

## The UK State Pension – In a Nutshell

### 1.1. State Pension Age:

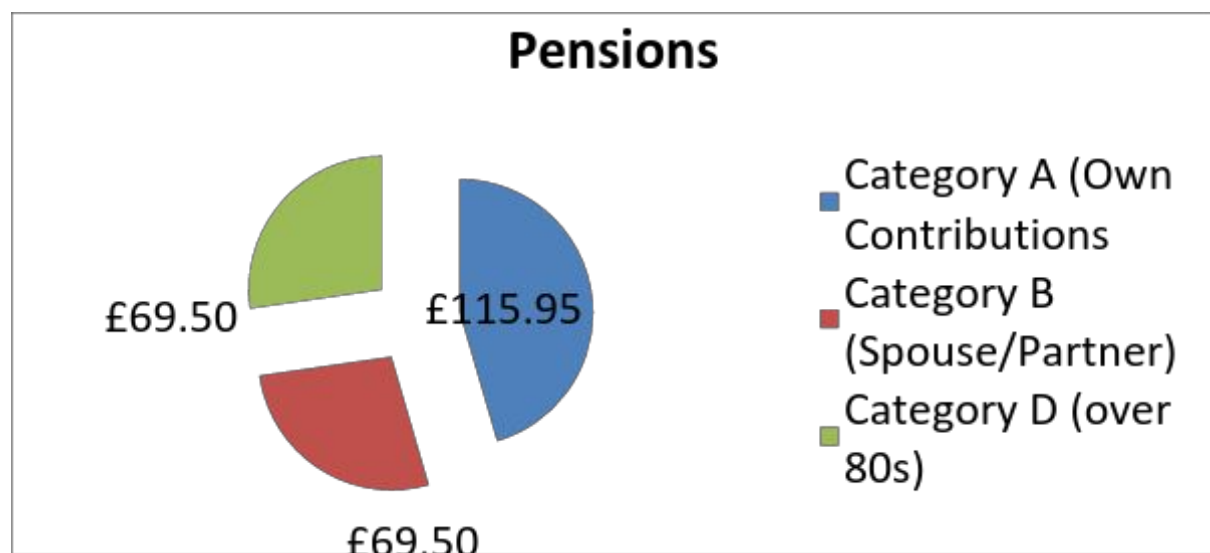
The State Pension age will be equalised for men and women by 2018. The State Pension age is currently 65 for men. Prior to 6/4/10 the retirement age for women was 60. However, from April 2010 it gradually increases so that by 2018 both genders will have the same retirement age and then by 2046 it will be 68 for men and women.

### 1.2. Introduction to State Pension: One Pension-Two Parts

The State Pension is made up of two main parts, the Basic State Pension and the Additional State Pension. Most people get some Basic Pension, but the amount can vary, and is usually based on the number of qualifying years they have paid. Additional Pension is the earnings-related benefit element of the State Retirement Pension. It can give extra money on top of the Basic Pension. It is possible to build up entitlement to Basic Pension and Additional Pension at the same time.

### 1.3. Introduction to Basic State Pension (BP):

The maximum amount of Basic Pension is £115.95 per week, but different people will qualify for different amounts. The Basic State Pension can be made up of contributory and/or non-contributory elements. To qualify for a contributory pension a person or their partner must have paid, been treated as having paid or been credited with sufficient National Insurance contributions. For the non-contributory pension of £69.50 a person can qualify regardless of the National Insurance contributions they have made, as long as they meet the eligibility criteria. And the Over 80's can also get a non-contributory Pension.



### 2.1. Introduction to Additional State Pension:

Category A and B pensions may include an Additional State Pension. This is the earnings-related benefit element of the State Retirement Pension;

- From 1978 to April 2002 contributions were built up via the State Earnings Related Pension Scheme (SERPS).
- In April 2002 the State Second Pension (S2P) replaced SERPS, which is a simplified and more generous version of SERPS.

Therefore, people who retire in the future may receive some of their Additional Pension under SERPS and some under S2P.

A person cannot build up Additional Pension based on earning if:

- They are self-employed
- Paying the reduced married women's contribution; or
- Earning less than the lower earnings limit of £112/week (2015/16)

### **3.1. The UK State Pension for European Citizens**

During a person's life they accrue rights to receive an old-age pension, nowadays often in more than one country. Each country has its own statutory public pension scheme with different characteristics.

Some countries finance pensions through contributions related to earnings, while others apply flat rates to pension contributions. In these systems, a person accrues pension rights when they work.

No matter which country a person lives and/or works in, European law guarantees them the right to treatment equal to that of the nationals of the country, in line with national laws. This principle of equal treatment is particularly important for people who do not live in the country where they work, including cross-border workers. Some countries have residence-based pension systems, i.e. a person accrues rights simply by living there.

