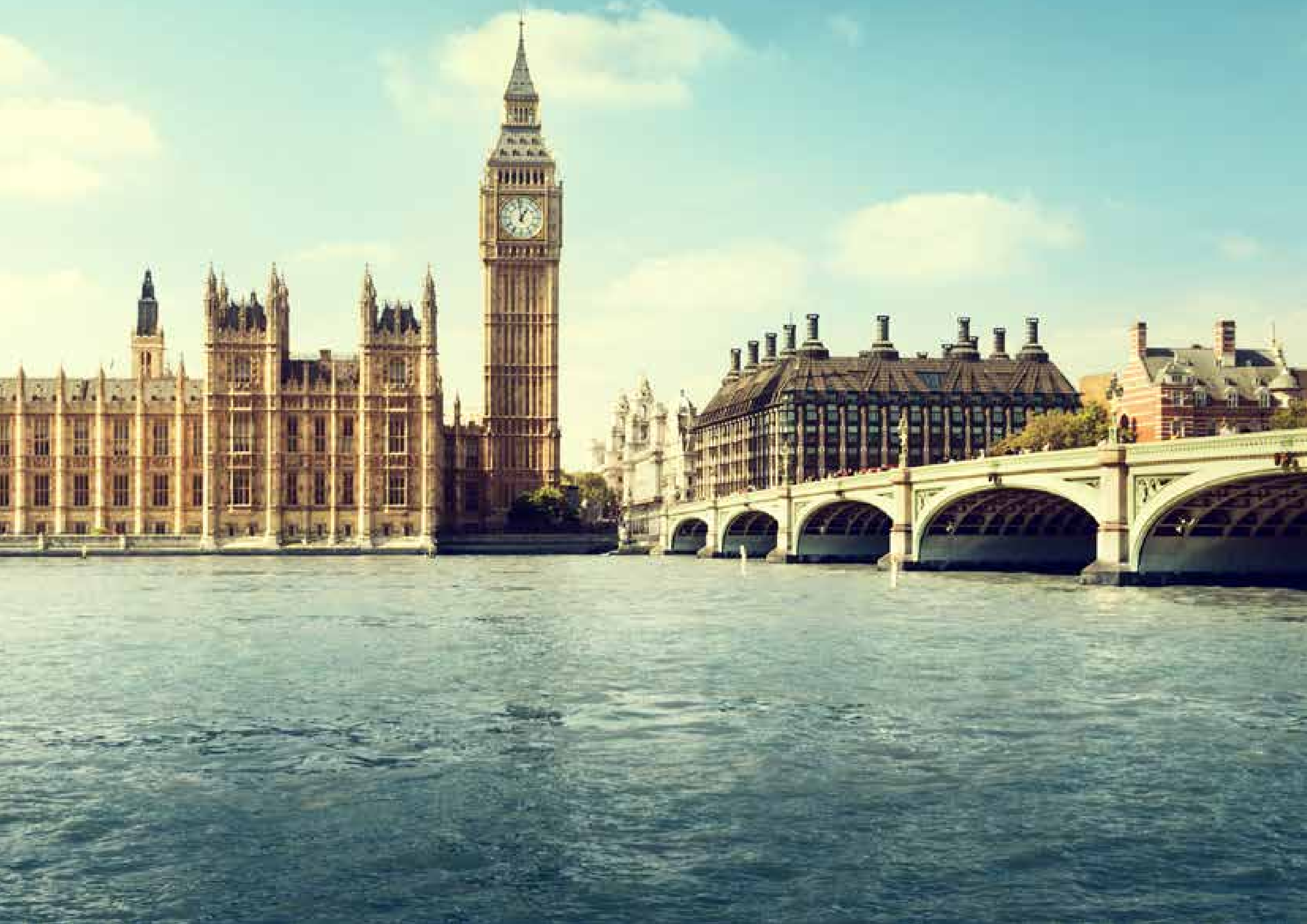
FINANCIAL GUIDE

GUIDE TO THE

NEW STATE PENSION

WHAT THE RULE CHANGES MEAN TO YOU



GUIDE TO THE NEW STATE PENSION

What the rule changes mean to you

The State Pension changed on 6 April 2016. If you reached State Pension age on or after that date, you'll now receive the new State Pension under the new rules. The aim of the new State Pension is to make it simpler to understand, but there are some complicated changeover arrangements which you need to know about if you've already made contributions under the previous system.

For many retired people, the State Pension forms the core of their income, together with any workplace or personal pension provision that you have. The new State Pension is a regular payment from the Government that you can claim if you reach State Pension age on or after 6 April 2016. You will receive the new State Pension if you're eligible and a man born on or after 6 April 1951, or a woman born on or after 6 April 1953.

If you reached State Pension age before 6 April 2016, you'll receive the State Pension under the old rules. You can still get a State Pension if you have other income such as a personal pension or a workplace pension.

The basic and additional State Pensions have been replaced by a flat-rate, single-tier new State Pension with a full level of £155.65 per week, and depending on your personal circumstances this may be subject to tax. Your National Insurance record is used to calculate your new State Pension, and you'll usually need ten qualifying years to get any new State Pension.

