ROYAL LONDON

TOPPING UP YOUR STATE PENSION: EVERYTHING YOU EVER WANTED TO KNOW

2019/20 edition

If you want to see if you could boost your State Pension so you have more money in retirement, this guide is for you.

TOPPING UP YOUR STATE PENSION: EVERYTHING YOU EVER WANTED TO KNOW

If you're looking to maximise your income in retirement, a good place to start is with your State Pension. If you're not getting the full amount or are not on track for it, then it's worth considering topping up. The cost of doing this is effectively subsidised by the Government which means it can be very good value for money.

The amount of State Pension you get is based on your record of National Insurance contributions (NICs). If you haven't made enough contributions then you won't get a full State Pension. But you may be able to pay voluntary contributions to boost the amount you get, even if you've already retired.

The rules about who can top up, how much it costs and what impact it will have on your State Pension are complex and changed with the introduction of the new State Pension system in April 2016.

Our aim is to help you to navigate these various rules and regulations and make a more informed choice about whether or not to top up your pension.

You may wish to seek independent financial advice before topping up. You'll find details of how to find an adviser as well as how to access the Government's free guidance services at the end of this guide.

HOW TO USE THIS GUIDE

You don't need to read this entire guide – just the bits that apply to you. Follow the steps below to make sure you read the relevant parts.

You may find it easier to print off this guide.

Step 1: Work out whether you come under the new or old State Pension system (see page 4 for how to do this).

Step 2: If you come under the **old system**, go to Chart A on page 5. If you come under the **new system**, go to Chart B on page 6.

Step 3: Follow the step-by-step process in the relevant chart to find out if you're eligible to top up your State Pension.

Step 4: Each chart refers to more detailed notes explaining how you can top up and the cost of doing so. Turn to these to learn more or click on the links in the charts to go directly to the notes.

Step 5: For an explanation of technical terms, take a look at our glossary. All terms in the glossary are highlighted in bold throughout the guide.

Step 6: Finally, take a look at page 25 where we set out some things you should bear in mind if you're considering topping up your State Pension.

WHICH STATE PENSION SYSTEM DO YOU COME UNDER?

The rules about whether you can top up your State Pension and how much it costs depend on whether you come under the old system or the new system.

The **old system** applies to people who reached State Pension age before 6 April 2016 (even if they have deferred taking their State Pension). So that is:

- men born before 6 April 1951 and
- women born before 6 April 1953. If this applies to you, use **Chart A** on page 5.

The **new system** was introduced on 6 April 2016 for those who reach their State Pension age on or after that date. So that is:

- men born on or after 6 April 1951 and
- women born on or after 6 April 1953.

If this applies to you, use **Chart B** on page 6.

