

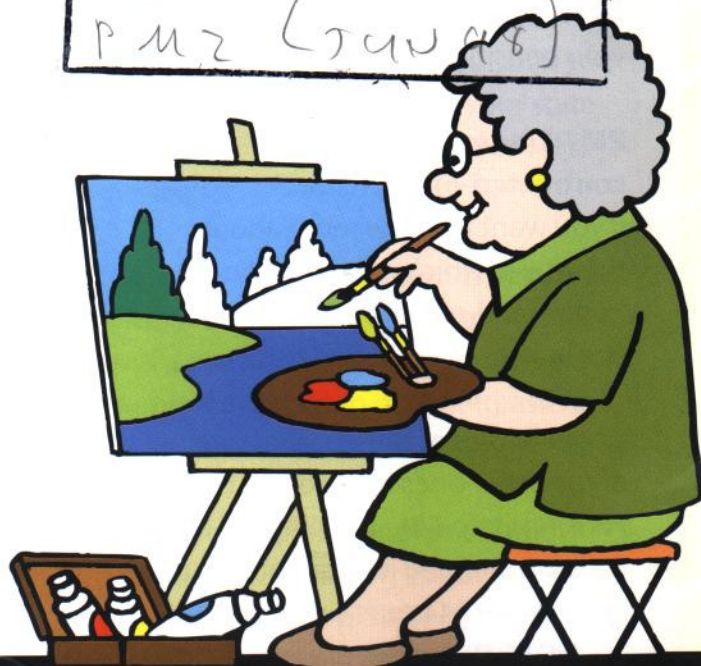
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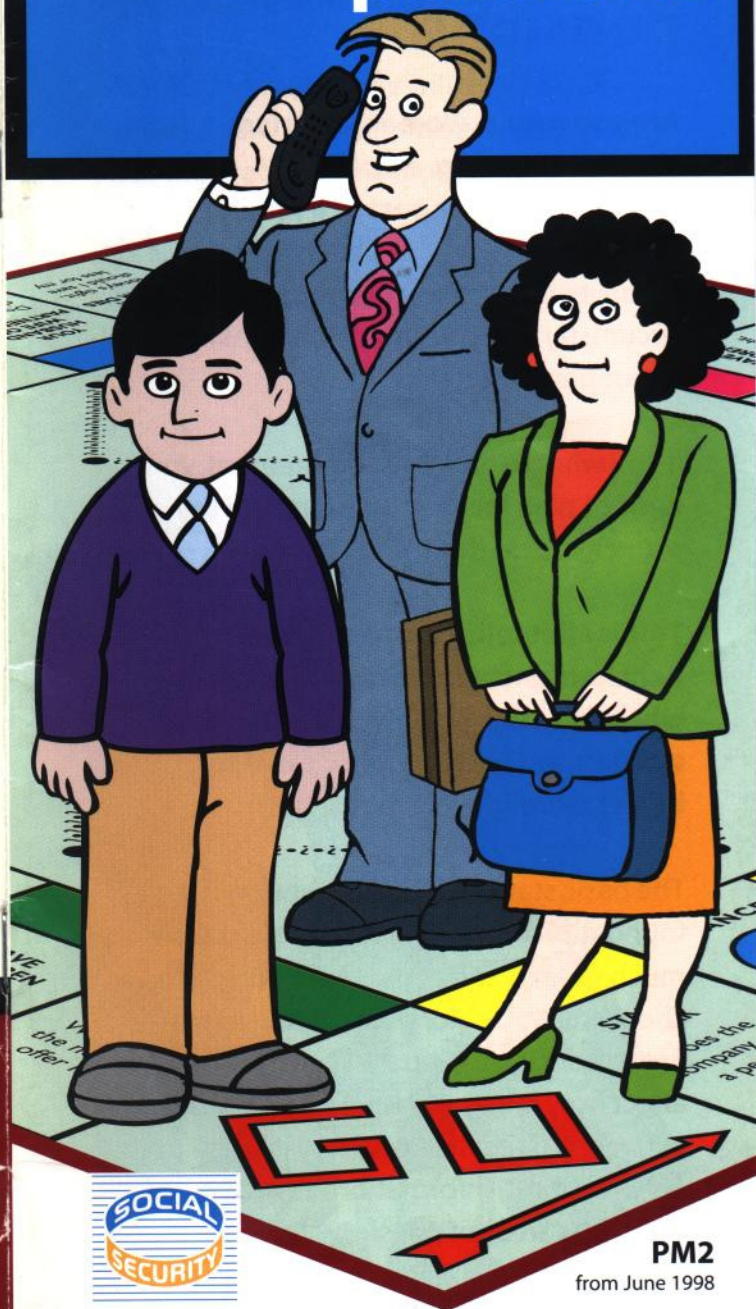


