the full amount, they may be able to build up further pension under the new system.

4. So not everyone will be getting £155.65 a week under the new State Pension?

It's important to remember that what you receive depends on your National Insurance record, so not everyone will be entitled to £155.65 a week. Some people may be entitled to more and others to less, when they reach State Pension age.

We are taking account of people's National Insurance records made up to the 2015/16 tax year to ensure their pre-existing National Insurance contributions will be recognised fairly under the new system.

We will also apply a one-off adjustment to people's State Pension to take account of periods when people were contracted out of the additional State Pension. Contracting out is where people will have paid National Insurance contributions at a lower rate or some of the contributions paid will have been used to contribute to a private pension instead of additional State Pension. People who have been contracted out will normally have additional income from their workplace or personal pension.

If you have a few years to go before reaching State Pension age, you may be able to increase your State Pension under the new system by continuing to make or be credited with National Insurance contributions. You may be able to increase your pension until you reach the full weekly amount of new State Pension or until you reach State Pension age.

5. So how do I find out how much I will get?

People who are aged 55 and over can request a personalised State Pension statement. This will give an estimate of their new State Pension based on their current National Insurance record.

People aged under 55 can also request a State Pension statement. This will give an estimate of their State Pension based on the current (pre-2016) State Pension scheme. This statement is still relevant because in the vast majority of cases, the figure provided will be the least amount they will get.

You can find out how to get a statement by visiting www.nidirect.gov.uk/how-to-get-a-state-pension-statement.

6. How do I find out if I have gaps on my National Insurance record?

If you think you may have a gap in your National Insurance record, you can ask for a National Insurance statement. You can do this online via NI Direct or by calling HMRC's National Insurance helpline. Your statement will show your National Insurance payments or credits and highlight gaps. It will also tell you whether you can pay voluntary contributions to fill any of these gaps and how much it will cost to do so.

7. Will I have to work longer to get my State Pension?

State Pension age is changing in response to rising life expectancy. The aim is to ensure that the system remains sustainable in the long term. State Pension age for women has been increasing gradually since 2010, so that it will equalise with men's at 65 by 2018. State Pension age will then rise to 66 between 2018 and 2020, for both men and women. Further changes have also been timetabled. You can check the date you'll reach State Pension age at www.nidirect.gov.uk/calculate-your-state-pension-age.

8. I am thinking of deferring my State Pension. Will these changes make a difference?

There are new rules for deferring if you reach State Pension age on or after 6 April 2016. You will have to defer for at least nine weeks and your new State Pension will increase by 1% for every nine weeks you defer. That's just under 5.8% for a full year. The extra State Pension is paid on top of your new State Pension and counts as taxable income.

9. What effect will having caring responsibilities or bringing up children have?

If you've spent time out of work caring for children or you've provided regular and substantial care to a sick or disabled person, you may have built State Pension qualifying years through getting National Insurance credits. Credits are provided in a range of circumstances and can help to fill gaps in your National Insurance record, to make sure you qualify for certain benefits including the State Pension.

10. What does it mean if I've been self-employed?

Under the current system, if someone was self-employed all their working life they would only be entitled to £119.20 per week (2016/17) of basic State Pension at State Pension age. Under the new scheme however, a self-employed person's National Insurance contributions count in full, so from April 2016, everything else being equal, their entitlement for 35 years contributions will be £155.65.

2. Specific topics: more detailed Q&A

2.1 Eligibility and entitlement

Are qualifying years only those in which I have paid National Insurance contributions?

No. Even if your National Insurance record only contains qualifying years based on when you received National Insurance credits, you can still get a new State Pension (provided you have the minimum 10 qualifying years).

Can I use 'social security contributions' I have made when working overseas to meet the requirements of the minimum qualifying period?

If you have worked outside the UK, we may be able to count the National Insurance contributions you have made abroad (called 'Social Security contributions') towards the minimum period of 10 qualifying years if they are from an European Union or reciprocal agreement country. This can only be used to meet the Minimum Qualifying Period and will not count towards your new State Pension amount.

I've worked abroad – can I still meet the minimum qualifying period?