CHART A: OLD SYSTEM

for men born before 6 April 1951 and women born before 6 April 1953

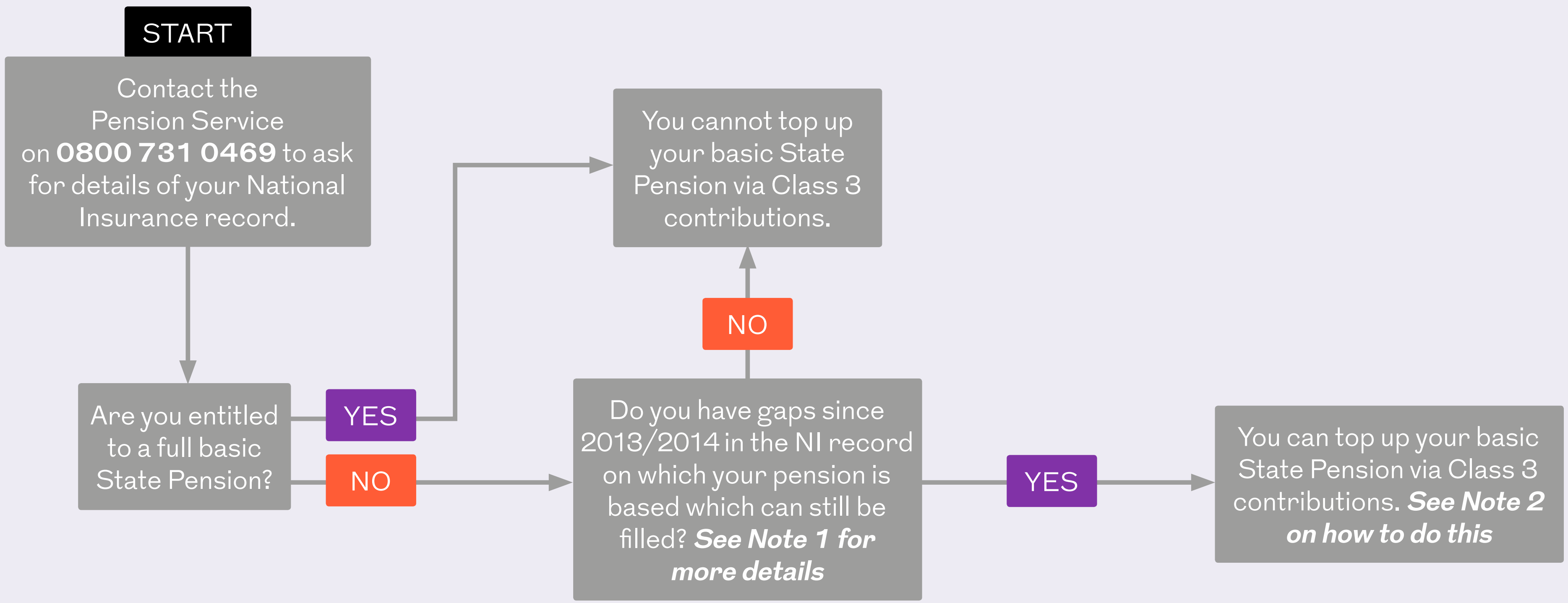
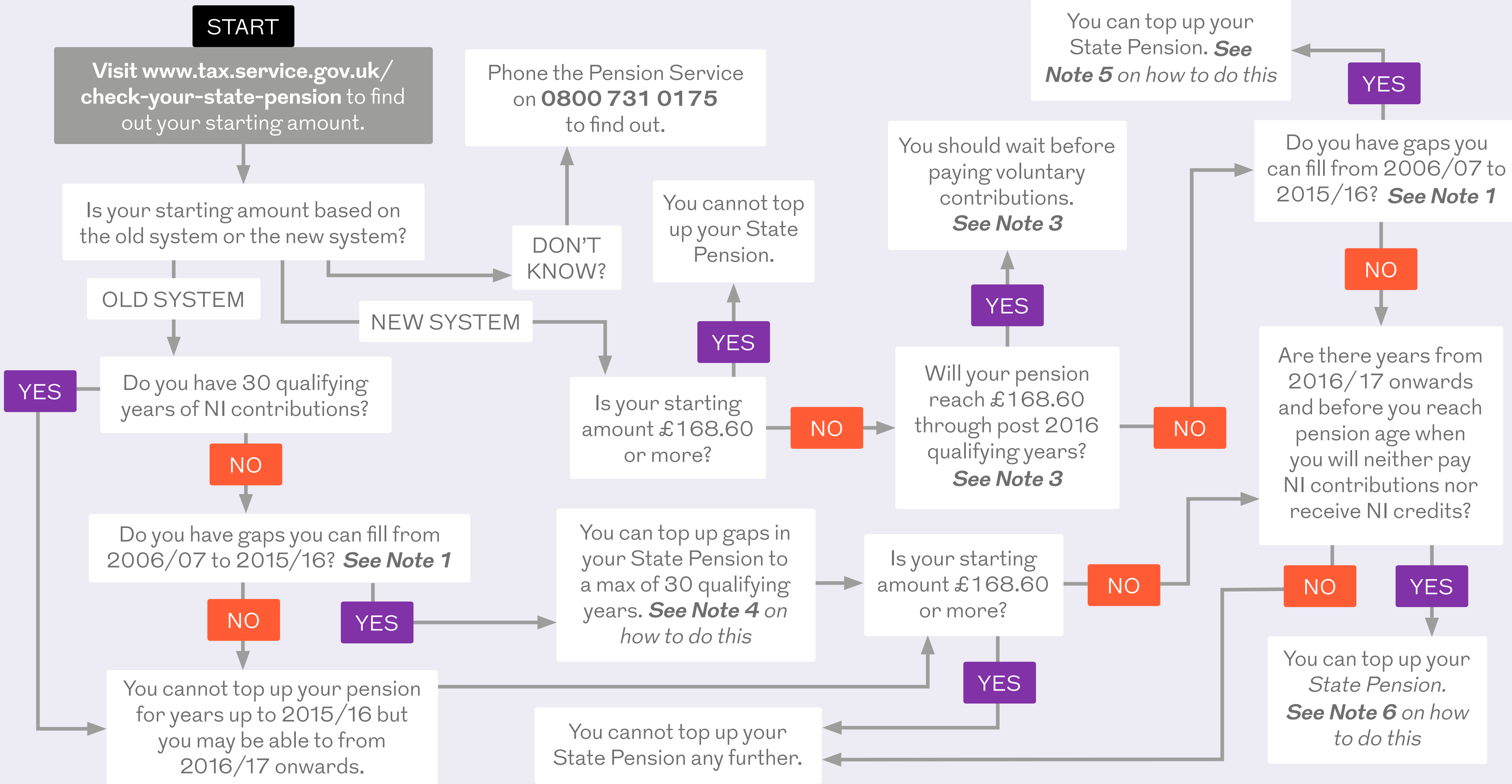


