The PENSIONS Advisory Service

Spotlight

Increasing your State Pension by paying voluntary National Insurance Contributions

There are four main classes of national insurance contributions (NICs).

- **Class 1** contributions are paid by employers and their employees.
- **Class 2** contributions are fixed weekly amounts paid by the self-employed.
- **Class 3** contributions are voluntary NICs paid by people wishing to fill a gap in their contributions record.
- **Class 4** contributions are paid by self-employed people as a portion of their profits.

Class 3A in 2013, the Chancellor announced that, from October 2015, the Government would introduce a new class of voluntary NICs, **class 3A,** to allow pensioners who reach state pension age before 6 April 2016 to top up their state pension (see later in this Spotlight).

If you don't have a full national insurance record, you may be able to pay voluntary class 2 or class 3 NICs. Normally when it comes to paying voluntary NICs to increase your basic State Pension, you can only go back over the **last six tax years** to fill in any gaps in your record. In some circumstances, you can go back further than the last six years.

Filling gaps in your NI contribution record

If you've reached your State Pension age within the last 6 years but no later than 5 April 2015
You may be able to fill in any gaps in your record over another six years.

If you meet the following two conditions you may be able to buy back up to another six years of your national insurance record. These special rules were put in place under the Pensions Act 2008. And you will be able to go as far back as the 1975/76 tax year in order to buy back years. This is in addition to the opportunity you may have to pay voluntary contributions for the last six tax years. *If you have paid married woman's stamp for a whole tax year, you cannot pay voluntary contributions for that year.*

The two conditions are:

(1) You must reach have reached your State Pension age within the last 6 years but no later than 5 April 2015; **and**

(2) You must already have 20 qualifying years of paid or credited national insurance contributions which can include any full years of Home Responsibilities Protection you have. So if, for example, you have 14 qualifying years of national insurance and 6 or more years of Home Responsibilities Protection then you will have met the 20 year rule.

The published cost is £14.10 a week which is £733.20 a year (2015/16) to buy back one full year of national insurance. We will update this guide if this changes. You have up until 6 years from the date you reached state pension age to take up this opportunity, after which the opportunity will be lost forever.

If payment is made after state pension age you will receive an increase in your basic State Pension going forward, but the increase will **not** be backdated to your State Pension age

If you reach State Pension age between 6 April 2015 & 5 April 2016

If you don't have a full national insurance record, you may be able to pay voluntary NICs to increase your basic state pension. You can only go back over the last 6 tax years.

New proposals for people who reach state pension age on or after 6 April 2016

When the Government introduces the new single-tier state pension on 6 April 2016, they propose to increase the number of national insurance contributions or credits needed to get a full state pension from 30 to 35 qualifying years. They have proposed that the new state pension (NSP) will be a higher amount than the current basic state pension, but it will be reduced to allow for periods when people were contracted out of the State Earnings Related Pension Scheme (SERPS) or the State Second Pension (S2P) prior to 6 April 2016.

However, arrangements will be put into place that is intended to ensure that people will not get less than they would under the current system if using their own record. This is a complex area, and to help people decide whether it is worth paying voluntary NICs, anyone aged 55 and over can get a free personalised statement from the DWP, giving them an estimate of their new State Pension based on their current National Insurance contribution record. More details are available at www.gov.uk/state-pension-statement

In order to make sure that people who reach state pension age on or after 6 April 2016 who may be affected by the introduction of the new state pension do not lose out, HM Revenue & Customs has extended the time limits for paying voluntary NICs for the 2006-07 to 2015-16 tax years inclusive.

If you are due to reach state pension age on or after 6 April 2016, and you are considering whether to pay voluntary NICs for those years you will have until 5 April 2023 to decide. You should get a new State Pension statement (details above) before deciding whether to pay.

If you are in this category, the Government proposes that the 2012-13 rate will be payable, until 5 April 2019:

- in relation to Class 3 for the years 2006-07 to 2010-11; and
- in relation to voluntary Class 2 for the years 2006-07 to 2010-11.

This is £2.65 a week for Class 2 contributions and £13.25 a week for Class 3. For the remaining years up to and including 2015-16, higher rate provisions will not apply until 5 April 2019.

If you make payment after 5 April 2019, the rates may have increased.

What to think about when deciding whether to pay voluntary NICs

If you reach state pension age after the introduction of NSP (due to start on 6 April 2016) please refer to the above information.

If you are still under state pension age but are due to reach it by 5 April 2015, it may be that you do not need to buy back any years at all as the number of qualifying years needed to qualify for the full basic state pension is currently 30 for those reaching state pension age on or after 6 April 2010.

The Pensions Advisory Service is not authorised to give financial advice so we cannot tell you whether you should pay voluntary national insurance contributions or not. However we would say that there are four key issues which you may need to consider:

- The first is if you claim Pension Credit. This is the government's income support scheme for those over the female state pension age (for men it is the state pension age for a woman of the same date of birth). Any increase in state pension would normally reduce your Pension Credit award. This often means that you will be no better off paying voluntary contributions.

- The second is if you are in very poor health. It will normally take a number of years to break even on your initial outlay, so if you have a short life expectancy you may not receive the benefit of an increased pension in comparison to your payment.

