THE NEW STATE PENSION
YOUR QUESTIONS ANSWERED

Good with your Money Guide 8

1. INTRODUCTION

When the new state pension was introduced for those reaching pension age from 6th April 2016 it was intended to be much simpler than the system it replaced. Instead of a state pension with lots of different parts (basic pension, state earnings-related pension, graduated retirement benefit etc) there would be just one state pension, paid at a flat rate to those with 35 years in the National Insurance system. Unlike the system it replaced, the new pension would be based wholly on the contributions of the individual concerned, with no extra amounts based on the contributions made by a spouse[1] and no inheriting of rights after the death of a spouse.

For those who leave school today, the new state pension will indeed be pretty much as simple as this. If they pay in to the system (or are credited with contributions) for 35 years, they will get a pension at the full flat rate, currently £168.60 per week.

However, pension reform never starts from a blank sheet of paper. At the point of change in April 2016 people had widely varying histories of NI Contributions. Some had been contributing for a long time or had high earnings and were already expecting a pension above the flat rate. Others had only been part members of the state pension system because they were building up a company pension. How would they be treated? And what about those who were expecting a payment based on the record of their spouse?

To try to strike a balance between a swift move to the new simpler system whilst recognising those with expectations under the old system, a transitional period was established post April 2016 during which a more complex calculation is undertaken to establish entitlement. This calculation takes some account of rights under the old system but tries to get as many people as possible as soon as possible on to the new rules and full flat rate.

In this guide we seek to explain how much you will get from the new state pension. We try to answer questions such as:

- If I've been promised a pension above the new flat rate, will I still get it?
- My statement shows a Contracted Out Pension Equivalent (COPE) figure – do I need to take this off my pension forecast?
- I've paid in more than 35 years, why don't I get a full pension?
- Will I get any pension based on my spouse's contributions?
- If I die, will anyone inherit any of my pension?
- Why are different bits of my pension uprated at different rates?

[1] For brevity we will refer in this guide to 'spouses' but all references to spouses also include civil partners.

1. INTRODUCTION

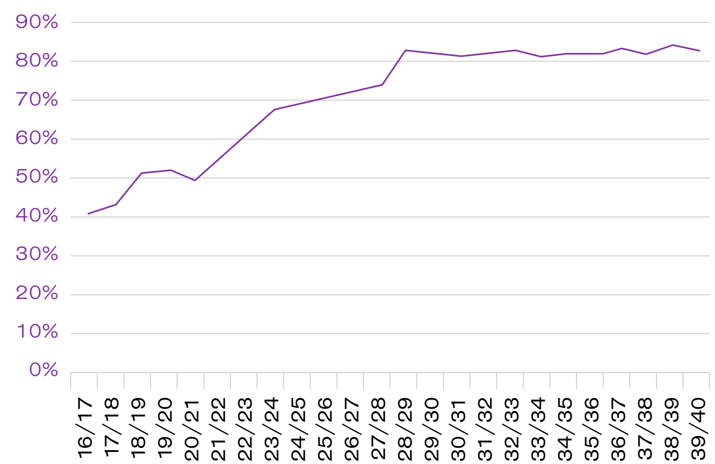
- What happens if I delay taking my state pension?
- Can I top up my state pension?

We begin by explaining how the system will work for those who spend their entire working life under the new rules – essentially those starting work since April 2016. We then deal with the vast majority of people who have some contributions in the period pre April 2016. We explain how their pension as at April 2016 is worked out and how years post April 2016 build on this 'starting amount'. In particular we explain how the whole business of 'contracting out' affects state pension rights under the new rules. We then move on to explain the special rules for particular groups of people, before answering some of the most commonly asked questions about the new state pension. In the appendix we include a 'jargon buster' which explains some of the technical terms used. We also provide a second appendix which deals with a particularly technical issue which may be of interest to some.

Before going into details of the new rules, it is important to stress that most of the complexity around the transition to a new system applies to those within around fifteen years of state pension age. For younger workers, broadly those in their early fifties and below, the vast majority will simply receive the full state pension.

Figure 1 shows an estimate of what proportion of people reaching pension age in each year will draw the full flat rate pension.