CHART B: NEW SYSTEM

for men born on or after 6 April 1951 and women born on or after 6 April 1953



NOTE 1

How to work out if you have gaps in your National Insurance record which can be filled

If you have gaps in your National Insurance (NI) record you may be able to make up the gaps, and so increase your State Pension, by paying voluntary National Insurance contributions (NICs). However, you can't fill a gap if, in the year in question, you were:

- over **State Pension age** at any point or
- eligible to pay the special reduced 'married woman's rate' of National Insurance for that year, or
- exempt from paying NI as a self-employed person because you held a low earnings exception certificate. However, you may be able to pay voluntary Class 2 NICs – the special category of NI for the self-employed – and the cost of this is just £3 per week at 2019/20 rates.

Provided that you don't fit in any of the above categories and that the deadline has not passed, you can buy back as many 'missing' years as you wish.

Things to bear in mind

1. If you're divorced or have been bereaved your State Pension entitlement may be based partly or wholly on the NICs of your ex- or late spouse. But the basic principle is the same – if the NI record used to calculate your pension has gaps in it, you can fill those gaps by paying voluntary contributions.

2. Just because you can fill gaps in your record, it doesn't necessarily mean you should. Check your 'Personal Maximum' figure on the **'Check your State Pension' website**. This is the most you can get in State Pension if all the gaps in your record were filled and all the years from 2016/17 counted towards your State Pension. If your Personal Maximum is greater than or equal to the full flat rate of £168.60, it may be that you'll get a full State Pension without needing to pay any voluntary contributions. This is especially likely to be the case if your starting amount is already close to the full flat rate and/or if you have a number of years to go between 2016/17 and when you reach State Pension age.

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NOTE 2

How to top up your basic State Pension through paying Class 3 National Insurance contributions – individuals on the old system

The full basic State Pension under the **old system** is currently £129.20 a week. To get this you need 30 qualifying years of National Insurance contributions (NICs[1]). If you have less than 30 **qualifying years**, you may be able to pay voluntary contributions (**Class 3 contributions**) to buy extra years (though time limits apply).

If you paid some NICs in a given year but not enough to achieve a full qualifying year, paying **voluntary contributions** to top up that year is likely to be the cheapest way to achieve an additional qualifying year. You can ask the Pension Service (0800 731 7898) if you have any partially complete years of this sort.

Which years can I pay Class 3 contributions for and what are the deadlines?

You normally can only go back up to six years. So the earliest missed NICs you can now make are for 2013/14 and you have to do this by 5 April 2020.

However, different deadlines apply to the group who reached State Pension age between 6 April 2010 and 5 April 2015 and who already have at least 20 qualifying years. This covers:

– men born 6 April 1945 to 5 April 1950 inclusive and

– women born 6 April 1950 to 5 October 1952 inclusive.

This group can buy back up to six missing years right back to 1975/76 and the deadline is six years after the date on which they reach State Pension age.

Not everyone can pay voluntary Class 3 NICs for a given year. The main exceptions are:

- married women who paid or could have paid the married woman's stamp[2] for the year in question
- certain low-income, self-employed people who paid no NICs in the year in question because they had a certificate of exception because of low profits; however, they can pay voluntary Class 2 NICs (the special category of NI for the self-employed) and the cost of this is just £3 per week at 2019/20 rates.

[1] Your total State Pension may be higher than this if you have entitlements under the various earnings-related State Pension schemes that have operated over the years.

[2] This is technically known as an "active reduced rate election". A small number of married women who elected to pay a reduced rate of NICs under the rules in force prior to 1978 continued to be eligible to do so after that date. In this case, although a year may not be a qualifying year, it is not possible to fill it through voluntary contributions.

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How much do voluntary Class 3 NICs cost?

If you have less than 30 qualifying years of NICs you will get a reduced basic State Pension. For example, if you have 29 years of NICs you'll get 29/30 of the full pension, if you have 28 years you get 28/30 of the full pension and so on.

The amount you have to pay for an extra qualifying year depends on how much you have already paid for that year. If you made no NICs for that year then you will have to buy enough Class 3 contributions to cover the whole year. If you have already made some contributions for that year, you only have to top up for the missing contributions. For example, if you have paid 38 weeks' worth of NICs you only need to buy another 14 weeks' worth of NICS to make that up to a qualifying year.

The cost of voluntary Class 3 NICs is currently £15 per week.

This means it costs up to £780 to buy an extra qualifying year of NICs. This would boost your State Pension by 1/30 of the full rate so you'd get around an extra £4.30 of State Pension every week or £224 a year.