- The third is you may be able to use contributions from your spouse or civil partner, late spouse or civil partner, or former spouse or civil partner to improve your basic state pension without the need to pay voluntary contributions.

- Finally, an improved basic State Pension may mean you pay more tax.

You should note that voluntary NICs will only count for basic state pension up to 2015/16 and then for the new state pension from 2016/17 onwards.

State Pension top up – paying class 3A NICs

Class 3A voluntary national insurance contributions.

From October 2015, the government will introduce **class 3A voluntary national insurance contributions** to allow people to top up their state pensions. The scheme will be called "*State Pension top up"* and it will be available for **existing pensioners** and people who reach state pension age before 6 April 2016, when the single tier pension is introduced. Those with no additional state pension will be eligible, as will the self-employed, as long as they have some entitlement to a state pension.

The following features will be defined in regulations, that:-

- A maximum amount of £25 per week.
- An inheritable income – a surviving spouse or civil partner will be entitled to at least 50% of the additional State Pension.
- A cooling off period of 90 days for refunds of Class 3A contributions, for example if someone changes their mind.

State Pension top up has been set at an actuarially fair rate that ensures that both individual contributors and the taxpayer get a fair deal. The government has published a list showing prices of a unit by age. The rates in the list (see link below) show the contribution needed for £1 per week of additional state pension, according to age. The rates are the same for men and women.

As an example, the contribution required for an extra £1 pension per week for a person aged 65 is £890. This means that for £4,450, you could receive an additional £260 per year for life, increased in line with prices and inheritable on death in the same way as existing additional state pension: with a minimum of 50% for the surviving spouse or civil partner. For a 70 year old the rate reduces to £779 for £1 per week and at age 75 the rate is £674.

The scheme will only be open for a limited period **between 12 October 2015 until 5 April 2017**.

What will happen to class 3 contributions?

Class 3 contributions will continue unchanged from the current format, and people should see if they are eligible to pay class 3 contributions before considering class 3A.

Difference between class 3 and class 3A voluntary contributions

Class 3 contributions allow you to fill a gap in your contribution record to improve your right to a basic state pension

Class 3A contributions help you to top up your additional state pension.

How are State Pension top ups (3A) inherited?

The percentage of State Pension top up that can be inherited is based on a sliding scale, ranging from 50% to 100%. The percentage will depend on when the deceased spouse or civil partner reached State Pension age and increases with age. State Pension top up is excluded from the calculation of the maximum amount of additional State Pension that can be paid to a surviving spouse or civil partner.

How does making State Pension top ups (3A) affect the maximum amount of State Pension?

State Pension top up will not be included in the maximum amount of additional State Pension a person may be awarded. Under the current State Pension scheme there is a limit applied to amount of additional State Pension (SERPS and State Second Pension) a person may be awarded. In 2015/16 the maximum amount is £164.36. However, State Pension top up will not be included in the calculation of the maximum amount of additional State Pension. Therefore, people can keep the full value of any State Pension top up payments.

For further information on Class 3A voluntary National Insurance Contributions

There is a personal calculator for you to work out the contribution needed to increase your pension by a weekly amount. This is available at www.gov.uk/state-pension-topup . A dedicated telephone line facility is also available – 0345 600 4270. If you wish to register an interest in the scheme and get email updates, you can email: paid.caxtonhouse@dwp.gsi.gov.uk .

What to do next

If you are still under state pension age, and live in the UK, you should first get a state pension statement by ringing the Future Pension Centre 0845 3000 168 (textphone 0845 3000 169) or from the following website https://www.gov.uk/state-pension-statement. If you live overseas, ring +44 191 218 3600.

If you've reached your State Pension age within the last 6 years but no later than 5 April 2015

If you have already reached state pension age, and live in the UK, you can telephone the National Pension Centre on 0845 604 2931 (or 0845 604 2935 for Welsh speakers) and request a voluntary national insurance contribution leaflet by pressing Option 1 and leaving your name and address. If you want to make a request for voluntary national insurance figures then you should press Option 2 and leave your contact details. The National Pension Centre will then get back to you. If you live abroad, you should contact the International Pension Centre instead on +44 191 218 7777. They are open from Monday to Friday, 8 am to 6 pm.

You can also write to the following address:
The Pension Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU
United Kingdom

The Department for Work and Pensions (DWP) is not authorised to give financial advice and so they cannot tell you whether you should pay voluntary national insurance contributions or not.

For further information on the current National Insurance Contributions rules

Ring the National Insurance Contributions Office on 0300 200 3500 about the current national insurance contributions rules.

About Us

The Pensions Advisory Service (TPAS) works to make pensions accessible and understandable for everyone. We provide independent and impartial information and guidance about pensions, free of charge, to members of the public.

We help with all pension matters covering workplace, personal and stakeholder schemes and also the State Pension. We answer general questions, help with specific queries and offer guidance for people with complaints about their private pension scheme.

Contacting us

Pensions Helpline **(Monday- Friday 9:00am- 5:00pm)**	**0300 123 1047**
Online enquiry form	www.pensionsadvisoryservice.org.uk/online-enquiry
Web chat live	www.pensionsadvisoryservice.org.uk
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