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# You and state pensions



PM2  
 from June 1998



## You and state pensions

**Are you a man, woman, married, single, old, young, employed, self-employed, or part of a family?**

Whoever you are, whatever your circumstances, you should be thinking about pensions.

If you want to enjoy your retirement, you need to plan for your pension. And the sooner you do this the better.

**This leaflet tells you about state pensions and should help you decide what you might get, whether this is enough, and whether you want to invest more in your future.**

The basic state retirement pension is a foundation on which you can build. How much to save, and the sort of pension to choose, are questions for you to answer. But the decisions you make now will affect how much money you have when you retire. Other leaflets in the series give you more information about particular areas of pensions. There's

a complete list, and details of how to get hold of them, on page 18.

None of these leaflets will give you all the answers, but they will help you find out more about pensions.

**It's up to you!  
But we can help.**



## Introduction

Most people will have some basic state retirement pension. This leaflet looks at how it works and should help you see what your own position is. Once you have done this, you can decide where the basic retirement pension fits into your overall plan for retirement. You can then start thinking about how you want to add to this pension with one of your own. Other leaflets in the series will give you some idea what sort of pension will suit you best. The Government believes the best way to have a secure retirement is to use the basic retirement pension as a solid foundation on which to build a second pension.

Already most people in work need to make arrangements to provide for themselves when they retire – and pensions are one of the best ways of doing this for many people. But this depends on working patterns and personal circumstances.



**Everyone needs to decide for themselves whether the basic retirement pension and any second pension, or other arrangements they have made, will be enough to meet their needs when they retire.**

People are living longer these days and the more you want to do when you retire, the more you should think about saving for it now. A second pension is one of the best ways to save because the Government will help you build it up.

Pensions from the state include the basic retirement pension and, if you do not make your own arrangements, may also include the state second pension from the State Earnings Related Pension Scheme (SERPS). (Although this is properly called 'additional pension', most people call it SERPS.)

When you read this leaflet there are four main areas you should concentrate on.

- What are the most important things I need to know?
- What choices must I make?
- Where can I go for advice?
- What can I do to improve my pension?



## State pensions

### The basic state retirement pension

The basic retirement pension is the foundation for your pension when you retire. You can't choose not to pay into this pension, but you can add other pensions to it.

When you work, you pay National Insurance contributions if your earnings are above a certain level (the 'lower earnings limit'). Your employer takes these out of your pay (as well as making payments for you). If you are self-employed, you pay National Insurance contributions yourself. These contributions build up your rights to the basic retirement pension, often called the 'old-age pension'.

Once you start getting your pension, it increases every year in April to take account of rising prices.

### When can I get it?

You can get this pension when you reach state pension age. At the moment this is 65 for men and 60 for women. But the state pension age for women is going to change from 60 to 65. This change will start to happen from 2010

and by 2020 the state pension age will be 65 for both men and women.

If you want to know more about changes to state pension age, please see **EQP1A** *Equality in state pension age*.

You do not have to claim your basic retirement pension as soon as you reach state pension age. You can claim it later and you may earn extra pension, but this depends on your circumstances.

