Changes to the State Pension from April 2016

Public Service Employees

- This factsheet is about the ending of contracting-out of the Additional State Pension for Defined Benefit Pension Schemes.
- From 6 April 2016, there will be a new State Pension for people reaching State Pension age on or after this date. If you reach State Pension age before 6 April 2016 you will receive the current State Pension and you don't need to read any further.

What is changing?

You will be able to claim the new State Pension if you are a man born on or after 6 April 1951 or a woman born on or after 6 April 1953.

The current State Pension is made up of two parts:

- the basic State Pension; and
- the additional State Pension (known as State Second Pension or SERPS).

If you pay into a salary-related workplace pension, such as a 'final salary' or 'career average' scheme, you are likely to be 'contracted-out' of the additional State Pension.

If so, you and your employer pay National Insurance at a lower rate because you get a National Insurance rebate. This means you may have little or no additional State Pension and you are building up a workplace pension instead.

From 6 April 2016 the new State Pension is introduced. It will replace the existing basic and additional State Pensions and contracting-out of the Additional State Pension (giving up entitlement to the Additional State Pension by paying lower National Insurance contributions and building up a workplace pension instead) will come to an end.

All employees will pay the same rate of National Insurance.

Am I contracted-out?

Three-quarters of people reaching State Pension age in the first two decades of the new State Pension will have been contracted-out at some point.

As a member of a public service defined benefit pension scheme you are likely to have been contracted-out of the additional state pension by your employer. Look at your last payslip. If you're contracted out the letter 'D' will be next to your National Insurance payments. It could also show letter E, L, N or O.

How will the changes affect me?

If you have been contracted-out, both you and your employer pay a lower rate of National Insurance contributions, and in return your pension scheme is required to provide a pension that meets a minimum standard. The reduction to National Insurance is known as the "National Insurance rebate".

From 6 April 2016, you'll no longer be able to contract-out. This means you'll pay the standard rate of National Insurance instead of the lower rate that you currently pay. This will be an increase of 1.4% of earnings between the HM Treasury thresholds[1].

[1] £5,824 (the Lower Earnings Limit) and £40,040 - 2016/17 rates

Will I be worse off?

The vast majority of people who have been Contracted Out will end up better off over their lifetime as a result of the changes. We estimate that around 90% of those people who reach State Pension age in the two decades following the introduction of the new State Pension will receive enough extra State Pension over their retirement (compared against what they would have received under the current system) to offset their increased National Insurance contributions.

Do I have to do anything?

No. Your employer and pension scheme administrator will make the necessary changes.

How will my State Pension be affected?

Under both the current and the new systems, the amount of State Pension you will receive will take account of any periods when you have been contracted-out of the additional State Pension. This reflects the fact that you have paid a lower amount of National Insurance during those periods.

How will the new State Pension be calculated?

On 6 April 2016, DWP will calculate:

- the amount you would have received under the existing State Pension rules (including basic State Pension, any additional State Pension, and any Graduated Retirement Benefit); and
- the amount you would receive if the new State Pension had been in place at the start of your working life (this is calculated as 1/35th of the full new State Pension amount for each qualifying year) minus a deduction for the years you were contracted-out.

The higher of these two amounts will become your starting amount for the new State Pension.

The starting amount calculation ensures that people who qualify receive at least as much new State Pension as they would have done based on their own National Insurance account under the old scheme.

Both calculations will take into account any period when you were contracted-out of the additional State Pension, which means you may have little or no additional State Pension. This is because whilst you were contracted-out, you will have paid lower National Insurance contributions than people on the same salary as you who were not part of a contracted out pension scheme.

However, in most cases, the pension you get from your contracted out pension scheme(s) should include an amount at least the equivalent of the additional State Pension you would have received if you had <u>not been</u> contracted out. This amount is referred to as the Contracted Out Pension Equivalent (COPE) and is shown on your State Pension statement. Your total pension from your private pension scheme could be higher than this amount.

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The COPE amount is a Government estimate based on your National Insurance record. It is paid as part of your overall scheme pension benefits and is not normally identified separately by the scheme. The amount that you will get from your workplace pension will depend on the scheme rules and is not affected by the amount you will get from the new State Pension.

How much will I get in the new State Pension?

If you have contracted-out at any time, although your starting amount may be lower than the full rate of the new State Pension, you may be able to increase your new State Pension amount by adding further qualifying years to your National Insurance record after 6 April 2016 by paying National Insurance contributions, or getting National Insurance contribution credits.

Your starting amount will then increase by **1/35th of the full new State Pension amount for each qualifying year added to your record from 6 April 2016 until you reach State Pension age or you reach the full weekly amount – based on a full new State Pension amount of £155.65, this will be around £4.45 per week for each additional qualifying year.**

What happens if my scheme's normal pension age is earlier than my state pension age or I decide to take early retirement or take part in a voluntary exit scheme?

Your work pension will be paid at your scheme's normal pension age, according to your scheme's rules and the law.

If you take early retirement or leave work through a voluntary exit scheme before April 2016, you'll have to wait until your State Pension age before you can apply for the new State Pension.

Where can I go to find out more?

If you are over 55 years old you can apply for a State Pension statement:

https://www.gov.uk/state-pension-statement

If you reach state pension age on or after 6 April 2016, you will be able to claim the new state pension. You can visit the DWP website to find out more about it:

www.gov.uk/new-state-pension

You can read more about transition to the new State Pension and contracting-out here:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210299/single-tier-valuation-contracting-out.pdf

www.hmrc.gov.uk

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