

Taking up the State Pension later

“The Pensions Bill will help people choose how they plan for retirement, how much to save and how long they keep working. We will offer people the choice, for the first time ever, of a lump sum, as much as £30,000 where they defer for 5 years. So poorer pensioners can get a sizeable sum, up until now the preserve of those with occupational pensions.”

Andrew Smith, Secretary of State for Work and Pensions, 12th February 2004

What happens at the moment?

If people delay taking up their state pension when they reach State Pension age (this is currently 60 for a woman and 65 for a man) they get extra State Pension every week, when they do finally take it up. This covers all parts of the State Pension (basic State Pension, graduated Retirement Benefit, SERPS and State Second Pension). For each year people delay taking up State Pension, they will get around 7.5 per cent extra on top of the State Pension, which will be paid as a larger weekly pension.

People who are currently getting a State Pension can decide to stop claiming their State Pension, for example if they want to go back to work. They will then be entitled to the increased weekly pension when they finally take it up.

- currently around 2% of pensioners defer (about 15,000 each year)
- average length of deferral is 2 years
- around 9% of current pensioners are receiving increments

What is changing?

The Government wants to give people more choice about when they retire, by giving them more money for taking up the State Pension later,¹ for example if they continue to work a little longer or work part time.

At the moment, people can defer their State Pension for five years. We want to remove this restriction so that people are free to choose when they would like to receive their State Pension.

There will be two ways in which delaying taking up the State Pension could give people extra money, when they do decide to take it up.

1. People can receive a larger weekly pension than they do at present. Currently, they will get around 7.5 per cent extra for every year that they delay taking up the State Pension (they won't get any State Pension for the weeks

¹ Parliament will have to agree to the changes before they can become law. If the changes are approved, they are likely to be introduced in April 2005.

they gave up). From 2010, this is going to increase to around 10.4 per cent for every year they delay taking up the State Pension. The Government wants to bring the change forward, so that people will start getting the increased rate from 2005, instead of 2010. Parliament will need to agree to bring this forward.

2. People can receive a lump sum. By delaying for at least a year, people will get all the State Pension due, plus extra interest. They'll then get the normal weekly State Pension entitlement. This proposal is also in the Pensions Bill and will have to be approved by Parliament before it can become law.

The table below shows examples of different State Pension levels/gains on deferral or lump sum:

Type of Pension	Underlying amount at point of Claim		Years of Deferral	Lump Sum Accrued	Increment to State Pension	
	Weekly	Annual			Weekly	Annual
Category B <i>Pension from Spouse's contributions</i>	£46.35	£2,410.2	1	£2,483	£4.82	£251
			2	£5,115	£9.64	£501
			5	£13,998	£24.10	£1,253
Category A <i>Pension from Own contributions</i>	£77.45	£4,027.4	1	£4,149	£8.05	£419
			2	£8,548	£16.11	£838
			5	£23,390	£40.27	£2,094
Category A <i>With Additional State Pension</i>	£100	£5,200	1	£5,357	£10.40	£541
			2	£11,036	£20.80	£1,082
			5	£30,201	£52.00	£2,704

Figures are in 2003/4 price terms and shown gross of tax. Lump sum based on illustrative rate of 6% pa.

What other issues are there to consider?

People will have to defer for at least a year to qualify for the lump sum. If they do not claim their State Pension for less than a year, they can still get an increased weekly amount. Or, they could choose to have all the pension they have deferred claiming, paid back to them.

Tax implications

People will need to consider their individual circumstances before deciding whether to defer claiming their State Pension entitlement in favour of either an

increased weekly State Pension or lump sum and normal weekly State Pension entitlement.

If people decide to take an extra weekly amount on their pension, this extra money will be subject to tax². It will also be taken into account for Pension Credit, Housing Benefit and Council Tax Benefit, just like any other income.

If people decide to take the lump sum instead of the extra weekly amount on their pension, this will also be liable to tax.

Pension Credit

We want to help people to plan for their retirement in the most straightforward way, so that they can get the best deal for themselves. Most people who are entitled to Pension Credit will not have to pay tax on the lump sum. We also want to make sure that the lump sum is ignored when most people claim Pension Credit, Housing Benefit and Council Tax Benefit.

Inheritance

We do not plan to change the current laws which allow a surviving spouse to inherit the extra weekly State Pension a person earns by not claiming his or her entitlement. But, if a person's husband or wife dies they will be able to choose a lump sum payment, instead of getting a bigger weekly pension, if they meet the appropriate conditions.

People don't have to tell us if they want to put off taking up their State Pension. They will only have to decide whether to take the lump sum, or get an increased weekly state pension, once they finally decide to claim it.

Where to get more information

For more information about state pensions, please see *A guide to State Pensions* (NP46) by calling **0845 7 31 32 33** (if you have difficulties with your hearing or speech you can call 0845 604 0210 using textphone). Or, you can see this leaflet on the resource centre on The Pension Service website at www.thepensionservice.gov.uk

² State retirement pension is treated as income for tax purposes.