Given that it costs a one-off lump sum of no more than £780 to buy extra pension of £224 a year, it would take less than four years of receiving higher State Pension to recoup this cost and you would continue to receive this extra pension for the rest of your life. Provided that you can afford to do so, you can in principle buy back more than one missing year, and each additional year will boost your State Pension by the same amount.

How do I pay Class 3 NICs?

There are a variety of ways including sending a cheque through the post, paying at your bank or building society, paying online or over the phone or monthly via Direct Debit. You can find more details at **https://www.gov.uk/pay-voluntary-class-3-national-insurance**

If you are already receiving your State Pension it will be increased as soon as your voluntary NICs are received, though the increase will not be backdated.

Example
Topping up your State Pension with Class 3 NI contributions

Mary was born on 6 April 1952 and reached State Pension age on 6 April 2014. She had 29 qualifying years on her State Pension record. This gives her a basic State Pension of 29/30 of the full rate of £129.20, or £124.89 per week. She also has a pension of £20 per week under the state earnings-related pension scheme (SERPS), giving her a total State Pension of £144.89 per week.

Mary stopped work shortly after her 61st birthday, and has a gap in her NI record for 2013/14. She decides to pay voluntary NICs for 2013/14. This costs her £780. This increases her basic State Pension to 30/30 of the full rate or £129.20. Her total State Pension rises to £149.20. This is summarised in the table.

£ per week	Pension before paying voluntary contributions	Pension after paying voluntary contributions
Basic State Pension	£124.89	£129.20
SERPS pension	£20.00	£20.00
Total pension	£144.89	£149.20

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NOTE 3

How to work out if your pension will reach £168.60 through post 2016 qualifying years

Under the new State Pension system, everyone has a starting amount as at 6 April 2016. This represents the amount of State Pension you have built to date.

If your **starting amount** is below £168.60, each **qualifying year** from 2016/17 up to the financial year before the one in which you reach **State Pension age** will increase your State Pension until you reach the full rate. The amount added for each year is 1/35 of the full flat rate. At current rates this is £168.60 divided by 35 or an extra £4.82 per week.

To work out if you are likely to reach the full flat rate of £168.60 without paying **voluntary contributions**, you need to go through the following steps:

a) check your starting amount as at April 2016

b) add £4.82 per week for each year that you expect to work or be credited with contributions from 2016/17 onwards[3]

c) if the total amount exceeds £168.60 then there is no point paying voluntary National Insurance contributions to bring you up to a full new State Pension, because you will reach that figure in any case.

The '**Check your State Pension**' website contains some information that is relevant and may be helpful. It gives you two numbers – your starting amount and your 'Personal Maximum'. Your 'Personal Maximum' is the most you can get in State Pension if all the gaps in your record were filled and all the years from 2016/17 counted towards your State Pension.

However, what the Government does not know is whether you plan to be working or contributing in each of those years. So, for example, if you already know that you plan to retire before State Pension age you need to do the calculation in this Note to work out if your State Pension is going to be short of the full flat rate.

If you expect your pension to reach £164.35 without paying voluntary contributions, but your plans change and you reach State Pension age with a pension short of the full amount, you can still pay voluntary contributions for recent 'gap' years provided you are within the time limits. In such a case, there is no point paying voluntary contributions now. You can wait and see what happens and pay them later if you are heading for a shortfall.

"The '**Check your State Pension**' website contains some information that is relevant and may be helpful"

[3]Note that special rules apply to men who were over women's State Pension age throughout any given financial year. They automatically receive NI credits for that year.

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NOTE 4

How to top up your new State Pension through paying Class 3 National Insurance contributions – years up to and including 2015/16 – starting amount based on old system[4]

If you come under the new State Pension system you will have a **starting amount** calculated as at April 2016. Because of the special rules governing the transition from the **old system** to the **new system**, your 2016 starting amount may be based on the State Pension entitlement you had built up at that point under the old State Pension system. This means you may be able to top up the basic State Pension element of this starting amount if it is based on an incomplete record of National Insurance contributions (NICs).

The full basic State Pension under the old system is £129.20 a week. To get this you need 30 **qualifying years** of NICs[5]. If you have less than 30 qualifying years, you may be able to pay voluntary contributions (**Class 3 contributions**) to get extra years (though time limits apply).

If you paid some NICs in a given year but not enough to achieve a full qualifying year, paying voluntary contributions to top up that year is likely to be the cheapest way to achieve an additional qualifying year.

Which years can I pay Class 3 contributions for?

If you are covered by the new State Pension system you can top up your National Insurance record for years from 2006/07 onwards. You need to do this by 5 April 2023. After this date, missing years have to be topped up within six years.