European law generally prevents a person paying contributions in more than one country at the same time, as a person is subject to the social-security laws of only one country at a time. This means that a person does not need to pay pension contributions in more than one country for the same period of compulsory social-insurance cover.

If a person worked or lived in a European Economic Area Country or in any other country which the UK has a reciprocal agreement with the Pension Service will contact that country to find out if the period of employment or residence there will help the individuals contribution record. If the person lived or worked in any other country during their working life they will need to contact that country themselves to find out about pension entitlement. For further advice a person should contact the International Pension Centre at:

| International Pension Centre                                                                                            |               |                                                                                                        |
|-------------------------------------------------------------------------------------------------------------------------|---------------|--------------------------------------------------------------------------------------------------------|
| Address                                                                                                                 | Telephone     | Website                                                                                                |
| The Pension Service<br><br>International Pension Centre<br><br>Tyneview Park<br><br>Newcastle-upon-Tyne<br><br>NE98 1BA | 0191 218 7777 | DWP website:<br><a href="http://www.thepensionservice.gov.uk/ipc">www.thepensionservice.gov.uk/ipc</a> |

### 3.2. Where Few or No UK National Insurance Contributions Have Been Made:

If a person has lived and worked in another country and paid few or no National Insurance contributions in the UK, they may still be entitled to a Basic State Pension. Indeed, any social security contributions that were made in the country where they worked may count in the UK, particularly if the country was an EEA country. Even if the country where a person worked does not have a reciprocal agreement with the UK, the person may still be entitled to something.

European law ensures that all the pension contributions a person paid during their life count towards their future pension, regardless of how many and which countries they lived and/or worked in. If the period for which they had social-insurance cover in a particular country is not long enough to qualify them for a pension from there, account will be taken of any periods of cover the person had in other countries.

European law also allows a person to have many of the rights and benefits they accrue in one country paid out to them in another. This is true in particular for benefits based on social-security contributions. For example, a person can get their future old-age pension from one country paid to them in another country. Therefore, they may be entitled to a separate State Pension from the other country or countries in which they lived.

Therefore, if a person lived or worked in another country they may be entitled to a pension from that country (for example, if they have met the contribution/residency conditions), or they may be able to take advantage of the reciprocal agreement where the contributions they made there and/or their residency conditions, may help them to meet the contribution conditions for a UK pension. Therefore, they can take the pension from the other country or take advantage of the reciprocal agreement to contribute to their UK pension.

#### **4.1 The UK State Pension will change in 2016 to a “Flat Rate Pension”**

- It aims to provide a simple flat rate pension that provides a “firm foundation for workplace saving” for anyone who will reach State Pension Age after the 6<sup>th</sup> of April 2016. Therefore anyone who reaches SRP age before that date is not affected and is covered by the present scheme rules for better or worse. Simply put, people starting work from 2016 onwards will know that they will receive a flat rate pension and be able to start making their own savings and investments accordingly to top this up.
- It replaces the present SRP scheme as we know it with a new single tier amount based on 35 qualifying years of National Insurance Contributions. Each year of national insurance contributions will bring 1/35<sup>th</sup> of the single tier pension amount.
- If someone has less than 35 years contributions they can receive a pro-rata amount, unlike the old scheme this won't be a minimum of one year's contributions to get 1/30<sup>th</sup> it will be set between 7 and 10 years of contributions otherwise there will be no entitlement to the single tier pension.
- If someone who reaches retirement age after introduction has contributions made under the current system they will be converted into a “single tier foundation amount” meaning the contributor will get no less than the amount calculated using the present scheme rules.
- The single tier pension will be based on individual qualification; individuals will not be able to inherit pensions from their spouse/partner under the new scheme. There will however be transitional protection for those who have contributions under the current scheme.

#### **4.2 Who will get a single tier pension?**

- Men born on or after 6.4.1951 with 35 years of National Insurance Contributions
- Women born on or after 6.4.1953 with 35 years of National Insurance Contributions

#### **4.3 Amount of pension paid**

The amount will be set at the beginning of each financial year and will not be set therefore until its introduction in 2016. However the aim is to set above the basic level of means tested support (Pension Credit) which is around £148 per week currently.

#### **4.4 Those reaching State Pension age after 6 April 2016**

National Insurance contributions and credits awarded before the new single-tier system starts will be recognised, Current scheme contributions will be calculated to see what an individual may have accrued in the “old scheme” set against its potential value based on the “new scheme” rules and the higher of those two amounts becomes the single tier pension “foundation amount” This means that there will be transitional protection for those who have already paid in to the system and can expect a higher pension than the single tier amount.