State Pension
Pension Guide – Information for members

This guide sets out some information about UK State Pension arrangements. For further information, you are encouraged to go to the links provided within this guide. Each individual's pension and any potential partner's pension may differ and any figures shown are for illustration purposes only.

Key terms – at a glance

- *Additional Statement Pension (ASP)* - Earnings related pension available pre 6 April 2016 which members could contract out of if they wished and pay less National insurance (directed to their company or individual pension plan).
- *Basic State Pension (BSP)* - Flat rate pension paid to all by the State but the amount paid is dependent upon the number of years an individual pays National Insurance for (Qualifying Years).
- *Contracting Out Deduction (COD)* - If individuals decided to contract out of the ASP prior to April 2016 this deduction was applied to their ASP to take account of periods of contracting out.
- *Contracting Out Pension Equivalent (COPE)* – Since April 2016 to allow for prior periods of contracting out of the old State Pension arrangement, the new single tier pension is reduced by this amount.
- *Second State Pension (S2P)* – The name given to the ASP between 6 April 2002 and 6 April 2016.
- *State Earnings Related Pension (SERPS)* – The name given to the ASP between 6 April 1978 and 5 April 2002.
- *State Pension Age (SPA)* – The age at which someone can start receiving their state pension.

The State Pension

A new State Pension was introduced on 6 April 2016 replacing the prior State Pension which comprised of the Basic State Pension (BSP) and Additional State Pension (ASP).

The new State Pension applies to:

- Men born on or after 6 April 1951
- Women born on or after 6 April 1953

Those who had already reached their State Pension Age (please refer to page 3) will receive their pension under the old arrangements even if they had chosen to defer payment.

The new State Pension continues not to be means tested and remains as taxable income. No National Insurance contributions are payable beyond your State Pension Age, however if you retire at an earlier age, you may need to pay additional National Insurance contributions to qualify for the maximum State Pension.

The new State Pension is designed to be a flat rate amount – it is a single tier system. The level of pension is set above the old BSP but below what could potentially have been provided by the combination of the BSP and the ASP (see below). Detail as to how individuals' records were transitioned to the new State Pension is set out on page 3.

For the tax year 2021/2022 the new State Pension is £179.60 per week. The number of Qualifying Years of National Insurance contributions or credits to earn a full new State Pension is set at 35.

Old State Pension

For those eligible for the old State Pension (i.e. men born before 6 April 1951 or women born before 6 April 1953) as noted above, this is made up of two parts; the BSP and, if a person is eligible, an ASP.

Basic State Pension

The full BSP amounts to £137.60 per week for the tax year 2021/2022. Top ups were possible for married pensioners dependent on their dates of birth. This meant that if you were not getting the full BSP or were not on track for it you could pay voluntary contributions to boost the amount you got, even if you had already retired.

For an individual the amount of BSP entitlement depended upon the number of Qualifying Years on their National Insurance record. Thirty years were required for a full pension (although for men born before 1945 and women before 1950 the number of years was greater). National Insurance Credits and voluntary contributions could count towards the number of Qualifying Years.

Additional State Pension

The ASP is an earnings-related pension and referenced as SERPS (State Earnings Related Pension Scheme) or S2P (State second pension). The maximum ASP that could be built up was £180.31 per week for the tax year 2021/2022.

The ASP was introduced with effect from April 1978 and went through a number of changes over the period up to April 2016. The calculation formula was complex and produced a different amount depending upon earnings and age at commencement. Individuals could contract out of the ASP as members of occupational or personal pension arrangements. Contracting out meant paying lower National Insurance with the member's pension scheme effectively taking over the responsibility for the ASP.

Members of any of the BAE Systems pension schemes listed below will have been contracted-out. Members may also have contracted-out rights included within any pension transferred into any of the arrangements listed below:

- BAE Systems Pension Scheme (Level's 125, 167, 187, 200, Aircrew Benefits, Passport Benefits, SIPS Benefits and Alvis Benefits)
- Royal Ordnance Pension Scheme

The Department of Work and Pensions (DWP) calculate each individual's ASP and determine a deduction (if applicable) for periods of contracting out – a Contracted Out Deduction (COD).