Not everyone can pay voluntary Class 3 NICs for a given year. The main exceptions are:

- married women who paid or could have paid the married woman's stamp[6] for the year in question
- certain low-income, self-employed people who paid no NICs in the year in question because they had a certificate of exception because of low profits; however, they can pay voluntary Class 2 NICs (the special category of National Insurance for the self-employed) and the cost of this is just £3 per week at 2019/20 rates.

[4]Just to add to the complexity, whether your starting amount is based on the old rules or the new rules could 'flip' following the payment of voluntary contributions. For example, if you pay a pre-2016 year which makes no difference to your old rules pension (because you already have 30 qualifying years) it could make a difference to your new rules pension (because you can have 35 qualifying years). In some cases this means your starting amount would now be based on the new rules. The 'Check your State Pension' website will ultimately guide people through these complexities.

[5]Your total State Pension may be higher than this if you have entitlements under the various earnings-related State Pension schemes that have operated over the years.

[6]This is technically known as an 'active reduced rate election'. A small number of married women who elected to pay a reduced rate of NICs under the rules in force prior to 1978 continued to be eligible to do so after that date. In this case, although a year may not be a qualifying year, it is not possible to fill it through voluntary contributions.

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How much do voluntary Class 3 NICs cost?

The amount you have to pay for an extra qualifying year depends on how much you have already paid for that year. If you made no NICs for that year then you will have to make enough Class 3 contributions to cover the whole year.

If you have already made some contributions for that year, you only have to top up for the missing contributions. For example, if you have paid 38 weeks' worth of NICs you only need to buy another 14 weeks' worth of NICS to make that up to a qualifying year.

The cost of voluntary Class 3 NICs is currently £15 per week or £780 for a whole year.

"The cost of voluntary Class 3 NICs is £15 a week.

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How will paying voluntary Class 3 NICs boost my 2016 starting amount?

If you have less than 30 qualifying years of NICs your starting amount will include an incomplete basic State Pension. For example, if you have 29 years of NICs, the basic State Pension element of your starting amount will be 29/30 of the full pension and so on.

Based on the current rate of the basic State Pension, each extra qualifying year up to 30 would boost your State Pension by 1/30 of the full rate so you would get an extra £4.30 per week on your starting amount. This extra amount is worth £223.60 a year. Given that it costs at most £780 to buy this extra pension, it would take less than four years of receiving your higher State Pension to recoup this cost and you would continue to receive this extra pension for the rest of your life.

How to pay Class 3 NICs

There are a variety of ways including sending a cheque through the post, paying at your bank or building society, paying online or over the phone or monthly via Direct Debit.
You can find more details at: **https://www.gov.uk/pay-voluntary-class-3-national-insurance**

Your State Pension starting amount will be increased as soon as your voluntary NICs are received, though any increase will not be backdated.

Example

Topping up your new State Pension by filling pre-2016 gaps in your NI record – starting amount based on old system

June will reach State Pension age at the end of 2019 and gave up paid work in early 2015. She has visited the 'Check your State Pension' website which says that her starting amount for the new State Pension is £144.89. She has phoned the Pension Service and has been told that this is based on the old State Pension rules and comprises a basic pension of £124.89 and an earnings-related pension of £20 per week. The basic State Pension figure is based on 29 qualifying years and she has a 'gap' for 2015/16.

June can pay a year of voluntary contributions in respect of 2015/16 at a cost of around £780 (£15 per week x 52). This increases her basic State Pension to 30/30 of the full rate or £129.20. Her starting amount for the new State Pension rises to £149.20.
This is summarised in the following table:

As her starting amount is under the full flat rate of £168.60, she may also consider topping up for later years – see Note 6.

This is summarised in the following table:

£ per week	Pension before paying voluntary contributions	Pension after paying voluntary contributions
Basic State Pension	£124.89	£129.20
SERPS pension	£20.00	£20.00
Total pension	£144.89	£149.20

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NOTE 5

How to top up your new State Pension through paying Class 3 National Insurance contributions – years up to 2015/16 – starting amount based on new system

To get the full new flat rate State Pension of £168.60 you normally need 35 **qualifying years** of National Insurance contributions (NICs).

If your 2016 **starting amount** is based on the **new system**, there are two elements to the way in which this is worked out:

- The maximum amount will be 1/35 of the full flat rate pension multiplied by the number of qualifying years on your National Insurance (NI) record up to a maximum of 35;
- From this amount is deducted something known as a 'rebated derived amount'; in essence, this is a reduction in State Pension rights to reflect past periods of **contracting out**[7].

If your starting amount is less than £168.60 you may be able to boost your State Pension through voluntary contributions.

In this Note we explain how to boost your State Pension through voluntary contributions to fill 'gaps' in your NI record for years up to 2015/16. In Note 6 we set out the process for making voluntary contributions for years from 2016/17 onwards.