Figure 1. Percentage of people retiring in each year who will receive the full flat rate pension 2016/17 to 2039/40



Source: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/491845/impact-of-new-state-pension-longer-term-reserach.pdf , adjusted to reflect latest figures for 16/17 and 17/18 contained in FOI reply to Royal London.

As the chart shows, in the first few years of the new state pension, slightly under half of those retiring will get the full flat rate (or above). For these people, and others who retire in the early years of the new system, much of the complexity of this guide will be relevant. However, the proportions who get the full flat rate rise relatively quickly. By the late 2020s, roughly four in five of those retiring will get the full flat rate. This means that most of those who are currently in their mid fifties or younger can reasonably assume that they are heading for the full flat rate unless they have spent significant parts of their working life not contributing or outside the UK.

2. THE SIMPLE CASE – PEOPLE WHO MAKE THEIR FIRST CONTRIBUTIONS AFTER 6TH APRIL 2016

The new state pension will be worked out in a relatively simple way for those (such as today's school leavers) whose working life is entirely after 6th April 2016.

For this group, the only thing that will affect the size of their state pension is how many years of National Insurance Contributions (NICs) they have built up. This will include both years in which they have actually paid NICs, for example, when they were in paid work, or years where they were 'credited' with NICs, for example, when receiving child benefit for a young child. A full year of NI Contributions or credits is referred to as a 'Qualifying Year'.

Anyone in this group who has 35 or more 'qualifying years' will be paid the full rate of the new state pension, currently £168.60 per week. Those with less than 35 years will receive a proportionately reduced rate depending on how many qualifying years they have built up. No pension will be paid to anyone with less than 10 qualifying years.

Case Study A: Full new state pension, all contribution years post April 2016

Amy starts work after 6th April 2016 and builds up 38 qualifying years of NI Contributions and credits by the time she reaches state pension age.

Amy's state pension will be £168.60 per week (at today's prices) because she has at least 35 qualifying years after 6th April 2016.

Case Study B: Partial new state pension, all contribution years post April 2016

Bharat starts work after 6th April 2016 and builds up 33 qualifying years of NI Contributions and credits by the time he reaches state pension age.

Bharat's state pension will be £158.97 per week (at today's prices), which is 33/35 of the full flat rate figure. As we discuss later, he may wish to consider paying voluntary NI Contributions to top his pension up to the full flat rate.

3. THE TRANSITION TO THE NEW STATE PENSION – ANYONE WITH CONTRIBUTIONS BEFORE 6TH APRIL 2016

If pension reform started with a blank sheet of paper, life would be a lot simpler! But when the new state pension was introduced in April 2016, it had to deal with a lot of complications relating to existing state pension rights built up over many decades. This included:

- People who had already built up a state pension *above* the new flat rate who would have objected if their pension was cut to the flat rate amount;

- People who had paid different rates of NI Contributions over the course of their working life; for various reasons (discussed later), different workers had contributed into the system at different rates and a decision had to be made as to how far those differences should be reflected or ignored when the new system was introduced;

- People who were expecting to get a pension based on the contributions of a spouse, or perhaps to inherit a pension from a late spouse; as the new state pension is based primarily around individual contribution records, a decision had to be made as to how far previous expectations should carry forward into the new system.

The challenge in designing the new system was that there was a desire to move to a new and simpler system as quickly as possible, but that sweeping away all past rights and expectations over night would have seemed very unfair to various groups. In the end a transitional period was designed which in some measure protected rights already built up, but also sought to ensure that most people would get the flat rate amount as soon as possible.

The way that the new state pension is worked out for those who have one or more qualifying years before 6th April 2016 involves four steps which follow. It should be noted that no pension at all is payable to those with fewer than 10 qualifying years in the system.[2]

Step 1. Calculate what state pension you would have got as at April 2016 under the 'old' rules ('Amount A')

The first step in working out someone's entitlement under the new state pension is to work out what they had already built up from the existing system based on their own record of NI contributions as at 6th April 2016. The key elements of this are:

• A 'basic state pension', paid in full to those with 30 years or more of National Insurance Contributions; the current rate is £129.20;

• Any earnings-related state pension built up from the State Second Pension, the State Earnings Related Pension Scheme (SERPS) or the Graduated Retirement Benefit.

Adding these two figures together gives you 'Amount A'.

