



## Your State Pension Entitlement Explained



IT PAYS TO UNDERSTAND  
YOUR PENSION

There is a misconception among many Service personnel that, because, they have earned an Armed Forces Pension from the Government, they do not have entitlement a State Pension in later life.

In this short article Mary Petley of the Forces Pension Society dispels that myth and outlines how the State Pension entitlements work.

The State Pension system used to work in two parts: the Basic State Pension and the Additional State Pension. In 6 April 2016 this changed but, as many of you will have service before that date, I will describe the system as was and go on to explain it as it is now.

The Additional State Pension can be made up of a combination of the Graduate Pension Scheme, SERPS or the State Second Pension. Until 6 April 2016 Members of the Armed Forces were paying Class 1 National Insurance Contributions (NICs) at a level that entitles them to the Basic State Pension only in respect of that part of their service. On 6 April 2016 this changed and the implications will be explained later in this article.

There were two rates of Class 1 NIC; 'contracted in' and 'contracted out'. Those who pay the lower 'contracted out' rate earned credits towards the Basic State Pension only; those who paid the higher 'contracted in' rate earned credits not only towards a Basic State Pension, but also towards an Additional State Pension, currently known as the State Second Pension.

Military pension schemes were contract out of the State Second Pension scheme until 6 April 2016 and members of those schemes had no choice but to be contracted out too. The benefit to the Scheme for opting to 'contract out', was the receipt of a rebate from the Government into its 'fund' in recognition that the Government would not have to bear the cost that an Additional State Pension would otherwise fall to the Treasury. Military pension schemes have no 'funds' as such, but the rebate is notional credited towards the cost of the Schemes. A Scheme, for the privilege of being able to 'contract out' and receive this rebate, had to undertake to pay pensions its members that are equal to, or greater than, the 'Guaranteed Minimum Pension' rates (which your schemes more than do).

From 6 April 2016 'contracting out' ceased and everybody in the UK who pays Class 1 NICs pays them at the same, higher rate towards their Single Tier Pension entitlement. That means that all, except those who joined after that date, will have a combination of 'old' and 'new' contributions. The Single Tier Pension scheme requires the payment of 35 years' NICs. Those who had been paying NICs at the lower rate before 6 April 2016, as long as they pay for a total of 35 years, with at least 8.2 years (as at Nov 2019) at the higher rate, should qualify for the full Single Tier Pension. If you reach the 35 year target, are still working and under State Pension Age, you will continue paying NICs.

Those who pay contributions for a total of 10 years but less than 35 will get a proportion of the full Single Tier Pension. Anyone who has less than 10 years' contributions in total or from April 2016 will not qualify for anything from the new scheme.

I am afraid there is no choice about paying NICs. We all have to pay them as long as we are working, subject to the following. Class 1 NICs stop at State Pension Age, irrespective of whether you continue working or not. If you are considering self-employment, you can pay either Class 2 or Class 4 NICs. Class 4 NICs stop at the end of the tax year in which you reach State Pension Age – the next year you are exempt. These arrangements were correct at the time of writing but there have been rumblings that it will not be long before a formal review takes place.

So, what have you been contributing towards? The Basic State Pension rate is £134.25 from 6 April 2020 (that is just under £7,000 per year). The Single Tier Pension rate from the same date is £175.20 per week (so, just over £9,110 per year). Both of these sums are well worth having and you can see, clearly, that although you are paying more, you are getting more!

It is a good idea to check your contribution record and there are several way to do it. You can write to the National Insurance Contributions Office at:

The Pension Service 9  
Mail Handling Site A  
Wolverhampton  
WV98 1LU

Or you could ring them. The phone numbers are:

From overseas – 0345 3000 168

From UK – 0345 3000 169

Or you can check online: <https://www.tax.service.gov.uk/check-your-state-pension>

Remember, if you paid the higher rate NICs before joining the Armed Forces or, perhaps, during employment between periods of service, these higher rate contributions should appear in the record.

If you have had no breaks in your Armed Forces service, your NIC record for that period should be complete. If it is not, you need to challenge it and you will probably need the help of DBS to prove what has been paid on your behalf. If you find a gap, and it is correct, you can buy back up to 6 years NIC 'cover' by means of paying Voluntary Contributions (Class 3 NICs). More information about Voluntary Contributions can be found at <https://www.gov.uk/voluntary-national-insurance-contributions>

If you decide to live abroad, you can either leave the number of NICs you have paid as they are – in which case, when you get to State Pension Age, you will get the proportion of the full rate that you have paid for. Alternatively, you can pay Voluntary Contributions and information about this can be found by following the link above. If you are working whilst abroad, paying Voluntary Contributions to the UK State Pension does not prevent you from paying into the state system for the country in which you live. Any UK State Pension entitlement you have contributed to will be paid at the same age and at the same initial rate as if you had remained in the UK. However, although the initial rate of State Pension will be the same rate as if you remained in UK, in certain countries, you will not get the annual increase to your state pension that UK residents receive. To find out more about the State Pension for those living abroad, visit <https://www.gov.uk/state-pension-if-you-retire-abroad>

If you are a member of the Forces Pension Society and have a pension question, contact us at [pensionenquiries@forpen.co.uk](mailto:pensionenquiries@forpen.co.uk). If you are not a member but would like to learn more about us, visit our website [www.forcespensionsociety.org](http://www.forcespensionsociety.org)



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