Which years can I pay Class 3 contributions for?

You can top up your NI record for years from 2006/07 onwards. You need to do this by 5 April 2023. After this date, missing years have to be topped up within six years.

Not everyone can pay voluntary Class 3 NICs for a given year. The main exceptions are:

- married women who paid or could have paid the married woman's stamp[8] for the year in question
- certain low-income, self-employed people who paid no NICs in the year in question because they had a certificate of exception because of low profits. However, they can pay voluntary Class 2 NICs (the special category of NI for the self-employed) and the cost of this is just £3 per week at 2019/20 rates.

[7] The technical detail of how this figure has been worked out can be found at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209123/national-insurance-single-tier-note.pdf

[8] This is technically known as an "active reduced rate election". A small number of married women who elected to pay a reduced rate of NICs under the rules in force prior to 1978 continued to be eligible to do so after that date. In this case, although a year may not be a qualifying year, it is not possible to fill it through voluntary contributions.

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The cost of voluntary Class 3 NICs is currently £15 per week or £780 for a whole year.

Remember, the amount you have to pay for an extra qualifying year depends on how much you have already paid (or been treated as having paid[9]) for that year.

For example, if you made no NICs in a given year then you would have to make 52 weeks' worth of Class 3 contributions to achieve a qualifying year.

But if you made some contributions in that year, you only have to top up for the missing contributions. For example, if you paid 38 weeks' worth of NICs you only need to make another 14 weeks' worth of NICS to make that up to a qualifying year.

How will paying voluntary Class 3 NICs boost my 2016 starting amount?

Each additional qualifying year that you generate through paying voluntary NICs will add 1/35 of the full rate of the new State Pension, or around £4.80 per week. In annual terms, each year of voluntary NICs will increase your State Pension by around £250. Given that this will cost a maximum of £780, you would recoup the initial outlay within four years.

How to pay Class 3 NICs

There are a variety of ways including sending a cheque through the post, paying at your bank or building society, paying online or over the phone or monthly via Direct Debit. You can find more details at **https://www.gov.uk/pay-voluntary-class-3-national-insurance**

Your starting amount will be increased as soon as your voluntary NICs are received.

[9] Low earners who earn more than the lower earnings limit (currently £118 per week) and the 'primary threshold' (currently £166 per week) do not have to pay NICs but are treated as if they had contributed.

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Example

Topping up your new State Pension by filling pre-2016 gaps in your NI record – starting amount based on new system

Rhodri is still in paid work and will reach State Pension age in the summer of 2019. A few years ago he took a break from work to go travelling with his family and as a result he has a gap in his NI record for 2014/15.

He has visited the 'Check your State Pension' website which says that his starting amount for the new State Pension is £149.33. This is based on 31 qualifying years out of a target of 35, so is 31/35 of the full flat rate of £168.60.

He has worked through 2016/17, 2017/18 and 2018/19 so has built up three extra qualifying years, but will run out of time to reach 35 qualifying years from post-2016 contributions before he reaches State Pension age.

Rhodri therefore decides to top up his NI record for the year 2014/15 at a cost of £15 per week or £780 for the full year. This increases his starting amount to 32/35 of the maximum rate or £154.15. His final pension will be this starting amount plus an extra 3/35 of the full rate, as shown in the table opposite.

£ per week	Pension before paying voluntary contributions	Pension after paying voluntary contributions
2016 starting amount	£149.33	£154.15
Final State Pension (including 2016/17, 2017/18 and 2018/19)	£163.78	£168.60

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NOTE 6

How to top up your new State Pension through paying Class 3 National Insurance contributions – years from 2016/17 onwards

If your **starting amount** is less than the full flat rate of £168.60, and if you have filled any gaps in earlier years that you wish to fill, you can then add to your starting amount through **qualifying years** from 2016/17 onwards.

You will get a qualifying year for each year from 2016/17 onwards if:

- you are in paid employment or self-employment and make the necessary National Insurance contributions (NICs) or are treated as having paid them[10]; or
- you receive **credits** for things like bringing up younger children, caring for a disabled person and so forth[11]; or
- you make voluntary Class 3 contributions.

You can find out how to pay Class 3 contributions at **https://www.gov.uk/pay-voluntary-class-3-national-insurance**

One important consideration is that if you are under **State Pension age** there may be no rush to pay voluntary contributions. Whilst filling a gap in your contribution record will boost your pension when you draw it, you gain no immediate benefit from doing so. You may wish to consider setting aside the money that you plan to use for voluntary contributions, enjoying some return on the capital and then using it to buying missing contributions either when you reach State Pension age or within six years, whichever is sooner.