[2] For those who are short of the necessary contributions it may be possible to pay voluntary contributions to top up their contribution record. More details on this can be found in the Royal London good with your money guide 'Topping up your state pension', which can be downloaded at www.royallondon.com/goodwithyourmoney

3. THE TRANSITION TO THE NEW STATE PENSION – ANYONE WITH CONTRIBUTIONS BEFORE 6TH APRIL 2016

Step 2. Calculate what state pension you would have got as at April 2016 under the 'new' rules ('Amount B')

There are two elements to this calculation:

- Work out how many 'qualifying years' you have over your working life; if the figure is 35 or more qualifying years then start this calculation with the full 'flat rate' amount, currently £168.60 per week; if you have 34 or fewer, scale down the figure proportionately; so, for example, for someone with 33 qualifying years, the basic amount to use here is 33/35 of the full flat rate;

- Deduct an amount for any periods of 'contracting out'; this amount is known as the 'Contracted Out Pension Equivalent' (COPE); Box 1 and Box 2 explain more about what 'contracting out' means, and what the COPE is.

Deducting the COPE from the full flat rate (or a scaled down flat rate for those with less than 35 years) gives you 'Amount B'.

Box 1. What is contracting out, and why does it affect my state pension?

For many years, many companies have offered their workers an occupational pension to top up their state pension. In 1978, the Government introduced its own top-up pension widely known as SERPS – the state earnings-related pension scheme. This created a potential for double provision, with workers paying National Insurance to build up an earnings-related pension from the state, and also paying into an earnings-related pension from their employer. In order to remove this potential duplication, pension schemes were allowed to 'contract out' of SERPS. Although the rules around contracting out are complex, the basic idea was that as long as the occupational scheme could guarantee to provide a pension at least as good as the SERPS pension then they could opt their members out. In return for the undertaking to provide a pension at least as good as SERPS, employers and employees in 'contracted out' schemes were allowed to pay a reduced rate of NI contributions. Employers and employees benefited from something called an NI 'rebate' which lowered the rate of contributions that they made.

In 1988, the principle of 'contracting out' of SERPS was extended to personal pensions, though it was implemented in a slightly different way. Where an individual was paying into a personal pension scheme that was 'contracted out', they also benefited from an NI rebate. But rather than paying a lower rate of contributions, they continued to pay full NI contributions. Instead, the NI rebate was paid directly into their personal pension fund.

Even before the introduction of the new state pension, if you had contracted out this would be taken account of when your state pension was worked out. For example, for the period from 1978 to 1997, the government would work out how much SERPS you would have built up if you had *not* contracted out, and would then deduct the amount of pension which your occupational pension scheme had promised to

3. THE TRANSITION TO THE NEW STATE PENSION – ANYONE WITH CONTRIBUTIONS BEFORE 6TH APRIL 2016

Box 1. What is contracting out, and why does it affect my state pension? (continued)

deliver in lieu of your SERPS pension. If you were contracted out for the whole period, this could reduce your SERPS pension to zero.

Contracting out into salary-related pensions was abolished in April 2016, whilst contracting out into 'pot of money' or Defined Contribution pensions was abolished in April 2012.

When the new state pension was introduced, the government needed to decide how to treat past periods of contracting out. There were two extreme options:

a) Forget that contracting out ever happened – this would have been by far the simplest option; but it would have been unfair to those who did not contract out; they would have paid in far more in NICs than those who contracted out, but would still have got the same state pension;

b) Keep making deductions for contracting out indefinitely – at the other extreme, there was a case for saying that if someone had ever benefited from lower NICs because of contracting out, then there should always be a deduction from their state pension to reflect this; this might have been fairer, but with contracting out only abolished in 2016, there would have been people retiring in the 2060s who would still have had deductions from their state pension to take account of contracting out nearly fifty years earlier; this would have made the transition to the new 'flat rate' system extremely slow;

In the end, the DWP opted for a compromise between these two extremes. As at April 2016, full account is taken of past contracting out, as would have been the case if the system had not been reformed. However, once that calculation has been done, any further years of contributions from 2016/17 onwards add to the 2016 starting amount. Those with several years of contributions from 2016/17 onwards therefore have the potential to build up towards a full flat rate state pension even if they had past periods of contracting out. The upside of this approach is that the majority of pensioners will get the full flat rate pension within about five years of the reform coming into force. The unfairness, arguably, of the new system is that those who were contracted out have the potential to draw a full state pension, plus their company pension, even though they put less into the system than their neighbour who paid full rate NI Contributions through their working life.

