

STATE PENSIONS

State pensions

The state retirement pension is made up of a number of components. The basic state pension is dependent on the national insurance contributions you have paid during your working life or the credits that you have been awarded. Credits may be awarded to you in a number of circumstances. The most common examples are:

- if you were in receipt of short term state benefits such as unemployment or sickness pay
- caring for a relative
- a man aged between 60 and 65 and not in employment.

Your working life is regarded as starting at age 16 and ending when you reach state retirement age: currently 60 for a woman and 65 for a man. The working life therefore totals 49 years for a man and 44 years for a woman. In order to qualify for the full basic state pension a man must have made or been credited with full contributions for 44 years and a woman for 39 years. Until 5 April 2008 the full weekly basic state pension is £87.30 for a single person and £139.60 for a married couple. The rates will increase on 6 April 2008. If your national insurance record does not entitle you to the full basic pension you may receive a reduced pension provided you have at least 10 years of contributions or credits.

In addition to the basic state pension you may also receive the State Second Pension which replaced SERPS (State Earnings Related Pension Scheme) from April 2002. Many employees working for an employer who provided an occupational pension scheme were contracted out of SERPS. Any State Second Pension due to you will be dependant on your earnings (and thus your contributions) or credits awarded to you usually because you were looking after someone or long term disabled. The maximum weekly payment is £148.14 in 2007/08.

Those on low incomes in retirement are entitled to Pension Credit. Pension Credit is a government benefit for people aged 60 or over. It tops up weekly income to a guaranteed level: it will guarantee an income in 2007/08 of £119.05 a week for a single person and £181.70 for couples. Those over 65 with modest savings, investment or income – such as a second pension or annuity – may also claim this benefit.

Changes to state pensions

The Government has been actively reviewing the arrangements for both state and occupational pensions. Recently this started with the setting up of the Pensions Commission, the 'A' Day changes that were effective in 2006 and most recently the Pensions Act 2007 and the 2007 Pensions Bill. The main purpose of the changes is to:

- make it easier to qualify for a state pension, particularly for women and those with caring responsibilities or the disabled
- increase the age at which a pension can be taken
- introduce a scheme of automatic enrolment in 2012 through Personal Accounts so that, unless they opt out or are working for an employer with an occupational pension scheme, individuals will automatically save towards a pension
- make it easier to save for an occupational or personal pension

Recent changes in the law mean that State Pension entitlement will be calculated differently for people who are due to retire after 6 April 2010.

- 30 years of national insurance contributions will be enough to qualify a full state pension
- Credits – a new system will come in for people who care for severely disabled people and for parents of children. These credits will count towards the State Pension and the Second State Pension (SSP)
- Home Responsibility Protection (HRP) from past caring responsibilities will still give credits towards the State pension
- There will be a gradual increase in State Pension Age between 2024 and 2046 – and remember women's State Pension Age will increase gradually from 60 to 65 between 2010 and 2020 and you cannot receive your state pension until you reach State Pension Age
- Voluntary contributions – some people pay voluntary amounts to make sure that they have some or most of their state pension e.g. someone who has worked part-time or been at home who didn't qualify for HRP. If you are retiring after 6 April 2010 it may not be cost effective to make these voluntary contributions – ask through the Pension Forecast system.

State pension forecast

State pensions are complex and most of us do not know how much state pension we will receive.

Understanding state pensions and how much state pension you will receive is a crucial step in planning your retirement. In order to help you with this important piece of planning the Department for Work and Pensions in Newcastle will check through your national insurance records and provide you with a forecast of your pension. The information and amounts on your Pension Forecast will apply specifically to you. The amounts quoted are based on the current pension rates: as the rates of pension are increased by Parliament each year it is impossible for them to tell you how much your pension will be when you reach pension age.

When you ask for your forecast it will include all the types of state pension that you are entitled to receive. Your state pension could be made up of different components and your Pension Forecast will tell you how much of each component you are entitled to. By getting a pension forecast you can take action, if needed, to improve your income in retirement and plan when to retire. It is especially important for married and formerly married women to obtain a forecast, particularly if they have in the past paid the 'married women's' or 'small stamp' as their pension entitlement may be substantially reduced.

You can obtain a Pension Forecast by completing a form BR19 which is available from your local Benefits Agency office, via the Department for Work and Pensions website or by telephone 08457 313233. You can complete the form over the phone by ringing 01912 187585.

Pensions tracing service

During their working life many employees contribute to their employer's pension scheme and when they leave that employer they lose their pension entitlement with that employer's pension scheme. They have a pension entitlement but often they lose touch with that employer as the employer moves premises, merges with another company or is taken over. The Department for Work and Pensions provide a free pensions tracing service to reconnect you with previous pension schemes with which you have lost touch. You can contact this service at Pensions Tracing Service, Tyneview Park, Whitley Road, Newcastle Upon Tyne, NE98 1BA (telephone 0845 6002 537)

Deferring taking your state pension

Many people want or need to continue working after State Pension Age. The Government is encouraging people to work longer. It increases your occupational and personal pension if you work longer and the Government has provided an

incentive if you work longer and defer taking your state pension. You can decide not to take your state pension when you reach 60/65, and this will then give you the option of either:

- getting extra state pension of around 10% for each full year that you put off claiming it. The extra pension will continue for the rest of your life; or
- a one-off taxable lump sum based on the state pension you have given up plus interest of 2% above base rate. The lump sum is payable when you take your state pension.

Case history

Mary was due to receive a state pension at 60 of c£90/week; she decided to carry on working and to defer her state pension. At age 62 Mary decided to claim her state pension and it had increased to c£108.72/week. The increased pension will continue for the rest of her life.

Continue working and draw your state pension

When you reach the State Pension Age you can of course continue working and at the same time draw your state pension since the earnings rule has been abolished (except for a dependant spouse of a state pensioner). Your state pension is taxable although there are some useful national insurance and tax changes that might help you.

Taxation and National Insurance

When you reach State Pension Age there are some small but significant changes to taxation and National Insurance. You do not pay National Insurance contributions if you continue working and from age 65 your Personal Tax Allowance is increased. For 2007/08 the Personal Tax Allowance for someone aged up to 65 is £5,225; and for someone 65 to 74 is £7,550. This means that if you continue working you will pay less tax, no National Insurance and your take home pay will be greater.

Illustrative case history

John is 64 and after tax and national insurance deductions he takes home £230 a week. At 65 he could carry on working and not draw his pensions. He would stop paying national insurance and pay less tax with the result his take-home pay would increase by £30 a week to £260.

Resources

The Pension Service: Tel: 0845 60 60 265; www.thepensionerservice.gov.uk
Paper guides to the above pension topics can be ordered by telephoning 0845 7 31 32 33.
National Insurance Contributions Office
Tel: 0845 30 21 479; www.hmrc.gov.uk/nic