For more information, please see **NP 46** *A guide to Retirement Pensions*.

### How do you work the pension out?

Your basic retirement pension is worked out on the National Insurance contributions you have paid before you retire. If you pay contributions on enough earnings (52 x the lower earnings limit for paying National Insurance contributions) in a year (from April to April), you will have a 'qualifying year'. Self-employed people must pay 52 'Class 2' National Insurance contributions

#### State pensions

When will I get my basic pension and how much will it be?

to gain a qualifying year. If you are a man, you need 44 qualifying years to get a full basic retirement pension. If you are a woman you need, at the moment, 39 qualifying years.

If you retire with less than  $\frac{1}{4}$  of the qualifying years for a full pension, you won't get a basic retirement pension.

Some people do not get a full pension because they have not paid enough contributions. They may only have worked for a few years or they may have had earnings below the level at which contributions are paid.

**I have not always worked and paid National Insurance contributions – can I still get a basic retirement pension?**

You may get some pension. There are special rules to help some people who have not paid National Insurance contributions throughout their working life.

If you have been receiving some social security benefits, for example Jobseeker's Allowance or Incapacity Benefit, we 'credit' you with

contributions. This means we add extra contributions to your National Insurance record for you.

If you have been out of paid work while looking after children and receiving Child Benefit, or looking after a sick or disabled person, we can take account of the years you spent caring. This is known as 'home responsibilities protection'. It

can reduce the number of years for which you must pay National Insurance contributions to earn a full pension.



If you are a married woman and have not got enough contributions to earn a basic retirement pension of your own, we can use your husband's contribution record when we work out your pension, as long as he has reached state pension age. This could entitle you to a pension that is 60% of the full basic retirement pension.



If you want to know more about pensions for women, please see **PM6 Pensions for Women.**

### **What if I am not entitled to a basic retirement pension at all?**

Because the basic pension depends on your National Insurance contributions, if you have not paid (or been credited with) enough, you will not get any pension. But you can get special help if you are over 80 (see below). If you are on a low income, you may be able to get Income Support. Please ask your social security office for advice. For your nearest office, look for the display advert under 'Benefits Agency' in the business section of the phone book. You may also be able to get Housing Benefit or Council Tax Benefit. Please ask your council for information.

### **Are you over 80 and without a pension?**

There is a non-contributory pension for people over 80. This pension is set at 60% of the basic retirement pension.

We pay this to people who:

- live in Great Britain at the time they claim;
- are 80 or over;

- meet the residence conditions (you have lived in the UK for a total of 10 years or more in any continuous period of 20 years after your 60th birthday); and
- either have no basic retirement pension or have less than 60% of the full rate.

## **The State Earnings Related Pension Scheme (SERPS)**

### **What is it?**

If you have been an employee, the state second pension, often called SERPS, is paid by the Government with your basic retirement pension. (If you are self-employed, you are not included in SERPS.) The amount you get depends on your earnings while you are working as long as you are paying National Insurance contributions. In general, the more you earn over your working life the more SERPS you get, up to an upper limit.

You can choose to buy another pension and leave SERPS at



any time during your working life. This is called contracting-out of SERPS. At the moment you can join an occupational pension (if your employer offers one) or buy a personal pension. Contributions you have already made to SERPS stay in that scheme and give you a SERPS pension when you retire. You can rejoin SERPS at any time if it suits you better. And, if the occupational scheme or personal pension plan is not contracted-out, you can join or buy it in addition to SERPS.

If you want to know more about occupational and personal pensions, please see – **PM3** *You and occupational pensions* and **PM4** *You and personal pensions*.

### When can I get SERPS?

Like the basic retirement pension, you can get SERPS when you reach state pension age.



You can earn extra pension from SERPS by not claiming it until you are older.