3. THE TRANSITION TO THE NEW STATE PENSION – ANYONE WITH CONTRIBUTIONS BEFORE 6TH APRIL 2016

Box 2. What is the 'Contracted Out Pension Equivalent' (COPE)?

As is clear from Box 1, it can be difficult to understand what 'contracting out' means, and how and why it affects your state pension. To try to clarify matters, the DWP has started including an additional figure on state pension forecasts. This is the 'Contracted Out Pension Equivalent' or COPE. Note that this figure is for information only, and you do not need to perform any additional calculations or deduct this figure from your state pension forecast – the DWP has already done this for you.

The basic idea of the COPE is to remind you that although you may not be getting a full state pension, you are getting an occupational or private pension and you benefited from a reduced rate of National Insurance Contributions in recognition of this.

The idea of the COPE works best for those who have been members of traditional salary-related company pension schemes. Consider the simple case of someone whose (contracted out) company pension promised to deliver at least £30 per week. They may find that they have been given a state pension forecast of £138.60, and may wonder why they are not getting the full flat rate of £168.60. But their state pension forecast will also mention a COPE of £30 per week which is a reminder that they will be getting at least £30 per week from their company pension. Taken as a whole, therefore, their income in retirement is at least the full flat rate of £168.60, and often much more.

The concept of the COPE is less helpful for those whose contracted out pension was a personal pension or any other 'pot of money' pension whose size depends on how the money was invested. In theory, when an individual contracted out and asked for their NI rebates to go into a personal pension, that money was invested and grew up to retirement in order to deliver a pension equal to the COPE amount. In reality, for many people the personal private pension that they are getting will be well short of the COPE figure. This is mainly because the amount of pension you can buy with a pension pot today is far lower than was expected when contracting out took place back in the 1980s and 1990s.

3. THE TRANSITION TO THE NEW STATE PENSION – ANYONE WITH CONTRIBUTIONS BEFORE 6TH APRIL 2016

Step 3. To get your starting amount for the new state pension as at 6th April 2016, take the *higher* of Amount A and Amount B

Case study C: 'Amount A' is higher – large SERPS entitlement

All of Charlie's years of contributions were prior to 6th April 2016. He has 37 years of contributions so would have got a full basic state pension under the old rules. He never joined a company pension scheme but was paid a good wage and built up a substantial pension under the SERPS scheme. For Charlie, the Amount A v Amount B calculation is as follows:

Amount A:	
Full basic state pension	£129.20
SERPS pension	£65.00
TOTAL Amount A	£194.20
Amount B:	
Full flat rate pension	£168.60

As Charlie's 'Amount A' is larger than his 'Amount B', his state pension will be £194.20 per week.

Case study D: 'Amount A' is higher – extensively contracted out

All of Diana's years of contributions were prior to 6th April 2016. She has 37 years of contributions so would have got a full basic state pension under the old rules. She joined a company pension scheme and was extensively 'contracted out' of SERPS, and only had a few years when she was building up rights under the SERPS scheme. For Diana, the Amount A v Amount B calculation is as follows:

Amount A:	
Full basic state pension	£129.20
SERPS pension	£10.00
TOTAL Amount A	£139.20
Amount B:	
Full flat rate pension	£168.60
Minus deduction for contracting out	-£50.00
LEAVES Amount B	£118.60

As Diana's 'Amount A' is larger than her 'Amount B', her state pension will be £139.20 per week.

3. THE TRANSITION TO THE NEW STATE PENSION – ANYONE WITH CONTRIBUTIONS BEFORE 6TH APRIL 2016

Case study E: 'Amount B' is higher – self-employed

Eddie was self-employed through his working life and all of his years of contributions were prior to 6th April 2016. He has 38 years of contributions so would have got a full basic state pension under the old rules, but his self-employed NI contributions did not bring him any entitlement to a SERPS pension. By contrast, his self-employed years count in full towards the 35 years needed for a full new state pension. For Eddie, the Amount A v Amount B calculation is as follows:

Amount A:	
Full basic state pension	**£129.20**
SERPS pension	**£Nil**
TOTAL Amount A	**£129.20**
Amount B:	
Full flat rate pension	**£168.60**

As Eddie's 'Amount B' is larger than his 'Amount A', his state pension will be £168.60 per week.