"You can find out how to pay Class 3 contributions at **https://www.gov.uk/pay-voluntary-class-3-national-insurance**"

[10]Low earners who earn more than the lower earnings limit (currently £118 per week) and the 'primary threshold' (currently £166 per week) do not have to pay NICs but are treated as if they had contributed.

[11]You can find more detail on who qualifies for NI credits at: https://www.gov.uk/national-insurance-credits/overview

Example

Topping up your new State Pension – 2016/17 and onwards

Georgina was a teacher and retired on her 60th birthday on 6 April 2016. She can draw a teacher's pension at once, but her State Pension will not be payable until she is 66. She does not intend to work again and so each of the years from 2016/17 to 2021/22 will be gaps in her NI record. Because she was a member of the Teachers' Pension Scheme through most of her working life she has only built up a small SERPS pension of £10 per week on top of her full basic State Pension of £129.20, making a total of £139.20. Her starting amount for the new State Pension is based on this figure.

Georgina decides that she can afford to set aside a lump sum of £780 which will pay for one year of voluntary NICs. She pays this lump sum shortly before she draws her State Pension in 2022. As a result her starting amount is increased by 1/35 of the full flat rate pension or £4.82 per week.

This is summarised in the table below.

£ per week	Pension before paying voluntary contributions	Pension after paying voluntary contributions
Total State Pension	£139.20	£144.02

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GLOSSARY

Class 3 contributions

If your NICs record is incomplete you can usually make up one or more qualifying years of NICs by paying voluntary contributions. Voluntary NICs are known as 'Class 3' contributions (or voluntary Class 2 contributions in the case of the low income self-employed). You generally have to pay Class 3 contributions within six years of the year in question, though there are special deadlines for particular groups as detailed elsewhere in this guide.

Class 3 NICs in 2019/2020 cost £15 per week. If you are paying in respect of a financial year more than two years ago, this is the rate you would pay. However, if you are paying for a relatively recent year (specifically 2017/18 or 2018/19) you would pay the rate that applied in those years. These are £14.25 for 2017/18 and £14.65 for 2018/19.

Whatever State Pension system you come under, if you paid some NICs in a financial year but not enough to get a full qualifying year, you can make contributions for these extra weeks.

For example, if you need an extra 10 weeks of contributions for the 2010/11 financial year to make up a qualifying year, it will cost you £150 (£15 x 10).

In general, it is worth making up the cheapest years first (that is the years where you have the fewest number of weeks to make up so that you have a full qualifying year). But bear in mind that if you wait too long to make up earlier years you may run out of time to do this.

Contracting out

Under the old State Pension system, the State Pension was divided into a basic State Pension and a second, earnings-related State Pension, often known as SERPS or the State Second Pension. Under the old system, some people could contract out of this earnings-related element of the State Pension system. In particular:

- Many occupational pension schemes were contracted out of the earnings-related State Pension scheme. This meant the employer and employee paid a reduced rate of NICs and in return the pension scheme had to make certain guarantees about the pension it would pay. Broadly speaking, if you were contracted out you built up a smaller State Pension for those years but instead received a pension from your occupational scheme. Contracting out for this sort of scheme ended in April 2016.

- Until 2012 if you had a certain type of personal pension you could also contract out of SERPS. The Government paid a NI rebate directly into your pension fund which you could then invest to produce a pension.

Although contracting out has now been abolished, many current pensioners and workers have some period of contracting out in their pensions history. The new State Pension system takes account of this by making a one-off deduction from the 2016 starting amount for the new State Pension.

Credits

The main way of building up entitlement to a State Pension is by paying NICs on money you earn.

But if you're not working and therefore not paying NI, the Government will, in some situations, give you NI credits. This simply means that for the purposes of your State Pension you're treated as if you had paid NI. For example, you can get NI credits if you are claiming certain sickness or unemployment benefits, are a carer and meet particular conditions or are registered to receive Child Benefit for a child under 12.

Some NI credits are given automatically while others you have to apply for.

To check if you're eligible, see **www.gov.uk/national-insurance-credits/eligibility**.

Old system/New system

The State Pension system changed with effect from the 6 April 2016. If you reached State Pension age before that date your State Pension will be calculated under the old rules, otherwise it will be calculated under a new set of rules.

State Pensions under the old system were made up of two parts: a basic State Pension which you received in full if you had 30 qualifying years of NICs and an earnings-related element (often known as the state earnings-related pension scheme or SERPS). Some people could opt out of the earnings-related part of the State Pension. This was known as contracting out and meant you paid lower NICs and instead contributed to a company scheme or personal pension.

If you reach State Pension age on or after 6 April 2016, you get the new flat-rate State Pension. To receive the full amount you need 35 qualifying years of NICs or credits. If you contracted out for any period in the past, there is a one-off deduction to take account of this.