If you have worked outside the UK, your National Insurance contributions made in the European Economic Area or other countries where the UK has a reciprocal agreement may be used to satisfy the Minimum Qualifying Period of 10 years. This can be used to meet the Minimum Qualifying Period but the years from contributions made overseas will not count towards your new State Pension amount.

How can I get more State Pension?

If you reach State Pension age on or after 6 April 2016 and your State Pension is going to be less than the full rate, you can:

- Continue to work (and add 1/35th of the full rate for each year up until you reach the full rate or you reach State Pension age).
- Make voluntary National Insurance contributions to fill any gaps in your record in order to gain extra qualifying years – for more information visit www.gov.uk/voluntary-national-insurance-contributions/deadlines
- If applicable, claim National Insurance credits for any years where you have gaps in your record – for an explanation of how to do this please go to www.nidirect.gov.uk/getting-credits-towards-your-state-pension.

Will my new State Pension increase each year?

Every year your new State Pension should increase in line with the triple lock until 2020, and with at least the growth in average earnings thereafter. If you have extra State Pension or a Protected Payment it will usually go up in line with the rise in prices in the UK.

If you live outside the UK, your new State Pension may not go up every year.

2.2 Transitional arrangements

What will happen for current workers and people who have qualifying years before the new State Pension starts?

Calculations will be made based on your National Insurance record as at 6 April 2016. These calculations will compare the amount of State Pension you may get based on:

- The new State Pension rules; and
- The existing State Pension rules.

The higher of these two amounts will become your ‘Starting Amount’ for the new State Pension system.

Both calculations will take into account periods of time when you were contracted out of the additional State Pension, because whilst contracted-out of SERPS or State Second Pension you either paid National Insurance at a lower rate or some of your National Insurance contributions were used to contribute to a private pension instead of the Additional State Pension.

This is the minimum amount of new State pension you will receive based on your own National Insurance record, provided you meet the minimum requirement of 10 qualifying years when you reach State Pension age. If you start the new State Pension with less than the full amount, you may be able to build up further pension under the new system.

2.3 Contracting-out

I am currently Contracted-out – will this continue?

Under the new State Pension the additional State Pension scheme (which was related to earnings) will end. The ability to ‘contract-out’ of the additional State Pension (in return for paying less National Insurance or having National Insurance contributions go directly towards a private pension) will end when the new State Pension is introduced on 6 April 2016.

I am currently a member of a ‘contracted-out’ scheme. Will I have to pay higher National Insurance contributions with the new State Pension?

Yes, when contracting-out ends in April 2016, you will need to pay National Insurance contributions at the full standard rate. The reduction in National Insurance that contracted-out employers get now will also end.

How does contracting-out work?

Anyone who has been contracted-out of the Additional State Pension (SERPS or State Second Pension) either paid National Insurance at a lower rate or some of their National Insurance contributions were used to contribute to and to build up a private pension to replace the Additional State Pension.

In most cases the pension people get from their workplace or personal pension(s) should include an amount that will be equivalent to the Additional State Pension they would have got if they hadn’t been contracted out.

Since my contracted-out years mean I will receive less than the full new state pension, am I being penalised for being contracted – out?

You are not being penalised. When we introduce the new State Pension we will make an adjustment for being contracted-out – just the same as we do when people reach State Pension age now. We need to do this because you will have been building up a separate part of your pension outside the State Pension system, to replace the part of the State Pension that you opted out of. If this adjustment wasn't made then people who were contracted-out would be paid twice for the same contributions.

Contracted-out deductions have applied to people who have been contracted-out since SERPS was introduced in 1978.

2.4 Derived entitlement/inheritance

I am already a pensioner but my spouse will reach State Pension age after 5 April 2016. Will I still be able to claim an increase on his National Insurance contributions?

As you reached State Pension age before 6 April 2016, the current rules on increasing or inheriting State Pension based on your spouse/civil partner's National Insurance contributions will still apply to you. However, any State Pension you get based on their contributions will be based on their National Insurance record up to 5 April 2016 only – it won't include any contributions they make for tax years starting on or after 6 April 2016. The other change is that you won't be able to inherit any extra State Pension if they put off claiming their State Pension.