Case study F: 'Amount B' is higher – long periods raising children

All of Fiona's years of contributions were prior to 6th April 2016. She had a number of jobs but also spent a long time out of paid work at home with her three children. When she was in paid work she was building up a modest SERPS pension but no SERPS pension was accrued during those years with her children. However, she did get National Insurance credits for those years which count in full towards her new state pension. For Fiona, the Amount A v Amount B calculation is as follows:

Amount A:	
Full basic state pension	**£129.20**
SERPS pension	**£20.00**
TOTAL Amount A	**£149.20**
Amount B:	
Full flat rate pension	**£168.60**

As Fiona's 'Amount B' is larger than his 'Amount A', her state pension will be £168.60 per week.

3. THE TRANSITION TO THE NEW STATE PENSION – ANYONE WITH CONTRIBUTIONS BEFORE 6TH APRIL 2016

Step 4. Take account of qualifying years from 2016/17 onwards

If your starting amount as at 6th April 2016 is greater than, or equal to, the full flat rate then you cannot build on it by further contributions, and this is the amount of state pension you will receive.

However, if your starting amount is below the full flat rate, each full qualifying year from 2016/17 onwards will add 1/35 of the full flat rate to your pension entitlement. So, for example, if you have a starting rate well under the full flat rate, then if you work for two extra years post 6th April 2016, you will get an extra 2/35 of the full flat rate on top of your starting amount.

Case Study G: Impact of years worked post 6th April 2016

Gina does not reach pension age until February 2021. Gina's working history is the same as Diana's (case study D) prior to April 2016, so she has a 'starting amount' of £139.20 in today's money. However, Gina has the advantage that she can go on contributing in 2016/17, 2017/18, 2018/19 and 2019/20 in order to add to her state pension.[3] Each year post 6th April 2016 for which she contributes adds 1/35 of the full pension rate to her original starting amount. This calculation is shown below:

Gina's starting amount based on her contribution record up to April 2016 is: £139.20 per week.

Gina does another four years of work. This adds 4/35 of £168.60 or £19.27 per week to her pension.

Gina's total pension is £139.20 + £19.27 or £158.47 per week.

[3]Note that any contributions she makes in 2020/21 do not count, because she reaches state pension age during the course of 2020/21.

4. SPECIAL CASES

A number of special rules were needed to cover particular groups of people who might otherwise have lost out when the new system was introduced.

a) People entitled to more than the flat rate amount as at April 2016

As described in the previous section, those who had already built up a pension under the 'old' rules worth more than the full flat rate amount will receive that higher amount when they retire. For example, if the basic pension plus SERPS pension they had built up as at April 2016 was £200 per week, then they would get £200 per week in pension rather than the flat rate of £168.60.

There are a number of special rules which apply to this group.

- As noted earlier, those with more than the full flat rate as at April 2016 cannot add to this amount, even if they pay NI Contributions for years from 2016/17 onwards;

- The amount in excess of the full flat rate is known as a 'protected payment'; there are two special features of this protected payment which affect annual upratings and the ability to pass on part of your pension to a surviving spouse or civil partner:

  - The amount of your state pension up to the full flat rate amount is uprated in line with government policy and at least by the growth in average earnings; but the protected payment is uprated in the same way that SERPS pensions are uprated, and this will generally only be in line with price inflation, currently measured by the Consumer Prices Index (CPI); as a result, different elements of your state pension will be uprated by different amounts;

  - Although the new state pension is based around the principle of individuals building up pensions in their own right, if someone receiving a protected payment were to die, their surviving spouse or civil partner would be entitled to inherit 50% of their protected payment as an addition to their weekly state pension.

b) People whose spouses reached state pension age under the 'old' system

The decision to base the new state pension around an individual's contribution record rather than entitlement derived from a spouse was intended both to simplify the system and to recognise new social and economic realities where women play a full part in the labour market and cannot be presumed to be financially dependent on their husband.

