

The Basic State Pension

This is the part of State Pension benefits which are based on the number of qualifying years gained through National Insurance Contributions (NICs) you have paid, treated as having paid or are credited with, during your working life.

When can I draw my State Pension?

The government is phasing in an older retirement age over the coming decades. Currently State Pension Age is 60 for women and 65 for men. The age for women is gradually being increased to match that of men over the coming years.

- For women born before 6th April 1950, State Pension Age will remain at 60.
- For women born on or after 6th April 1955 it will be 65.
- For women born between these dates the State Pension Age will gradually increase from 60 to 65

There are further proposed changes to state pension ages for both men and women. These increases will be gradual, happening over two years every decade. The changes will mean that:

- State Pension age for men and women will increase from 65 to 66 between April 2024 and April 2026
- State Pension age for men and women will increase from 66 to 67 between April 2034 and April 2036
- State Pension age for men and women will increase from 67 to 68 between April 2044 and April 2046

Am I entitled to the Basic State Pension?

You qualify by building up enough 'qualifying years' before the pension age. The number of qualifying years needed for a full basic State Pension is 30 for people who will reach State Pension Age on or after 6th April 2010. If State Retirement Age is reached before 6th April 2010 women need between 39 and 44 (depending on their date of birth) and men need 44.

What are qualifying years?

A qualifying year is a tax year in which you have sufficient earnings upon which you have paid, are treated as having paid, or have been credited with NIC. In the 2009-10 tax year, you need to have £4,940 or more of such earnings if you are an employee or £5,075 or more if self employed.

Credits are awarded to increase the number of people who would become entitled to a State Pension. These include those in receipt of certain benefits, such as Carer's Allowance, Jobseeker's Allowance or Incapacity Benefit and they will automatically receive National Insurance credits for the weeks that benefits are claimed.

How much is the basic state pension?

In 2009/10, the full basic state pension is £95.25 per week, but your individual circumstances may affect what you actually receive.

If you reach State Pension age before 6 April 2010

If you do not qualify for the full basic State Pension but have 25 percent or more of the qualifying years, you will get a weekly basic State Pension between the minimum (£23.81 in 2009/10) and the maximum (£95.25 in 2009/10).

If you have fewer than 25 per cent of the qualifying years, you are not normally entitled to receive any basic State Pension. However, you can get a 'non-contributory' or 'Over 80 Pension' if you are aged 80 or more and meet the residency conditions. This is £57.05 a week for 2009/10.

If you reach State Pension age on or after 6 April 2010

If you do not qualify for the full basic State Pension but have some qualifying years, you will get one thirtieth of the full amount for each qualifying year.

Pensions Credit

On 6th October 2003 the government introduced Pension Credit as a replacement for the Minimum Income Guarantee (MIG). Pension Credit is in two parts: the guarantee credit, which tops up the weekly basic State Pension to a prescribed level (£130.00 for individuals; £198.45 for couples for 2009/10) and the savings credit which has been introduced as a reward to those who make additional savings. Individuals and couples over 65 may be entitled to up to £20.40 and £27.03 per week, respectively.

Pension Credit is a means-tested benefit, whereby amounts of capital are converted into 'income'. Savings below £6,000 are disregarded. (This is due to increase to £10,000 from November 2009). Every £500 or part thereof above £6,000 (£10,000 after November 2009) is counted as £1 'income'. All personal and occupational pension benefits, as well as lump sum investments (such as ISAs, Bonds, Unit Trusts) would be included and it is virtually impossible to be sure of the fund values and resulting pension levels in advance.

On current figures, essentially, an individual with 'income' including state pension of around £181.00 per week, or a couple with 'income' of around £266.03 per week would not be entitled to Pension Credit. This means that, in some circumstances, many individuals may only be slightly better off in retirement than if they had made no additional provision.

We have no way of knowing what your income/savings will be at the point of retirement, or indeed the qualifying criteria at the time (since governments over the years have and will no doubt continue to change benefit levels and structures) and therefore we cannot ascertain whether the Pension Credit will work for or against you.

What is State pension deferral?

State pension deferral means you can defer claiming your State Pension when you have reached State Pension age. You can also choose to defer after having claimed for a time. Since April 2005, if you defer claiming your State Pension (whether you are working or not) you can choose one of the following options when you do claim:

- Extra State Pension: If you put off claiming for at least 5 weeks you can earn an increase to your State Pension of 1% for every five weeks you defer. This is equivalent to about 10.4% extra for every year.
- A Taxable Lump Sum Payment: If you put off claiming State Pension benefits for at least 12 consecutive months, which must all fall after 5th April 2005, you can choose to receive a one-off

lump sum payment and your State Pension paid at the normal rate. This lump sum payment will be based on the amount of normal weekly State Pension you would have received, plus interest at 2% above the Bank of England base rate, added weekly and compounded.

If you were to die before starting to claim the State Pension you deferred, your extra State Pension may be added to your spouse's or civil partners State Pension. If you die after starting to claim the deferred pension your spouse or civil partners own State Pension Payments will be increased. If you do not have a spouse or civil partner, the State Pension becomes part of your estate. Your next of kin can claim an amount equal to the first three months of extra state payments.

How do I get a State pension forecast?

There are three ways in which you can obtain a forecast of your Basic State pension.

- Online at www.direct.gov.uk
- By telephone - 0845 3000 168
- By post - BR19 form required. These are available on line at www.pensionservice.gov.uk

Information you'll need to hand

- your national insurance number
- the types of NIC you are paying (for example whether you are employed or self employed)
- details of any marriages, civil partnerships or annulments
- details of any time spent working abroad
- details of your current salary if you are paid by an employer

Personal Accounts

The Government intends that from 2012 all employers will have to provide a workplace pension, automatically enroll all of their employees who meet certain criteria and contribute a minimum of 3% of salary (between a lower and upper limit). It is also likely that existing arrangements meeting specific minimum standards will be able to qualify as a suitable alternative arrangement.

As much of the detail surrounding Personal Accounts has yet to emerge there is still uncertainty about what they will eventually look like (although the aim is for Personal Accounts to be a low cost scheme).

It is therefore important that any arrangements made today are reviewed regularly in the light of changing circumstances/legislation.

The information detailed above is based on Emery Little Cresswell Cadenhead LLPs understanding of the Basic State Pension and Pension Reforms - April 2009.