Qualifying year

A qualifying year is a financial year in which you were under State Pension age for the whole year and in which you either paid or were credited with enough NICs to earn one year towards your State Pension entitlement[12].

The amount of State Pension you get is based on the number of qualifying years of NI contributions or credits you have got.

To get one qualifying year you need to have enough NI contributions or credits for the financial year in question. A financial year runs from 6 April to the following 5 April.

You will get a qualifying year if:

- you are in paid employment or self-employment and make the necessary NICs; or
- you receive credits for things like bringing up younger children, caring for a disabled person and so forth. You can find out more about NI credits at **https://www.gov.uk/national-insurance-credits/overview**); or
- you make voluntary Class 3 contributions.

You need 30 qualifying years of NI contributions or credits to get the full old State Pension and 35 qualifying years to get the full new State Pension. If you have less than this you will not get the full State Pension.

[12] You also get a qualifying year if you were a low earner who is treated as having paid NICs. Low earners who earn more than the lower earnings limit (currently £116 per week) and the primary threshold (currently £162 per week) do not have to pay NICs but are treated as if they had contributed.

Starting amount

Under the new State Pension system, the Government calculates how much State Pension you have built up as at 6 April 2016. This is known as the starting amount for the new State Pension. In simple terms, the Government compares the State Pension you had built up by 6 April 2016 under the old State Pension rules and the State Pension you would get under the new State Pension rules. Whichever is the higher is your starting amount for the new system.

You can find out your starting amount at **https://www.tax.service.gov.uk/check-your-state-pension**

State Pension age

The earliest age at which you can claim your State Pension. Your State Pension age (SPA) varies depending on when you were born. You can find your State Pension age at **www.gov.uk/state-pension-age**

Voluntary contributions

You can choose to pay voluntary NICs to fill gaps in your NI record, providing you are eligible to do so. You can use voluntary Class 3 contributions (voluntary Class 2 for the self-employed) to do this. By plugging the gaps in your record you can increase the amount of State Pension you'll get.

THINGS TO BEAR IN MIND

Whether you come under the old pension system or the new system, there are some further things to think about before deciding to go ahead with topping up your State Pension.

a) Do you receive any state benefits?

If you receive any means-tested benefits such as Pension Credit or housing benefit, topping up your pension might not be a good idea. You may find you pay voluntary NICs to boost your State Pension but end up little or no better off because your higher pension means your entitlement to other benefits is reduced.

b) How long are you likely to receive a State Pension?

Most people who pay voluntary NICs to get a higher State Pension will recover the cost of their extra contributions and continue to benefit from the higher pension for several more years. But if you are in poor health you may not live long enough to benefit from this.

c) Do I need to do it now?

As mentioned in Note 6, if you are under State Pension age, paying voluntary NICs will be of no immediate benefit to you. Provided that you do not miss the deadline to pay voluntary NICs for a particular year, and provided that the Government does not change the rules or the deadlines, it may be worth holding on to your money and making up missing years at the last moment possible.

It is also worth bearing in mind that years from 2016/17 in which you either pay NICs, are treated as having paid them, or are credited with them, will generally add to your State Pension and may bring you up to the full rate in any case, without the need to make any voluntary contributions. This issue is dealt with in Note 3.

CONCLUSION

The rules for topping up your State Pension are complicated. But if you can afford to make voluntary Class 3 NICs, the rewards can be large relative to the cost of doing so.

There are plans to improve the gov.uk **'Check your State Pension' website** so that it will be possible to answer 'what if' questions such as on how certain voluntary contributions will affect your State Pension. This will, of course, make the process a good deal simpler.

We hope this guide has helped you make sense of the rules and that you now feel in a position to make a more informed choice about whether or not to top up your State Pension.

APPENDIX: USEFUL CONTACT DETAILS

This guide is intended to provide helpful information but does not constitute financial advice. Before deciding whether or not to top up your State Pension it is worth considering consulting a financial adviser and/or seeking guidance from the Government's Pension Wise service or the Pensions Advisory Service.

To find an independent financial adviser, the following websites may be helpful:

https://www.unbiased.co.uk/
https://directory.moneyadviceservice.org.uk/en

To get free and independent help and information about pension issues, contact the Pensions Advisory Service at:

http://www.pensionsadvisoryservice.org.uk/ or call 0800 011 3797.

If you are 50 or over and would like free, impartial guidance on what you can do with your defined contribution pension pots (this is personal pensions and not defined benefit pensions such as final salary and career average schemes), contact the Government's Pension Wise service at:

https://www.pensionwise.gov.uk/. Or you can call 0800 138 3944 to book a 45 minute appointment over the phone or face to face.

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All details in this guide were correct at the time of updating in April 2019