However, in many couples there will be one partner who reaches state pension age under the old system – where there were extensive rights to derive a pension from a spouse or to inherit a pension from a late spouse – and the other partner who reaches pension age under the new system. A key question is what happens if the person who built up rights under the old system were to die – does the surviving spouse inherit something because the late spouse was drawing a pension under the old system or not inherit something because they are on the new system?

The decision was taken that even those who reach pension age under the new system will still be able inherit state pension from their late spouse, provided that the late spouse reached pension age under the old system.

The rules are relatively complex, but the basic idea is that if the late spouse built up rights under the SERPS scheme, the usual rules about 'inherited SERPS' would apply. Essentially, this means that a surviving spouse can inherit at least 50% of a late spouse's SERPS pension (or a higher percentage depending on age – see www.gov.uk/additional-state-pension/inheriting). This inherited SERPS is simply paid as an addition to your new state pension.

c) Women who paid the 'married woman's stamp'

Until 1978, married women were able to opt to pay a reduced rate of National Insurance Contributions in return for sacrificing their right to build up a state pension in their own right for any years when they were on the reduced rate. This was often known colloquially as paying the 'married woman's stamp' (MWS).

The background to the MWS was the post-war view that in most households women were financially dependent on men, and that this was likely to continue through working life into retirement. On this basis, there was little advantage in a married woman paying full NICs (out of possibly a relatively modest wage) in order to build up a full state pension in her own right. Married women were therefore given the right to opt to pay a reduced rate of NICs. Any such years did not count towards a women's state pension entitlement, but she could still claim a 60% state pension based on her husband's record of contributions.

Although the ability to opt to pay the 'married woman's stamp' ceased for new cases in 1978, those women who were already on the reduced stamp were allowed to continue to pay in at the reduced rate. The numbers in this position dwindled steadily, but there were still large numbers of women who had paid a reduced rate at some point in anticipation of drawing a pension based on their husband's record of contributions.

This expectation created a problem for the designers of the new state pension. One of the simplifying features of the new state pension is that it is based on individual entitlements and not those derived from a spouse or civil partner. But women who had spent their working lives expecting a 60% pension based on their husband's contributions could have been very adversely affected if that right was taken away on the brink of retirement.

As a result, a concession was introduced which allows a woman to draw a pension at a rate of 60% of the old basic state pension rate, provided that they were still paying the married woman's stamp at some point in the 35 years up to their state pension age.[4]

[4]More details of this special rule can be found at: www.gov.uk/government/publications/your-new-state-pension-explained/your-state-pension-explained

5. YOUR QUESTIONS ANSWERED

The previous sections of this guide explain the basics of how the new state pension is calculated. In this section we answer some of the most commonly asked questions arising from these rules.

a) If I've been promised a pension above the new flat rate, will I still get it?

Yes. If, for example, you were expecting to get a full basic state pension under the old rules plus a substantial pension under the state earnings-related pension scheme, then by April 2016 you might already have been in line for a pension in excess of the flat rate of £168.60. If you had already built up more than this amount by April 2016, you will get the higher figure. However, you should be aware that you cannot add to this figure by contributions or credits for years from 2016/17 onwards. You will though have to go on paying NICs in the usual way even though you will not be adding to your pension.

b) My statement shows a COPE figure – do I need to take this off my pension forecast?

No. The COPE figure is for information only and has already been taken account of in your pension calculation. If you have been a member of a traditional salary-related pension then you should be getting a pension from that scheme (or schemes) at least equal to the COPE figure. If this is not the case it would be worth asking the Pension Service to explain where the COPE figure has come from. If you were a member of a 'pot of money' style pension (known variously as a Defined Contribution or 'Money Purchase' pension) then it is possible that the amount of pension you are getting from this source will be less than the COPE figure. Unfortunately you cannot do anything about this.

c) I've paid in more than 35 years, why don't I get a full pension?

Almost certainly this will be because at some point you were a member of a 'contracted out' pension scheme and in those years you were putting less in to the system than someone who was not 'contracted out'. For example, if you were a member of a salary-related pension then during the years in question you and your employer would have benefited from paying in a reduced rate of NI Contributions. In return, your pension scheme made a promise to replace part of the state pension you would have been building up if you had not been contracted out. Because of this deal, a one-off deduction is made from the new state pension to take account of the pension your employer has promised to pay. Note that with regard to occupational pension schemes it is whole schemes which decide to 'contract out' rather than individual members. This is why some people may not remember actively choosing to 'contract out' – to be a member of such a scheme you had to be 'contracted out'.

d) Will I get any pension based on my spouse's contributions?

