Oakwood
FINANCIAL ADVISORS

UK State Pension

If you are aged between 45 and 70, you may be eligible to buy extra National Insurance (NI) years to boost your state pension. If you are eligible, the returns can be significant.

This is thanks to 'transitional arrangements' brought in when the new state pension system started in 2016. However, the clock is ticking on how long you have left to do this. Read our step-by-step guide to find out if you qualify and if it is worth it for you.

Why national insurance years are important

A new state pension system was brought in on 6 April 2016. The maximum amount is currently £185.15 a week, but how much you'll get depends on how many 'qualifying' national insurance (NI) years you have.

Many will likely need about 35 qualifying NI years, though for those who started their NI record before 2016 – almost everyone aged 45 to 70 now. However, for those between age 45 and 70, it is based on your age and NI record up to now – which could mean you need more than 40 NI years.
In order to plug any gaps, there are 'transitional arrangements' in place. These mean you can pay to plug gaps in your NI record back to 2006. This arrangement ends on 5 April 2023, after which you can only fill gaps going back six tax years.

Step 1: Check how much of the full state pension you're on target to get

- If you're **not yet at** state pension age you will need to check your entitlement on:

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

If you're not predicted to get the full amount of £185.15 a week, you need to check for gaps in your NI record. There will be a link in your forecast to do so

- If you're **already at** state pension age, you need to check your National Insurance record on :

https://www.gov.uk/check-national-insurance-record

That will show you any national insurance years since 2006 that are 'incomplete'. If you have gaps that you're unlikely to fill by any other means, it could be worth paying to plug these to get a higher state pension.

Step 2: Work out if you should pay to boost your state pension

Until 5 April 2023, you can buy national insurance (NI) years to fill gaps going back to 2006. When these transitional arrangements end, the number of extra years you can purchase drops down to the last six tax years, so checking now is key.

- **Those at or near state pension age will find it relatively easy to see if topping up may help.** If your state pension is, or is forecast to be, less than £185.15 a week, and you won't be able to plug gaps by any other means, topping up could be a no-brainer.
- **If you're younger, it's more of a toss-up as you may still fill the gaps by other means.** The checks above show how many years you already have, and how many are left. If a shortfall is likely and you've NI gaps for 2006 to 2016, you need to decide by the deadline of 5 April 2023 whether to top up.

  Though the younger you are, the more time you have to earn the max years through work or NI credits. That's why this guide is roughly for over-45s, or maybe over-50s, as under that there are so many years left until state pension age, it would be taking a real risk to buy now unless you're sure you won't make them up later (for example, as you live overseas).

Important:
If you were 'contracted out' of the additional state pension before 2016, topping up may not help. Much here depends on your NI record from that period and it's difficult to generalise and say who should and shouldn't top up. As it's so complex, it's doubly important to call the Department for Work and Pensions helplines in step 5 to understand if paying to plug any NI record gaps will actually result in you being paid more state pension.

You're more likely to have been contracted out if you worked in the public sector. You can check by looking at a pre-2016 payslip or P60 – if the NI contributions line has D, E, L, N or O next to it, you were contracted out.

Step 4: See what topping up could be worth

There are several points to consider:

1. Buying a full national insurance (NI) year costs £824, unless:
    - You're topping up the two most recent tax years, in which case it's about £20 to £30 cheaper
    - You're self-employed, or
    - You're topping up partial years, in which case it'll cost less to upgrade it to a full year

2. How long are you likely to live?

   The potential gains to be made from buying voluntary NI contributions are huge. But one of the factors it depends on is if you'll live long enough to gain. Consider your health to see if you're likely to benefit.

3. To ensure you're not wasting money – you have to claim state pension for at least three years after making voluntary NI contributions to break-even.

Step 5: Don't pay until you've called the Government's pension helplines

There are many complexities, so the only way to know for sure if this is likely to benefit you is to get personalised information from the Future Pension Centre or the Pension Service.

Both services provide specific information about your current national insurance record. They'll tell you whether doing so will actually result in any increase to your (eventual) state pension. It is possible to pay to plug a gap and see no gain, which is why this step is so important.

If you're **not yet at** state pension age, you will need to contact the **Future Pension Centre on +44 (0)191 218 360.**

If you're not predicted to get the full amount of £185.15 a week, you need to check for gaps in your NI record. There will be a link in your forecast to do so.

If you're **already at** state pension age or if you've deferred your state pension or you need to contact the Pension Service. You can find the details for contacting them on **https://www.gov.uk/contact-pension-service**

Step 6: A few buts... not everyone will be better off if they buy more NI years

The Future Pension Centre or the Pension Service can tell you if paying for extra national insurance (NI) years will increase your state pension entitlement. But you need to think about the bigger picture, as a larger state pension may have a detrimental effect on other parts of your financial life, and the Government's pension services can't help you with that. Think about:

- **If you're likely to have a low income and will only rely on state pension, pension credit may cover the gap**. Pension credit is a top-up for people of state pension age who don't have a certain basic level of income. That can include topping you up to roughly the equivalent of what you get in the full state pension. So if you have no other savings or assets and are likely to be only relying on your state pension or a little more, there is a risk that by paying to top up now, you could have got the same with pension credit.

  It should be noted though, especially if you're trying to future-proof the years ahead, there's no guarantee that pension credit will still exist, be at the same level or have the same eligibility criteria. So if you'll benefit from topping up now by paying for NI years (and can afford to), that is a more certain outcome.
- The gains from buying extra years may be reduced if it pushes you into a higher tax bracket. If you were to be near the threshold of either paying tax or hitting the 40% tax bracket once your state pension and other income is combined, you will pay (more) tax on your pension income if that income increases.

  This will mean it takes longer for you to break-even on any voluntary NI contributions you make – though it's likely to still be worth doing, even with this.

How to buy missing NI years

If the Future Pension Centre or the Pension Service has said buying additional national insurance (NI) years would result in extra income and you've made the decision to top up, you now need to decide how many NI years to buy.

Do note you don't need to buy all the NI years you want in one go – you could buy some now and some later in the year if that suits your cash flow better.

- To find out how much topping up would cost and to get your 18-digit reference number, you'll need to contact HM Revenue & Customs (HMRC) on **+ 44 191 203 7010**
- The reference number will ensure the payment's added to the correct NI record. HMRC can give it to you over the phone (by post it takes about 15 working days). Once you have it, you can pay through your bank or building society, online or in branch, to the HMRC bank account. You can also pay by cheque, though HMRC says this takes longer to process.
- If you're **not yet** claiming state pension, the payment can take up to 60 working days to process, after which you should see your NI record change to acknowledge the voluntary contributions you've made.
- If you're **already** claiming state pension, HMRC will notify the Department for Work and Pensions (DWP) that you've done so, and prompt DWP to carry out a benefit review, so your payments won't increase straightaway. However, the DWP will backdate the increase to the date you made the payment (NOT to the date you started claiming state pension).