More detail can be found on the prior State Pension arrangements at gov.uk/state-pension and gov.uk/additional-state-pension.

State Pension Ages

The change in the amount and method of calculating the State Pension from April 2016 does not affect State Pension Age (SPA) – your SPA is dependent upon your date of birth. Prior to 2010 the SPA was 65 for men and 60 for women. However, changes have been made over a period of time firstly to equalise SPAs for men and women and secondly to gradually increase the SPA for everyone. Legislation is in place to increase the SPA to age 66 by October 2020, to further increase it to age 67 by March 2028 and then to age 68 by April 2046. The government has suggested a principle that future generations should spend up to a third of their adult life in retirement, which would mean further increases dependent upon changes to how long people are expected to live for.

You can get further information on your SPA at gov.uk/state-pension-age. You are able to defer your State Pension beyond your SPA. For each year of deferment the pension is increased by approximately 5.8%.

Transition to the new State Pension arrangements

The DWP compare the entitlement under the old and new arrangements to determine a Starting Amount. The Qualifying Years up to and including the 2015/2016 tax year are used in the calculations.

The calculation under the old arrangement allows for the BSP together with any ASP less any COD.

In the calculation for the new arrangements, to allow for prior periods of contracting out of the old State Pension arrangements (if applicable), the new single tier pension is reduced by a Contracting Out Pension Equivalent (COPE). The COPE is broadly equivalent to the ASP you would have had if you had not been contracted out for the period.

The higher of these two amounts is used as the Starting Amount in the calculation to determine the State Pension people ultimately receive.

The Starting Amount can be increased with further additional Qualifying Years after April 2016, provided it does not exceed the full rate of the new State Pension. The additional pension for each Qualifying Year is 1/35th of the full amount of the new State Pension. However, even if you have more than 35 Qualifying Years and have a full new State Pension, any excess years' National Insurance contributions prior to April 2016 cannot be used to reduce or offset any COPE.

Where individuals have already built up a State Pension in excess of the new State Pension there is provision for a higher Starting Amount than the new single tier State Pension. If the State Pension under the old arrangements exceeds the State Pension under the new rules then the difference is called a protected payment.

You may be able to claim Qualifying Years credits for periods when you have been or are: unemployed; a carer; unable to work because of illness; or claiming certain benefits (including child benefit for a child under 12). Further details can be found at: gov.uk/national-insurance-credits.

State Pension on death

Under the new State Pension each person builds up their own pension and there is no inheritance of a State Pension on death (except for 50% of any protected payment provided your marriage or civil partnership began before 6 April 2016).

This is a change from the old rules where the partner of a pensioner, if eligible, could receive 50% of any ASP (less any COD). If they did not have entitlement to a full BSP, they could use their deceased spouse's record (if sufficient) to increase their entitlement up to the full BSP.

gov.uk/state-pension-through-partner gives information on what inheritance your partner might be entitled to.

Increases in payment

The State Pension increases in line with the greater of:

- the increase in National Average Earnings;
- the increase in Consumer Price Inflation (CPI); and
- 2.5% each year.

However, any protected payment increases in line with CPI only.

State Pension Statement

You can request a State Pension Statement from the DWP

- at the following website gov.uk/check-state-pension
- or by calling 0800 731 0175

If calling you will need your National Insurance number and if using the website you will also need your Government Gateway User ID (if already registered) or you will need to create an account.

As an alternative you can use gov.uk/government/publications/application-for-a-state-pension-statement and fill in form BR19.

This statement will include an estimate of your starting amount under the single-tier State Pension and will show the COPE deduction if it applies.

Claiming your State Pension

You have to claim your new State Pension.

You will normally receive a letter from DWP no later than two months before your SPA telling you what to do. If you do not get an invitation letter you can still make a claim. Visit: gov.uk/new-state-pension/how-to-claim.

You can also phone 0800 731 7898. You will have the option of commencing or deferring payment.

MoneyHelper

MoneyHelper provides impartial guidance that's backed by government to make your money and pension choices clearer. It also recommends further, trusted support if you need it. Visit: moneyhelper.org.uk.