The new state pension is based around your contribution record, not that of a spouse, so in most cases you will not benefit from your spouse's contributions.

The main exceptions to this, as noted in the previous section, are that you can still inherit part of the SERPS pension of a late spouse if you reached pension age before the new state pension was introduced. There are also a small number of married women (and widows) who once paid the married woman's reduced rate of NI Contributions to whom special rules apply.

e) If I die, will anyone inherit any of my pension?

If you are getting less than the full flat rate state pension, no-one will inherit any of your new state pension when you die. However, if you are receiving more than the full flat rate, any excess amount is known as a 'protected pension' and half of this can be passed on to a surviving spouse. So, for example, if you are receiving a weekly pension which is £20 in excess of the full flat rate, your surviving spouse can inherit £10 per week. This inheritance should happen automatically once the death has been reported, though there can be a delay of many weeks before the new rate is put into payment. If so, any additional inherited amount should be backdated to the point of death.

f) Why are different bits of my pension uprated at different rates?

If you are getting a pension in excess of the full flat rate, different uprating rules apply to the slice up to the flat rate and the slice beyond.

The amount up to the full flat rate is uprated in line with government policy on pension uprating. By law this has to be at least in line with the growth in average earnings, though in recent years it has been in line with the 'triple lock' policy which applies an increase of the highest of the growth in earnings, prices or a floor of 2.5%.

The amount above the full flat rate – the protected payment – is uprated only in line with inflation, currently as measured by the Consumer Price Index (CPI).

g) What happens if I delay taking my state pension?

You are not obliged to take your state pension at state pension age. In the old system, those who deferred taking a state pension had an option of either drawing an enhanced pension when they did finally start claiming or of taking a lump sum (plus interest) reflecting the pension they had not taken. Under the new system, the lump sum option has been abolished. Those who defer taking their new state pension simply get an extra 1% on their pension for each nine weeks that they defer. This is equivalent to an extra 5.8% for each year of deferral.

h) Can I top up my state pension?

If you are due to receive less than the full flat rate state pension, you may be able to top up your pension by paying voluntary contributions, known as 'Class 3' National Insurance. It is well worth investigating this option as the rate of Class 3 contributions is heavily subsidised by the government and so paying Class 3 NICs can be very good value for money.

The rules around which years can be topped up and how much they cost are the subject of a separate Royal London guide which can be downloaded at www.royallondon.com/goodwithyourmoney

6. WHERE TO FIND OUT MORE

By far the best place to go to find out where you stand regarding the new state pension is the government's check your state pension website. This is at www.gov.uk/check-state-pension . Once you have gone through the identity verification process you should then be able to see your full National Insurance record and get an estimate of:

a) How much state pension you have built up so far – this is effectively 'money in the bank' unless a future government completely rewrites the rules;

b) How much state pension you *could* get if you worked every year from now up until state pension age;

If you have ever been 'contracted out' you may also see a figure for your Contracted Out Pension Equivalent or COPE. As explained earlier in this guide, this figure is for information only, and has already been taken account of in the state pension forecast that you have been given.

If you do not have access to the internet you can complete and post off a form BR19 and you will be sent a copy of your state pension statement or you can phone the Future Pension Centre on 0800 731 0175 to request a forecast.

APPENDIX 1. 'JARGON BUSTER' – SOME TECHNICAL TERMS EXPLAINED

Contracting out

Employers and employees in occupational pension schemes were allowed to pay a reduced rate of National Insurance Contributions. In return for this, employees built up a guaranteed minimum level of pension within the scheme rather than from the state earnings-related pension scheme. Members of certain personal pension schemes were also allowed to 'con-tract out', and in this case the NI 'rebate' went into their pension fund rather than being a reduced rate of contribution. Contracting out into 'pot of money' (defined contribution) pensions was abolished in 2012 and into 'salary-related' (defined benefit) pensions was abolished in 2016. There is more detail on contracting out in Box 1 of this guide.