### How do you work the pension out?

We work the pension out by using the amount of earnings you have paid contributions on. How you build up SERPS depends on when you reach state pension age. As a general guide, SERPS will be at most 20% of the average earnings on which you have paid contributions over your working life.

### I have not always worked and paid National Insurance contributions – will I still get some SERPS?

You may get some SERPS. If you have paid enough National Insurance contributions in just one year you are entitled to some SERPS, even if you do not get any basic retirement pension.

### What will my state pension be?

It is difficult to work out how much your basic retirement and SERPS pension will be. So we can work it out for you. Ask for form **BR19** from your social security office and send it back in





the envelope provided. For your nearest office, look for the display advert under 'Benefits Agency' in the business numbers section of the phone book. We will check your contributions record and send you your pension forecast. We automatically send most people details of their pension four months before they reach state pension age.

#### **What you need to do**

- Find out how much basic retirement pension you can expect.
- Find out what you can expect from SERPS.
- Decide if this is enough for your plans when you retire.
- If not, investigate other options.

#### **What if I need more information about the basic retirement pension and SERPS?**

You can learn more about state pensions in **NP46** *A guide to Retirement Pensions*. You can also contact us at your social security office if you have questions about the state pension. Please have your National Insurance number handy because we may need it to find your records. Citizens Advice

Bureaus can also give you information on pensions.

#### **So how does this affect me?**

The Government believes the best way to have a secure retirement is to use the basic retirement pension as a solid foundation on which to build a second pension.



If you have worked and paid into SERPS, you will already have earned some pension. But you need to think about whether you want to stay in SERPS or whether it would be better for you to contract out by buying a different second pension, or to add extra pension on top.



You'll probably want to read other leaflets in this series as a first step towards securing your future. A full list is on page 18.

Whatever your position, you need to think about your pension and review it regularly. You need to make choices at different times during your life, and the results of those choices will have a real effect on your future. So, it's worth investing time now to be sure you reach the best possible decision.



## Action and questions

- Check whether you are paying National Insurance contributions.
- If you're going to get a state pension, or you're not sure, ask us for a pension forecast.
- Find out if you are already contracted-out. (If you don't know, ask your employer or pension provider.)
- Think about your position now (how long until you retire, what savings do you have, have you already got some pension from previous jobs and so on).
- Think about your future in work.
- If you think you need a second pension, other than SERPS, ask your employer if he or she runs a scheme and whether you can join.
- Ask us for the leaflets on occupational and personal pensions.
- Get advice (from your employer, union, advice centre and so on).

## Leaflets in this series

### **PM1: Don't leave your pension to chance**

This gives a general summary of the pensions system and suggests points you should consider.

### **PM2: You and state pensions**

If you want to know whether you are likely to get a state pension or how state pensions are worked out, or if you want to find out how much your state pension could be, you should ask for this leaflet.

### **PM3: You and occupational pensions**

If you are working for an employer who runs a pension scheme and you are a member or thinking of joining, ask for this leaflet.

### **PM4: You and personal pensions**

You might be thinking about a personal pension plan. This leaflet tells you the sort of questions you should be asking and how to go about deciding if a personal pension is right for you.

### **PM5: Pensions for the self-employed**

If you are self-employed, your options are limited but there are still important

decisions for you to make. This leaflet tells you how to go about deciding what will be best for you.

### **PM6: Pensions for women**

As a woman, the pattern of your working life may be different from a man's. This leaflet gives you an idea of the options available and what other factors you should consider in planning your pension.

### **PM7: Understanding contracted-out pensions**

If you want to know more about the way in which pensions can be 'contracted-out' of SERPS, look at this leaflet.

To get copies of these leaflets, or any of the other ones mentioned, call the Pensions Info-Line on **0345 31 32 33**. Calls are charged at local rates and the line is open 24 hours a day. Or write to us at: **DSS Pensions, Freepost BS5555/1, Bristol BS99 1BL**.

You can also look at these leaflets on the Internet. Our address is **<http://www.dss.gov.uk>**