I will be reaching State Pension age under the new system. Will I be able to increase my State Pension using my spouse's / former spouse's / late spouse's National Insurance contributions?

Generally, no. There are transitional arrangements for certain women who paid reduced-rate National Insurance contributions, and for people who are widowed. But unless this applies to you, your State Pension will be based on your own National Insurance contributions.

I'm already a widow [i.e. widowed pre-6/4/2016] – will I still be able to inherit any of my late spouse/civil partner's State Pension when I reach State Pension age in the new system?

Provided you don't remarry or form a new civil partnership before you reach State Pension age you'll be able to inherit some of their additional State Pension and Graduated Retirement Benefit, if you would have been entitled to inherit under the current rules. This will be paid on top of any State Pension you are entitled to from your own National Insurance contributions.

2.5 Workplace and personal pensions

The age when you can receive a workplace pension can vary and is set by your pension scheme rules. The earliest age you can access your workplace or personal pension is 55, although there are some exceptions for those who have health problems.

If you are unsure about what age you can access your workplace or personal pension, contact your current employer, previous employer or pension provider who will confirm what the rules are for your scheme.

2.6 The self-employed

How does new State Pension affect self-employed people?

Under the existing system the National Insurance Contributions paid by self-employed people (class 2 and class 4) do not build entitlement to Additional State Pension, and class 2 only builds entitlement to Basic State Pension. In the new system these contributions will be treated in the same way as the contributions of employed people.

This means that each qualifying year will be worth more. This allows self-employed people to build a larger State Pension than is possible under current arrangements.

It also means National Insurance contributions paid by self-employed people will count towards the new State Pension in the same way as contributions paid by employees do.

2.7 Pension Credit

Changes to Savings Credit

The Savings Credit part of Pension Credit will end for people reaching State Pension age on or after 6 April 2016.

People who reach State Pension age before 6 April 2016 can still get Savings Credit, depending on their circumstances, regardless of when they apply.

If they are part of a couple where one person reaches State Pension age before 6 April 2016, and the other on or after 6 April 2016 they can only get Savings Credit if one of them:

- was already getting it immediately before 6 April 2016 and
- has been entitled to it at all times since 6 April 2016.

The Guarantee Credit part of Pension Credit will continue to provide a safety net for all pensioners.

Changes to assessed income periods (AIP's)

An Assessed Income Period (AIP) is a period when people do not have to tell us about changes to their pensions, savings or investments. Someone's Pension Credit award letter will tell them if they have an AIP.

From 6 April 2016, no new AIP's will be set

If they already have an AIP that is due to end between 6 April 2016 and 31 March 2019 it will end - either on the original date on their Pension Credit award letter, or earlier if their household circumstances change. Their AIP may end early in this way if for example they move into a care home or if they become a member of a couple.

If they already have an AIP that is due to end on or after 1 April 2019, it will end early and will not be renewed.

We will send them a letter telling them the new end date six months in advance or they can find the new date on NI Direct - www.nidirect.gov.uk/changes-to-assessed-income-periods

If they are aged 75 or over and have an AIP with no end date, it will remain in place until their household circumstances change for example if they move into a care home or if they become a member of a couple.

When their AIP ends they must tell us about any change to their circumstances, including pensions.

2.8 new state pension impact on other benefits and services

Pension Credit / winter fuel payment

The qualifying age for Pension Credit / Winter Fuel Payment for both men and women is linked to women's State Pension age. This means that the qualifying age will rise in line with the increase in women's State Pension age from 60 to 65.

Once State Pension age is equalised for men and women in 2018, the qualifying age for Pension Credit / Winter Fuel Payment will rise to 66, 67 and then 68 in line with the increases in State Pension age.

Disability Living Allowance (DLA)/ Personal independence Payment (PIP) and Attendance Allowance (AA)

The age limits for Disability Living Allowance (DLA)/ Personal Independence Payment (PIP) and Attendance Allowance (AA) will increase in line with the future State Pension age increases to 66 and beyond.

Free prescriptions

The new State Pension will have no impact on free prescriptions in Northern Ireland.

Free bus and train fares

The new State Pension will have no impact on free bus or rail travel in Northern Ireland.

3. More information

You can find out more at www.nidirect.gov.uk/state-pension