Contracted out deduction (COD)

This is an amount which is deducted from someone's state pension entitlement to reflect periods when they were a member of a 'contracted out' pension scheme (see above). This amount is reflected in the calculation of pensions under the 'old' state pension system, and a modified calculation is used for the new state pension. The latter deduction is known as the 'contracted out pension equivalent' – see Box 2.

Protected Payment

Where someone was already entitled to a state pension in excess of the full flat rate as at April 2016, they can receive a higher rate of pension. Any excess above the flat rate is called a 'protected payment'. There are two features of the protected payment worth noting. First, half of any protected payment can be inherited by a spouse when you die. Second, when pensions are uprated each year, any protected payment will generally only be uprated in line with inflation, rather than the more generous uprating of the flat rate pension.

Qualifying year

A qualifying year is a financial year (running from 6th April one year to 5th April the next year) which helps you build up a state pension. This could be a year where you were working and paying National Insurance Contributions for the whole year, or where you were 'credited' with contributions, perhaps because you were a carer or receiving a benefit for sickness or unemployment. A year can only be a qualifying year if you were under state pension age for the whole of that year. This means that the year during which you reach state pension age cannot be a qualifying year.

SERPS

This is the state earnings-related pension scheme which was introduced in 1978/79 and abolished at the end of 2015/16. It provided an additional state pension beyond the basic state pension for those who were not members of 'contracted out' pension schemes.

State Pension Age

This is the age at which you become entitled to draw a state pension. Pension ages have been changing rapidly for women in recent years and will change for both men and women from late 2018 onwards. Note that you do not need to be 'retired' to draw a state pension, and you can put off taking your state pension if you wish. You can check your state pension age at: www.gov.uk/state-pension-age

State Second Pension

In 2002 the state earnings related pension was reformed to give additional benefits to lower paid workers. SERPS was renamed as 'State Second Pension' at this point, although many features of the SERPS system continued.

APPENDIX 1. 'JARGON BUSTER' – SOME TECHNICAL TERMS EXPLAINED

Voluntary NICs

Where someone has a gap in their record of NI Contributions and may face a reduced pension as a result, they may be able to pay voluntary or 'Class 3' contributions in order to top up their record. Our separate guide on topping up your state pension explains when this is – and isn't – a good idea and can be downloaded at www.royallondon.com/goodwithyourmoney

APPENDIX 2 – HOW IS THE CONTRACTED OUT PENSION EQUIVALENT WORKED OUT?

Under the old state pension system there was already a process whereby those who had been contracted out faced a deduction from their state pension. These deductions were known as 'contracted out deductions' or CODs. In the new system the equivalent deductions were originally referred to as the 'Rebate Derived Amount' or, more recently, the 'Contracted Out Pension Equivalent'.

In the period from 1978/79 to 1996/97, the DWP would calculate how much SERPS pension you would have built up if you had not been contracted out. It would then make a deduction for each year in which you were contracted out, and that deduction was based on the level of 'guaranteed pension' which your scheme had promised to pay. If you were contracted out for the entire period your net SERPS for the period could be zero. A similar contracted out deduction also applied during the period from 2002/03 until contracting out was abolished.

The new state pension applies a similar process for the period from 1978/79 to 1996/97 and 2002/03 to 2015/16. The figures used are the same as would have been used in the old system.

The main difference between the old process and the new process is in the period from 1997/98 to 2001/02. During this period the process of working out a gross SERPS figure and deducting a contracted out deduction did not apply under the old rules. Individuals who were contracted out during this period simply built up a nil SERPS figure.

The problem with this for the new system is that the new state pension still needs to make a deduction for this period to reflect the fact that contracted out workers (and employers) were paying a lower rate of NICs. But there is no 'off-the-shelf' contracted out deduction available to be used for that period. The new system therefore works out the gross SERPS that you would have accrued for each year from 1997/98 to 2001/02, and uses this as the basis for a deduction in respect of years of contracting out. The consequence of this, for those who were contracted out in that period, is that the COPE figure will be higher than any Contracted out Deduction (COD) figure which has previously shown on any historic pension forecasts.

The idea of the COPE system is not to introduce a new penalty for past contracting out, but rather to mirror the previous process of reflecting past contracting out as far as possible.

The DWP has published more details of the calculation here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/210299/single-tier-valuation-contracting-out.pdf

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