For ten years, at least one or more of the following must have applied to you:

- You were working and paid National Insurance contributions
- You were receiving National Insurance credits, for example, due to unemployment, sickness or as a parent or carer
- You were paying voluntary National Insurance contributions

If you've lived or worked abroad, you may still be able to get some new State Pension. You may also qualify if you've paid married women's or widow's reduced rate contributions, but you'll need 35 qualifying years to get the full new State Pension.

HIGHER OR LOWER

The amount you receive can be higher or lower depending on your National Insurance record, and it will only be higher if you have over a certain amount of Additional State Pension. You don't have to stop working when you reach State Pension age, but you'll no longer have to pay National Insurance, and you can also request flexible working arrangements.

Deferring the new State Pension means that you may receive extra State Pension when you do claim it. The extra amount is paid with your State Pension (for example, every four weeks) and may be taxable. Deferring your State Pension could affect your other benefits and tax credits.

You'll need to defer for at least nine weeks – your State Pension will increase by 1% for every nine weeks you put off claiming. This works out at just under 5.8% for every full year you put off claiming. After you claim, the extra amount you get because you deferred will usually increase each year. The rules for deferring are the same if you live in the EU and EEA, Gibraltar or Switzerland, or a country that the UK has a social security agreement with.

DIFFERENT RULES

There are different rules if you live in another country. The extra amount you get for deferring is calculated by taking your State Pension rate at the time you reach State Pension age, or when you move abroad. The extra amount also won't increase after you claim.

You can claim your new State Pension even if you carry on working. However, you have the option to defer, which can increase the amount you get. If you're eligible for a State Pension from the Isle of Man, you'll need to claim it separately from your new UK State Pension.

On 6 April 2016, these rules changed so that if you were contracted out you'll no longer be contracted out, and you'll pay more National Insurance (the standard amount).

CONTRACTED OUT

The new system sees the end of the Additional State Pension (or State Second Pension [S2P]) and the State Earnings-Related Pension Scheme (SERPS). You should check your previous payslips to see if you have been contracted out. You will have been contracted out if the National Insurance contributions line has the letter D or N next to it, and remain contracted in if it has a letter A. If there's a different letter, you should check this with your employer or pension provider. You will have paid National Insurance at a lower rate if you were contracted out.

You're more likely to have been contracted out if you worked in the public sector, for example, the NHS, local councils, fire services, the civil service, teaching, police forces or the armed forces.

You may also be able to inherit an extra payment on top of your new State Pension if you're widowed, but you will not be able to inherit anything if you remarry or form a new registered civil partnership before you reach State Pension age.

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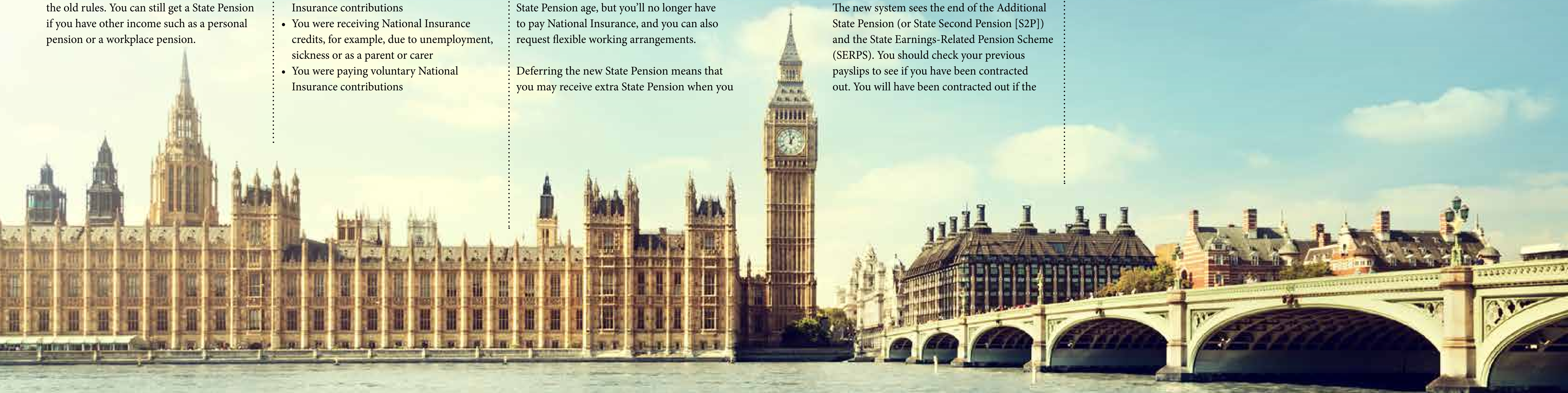

WANT TO DISCUSS YOUR RETIREMENT PLANNING OPTIONS?

The new State Pension is designed to be simpler. But there are some complicated changeover arrangements which you need to know about if you've already made contributions under the current system. To discuss your retirement planning requirements, please contact us for further information.

To find out more, please contact us.

This guide is for your general information and use only and is not intended to address your particular requirements. The content should not be relied upon in its entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of the content. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change, and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up, and you may get back less than you invested. All figures relate to the 2016/17 tax year unless otherwise stated.

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