This document is for investment professionals only and should not be relied upon by private investors.

The State Pension

A Technical guide

The State Pension is an important consideration when managing a client's overall income in retirement. However, entitlement and the amount due will depend on a number of client-specific factors. What's more, the State Pension changed on 6 April 2016 and different rules apply depending on when a person reaches State Pension age.

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Contents

1. Changes to the State Pension 3

2. The old State Pension (including the basic and Additional State Pension) 4

2.1 Eligibility 4

2.2 Claiming a State Pension on the basis of someone else's NIC record 4

2.3 Supplementary earnings-related pension payments 5

3. The new 'Single-Tier' State Pension 6

3.1 Eligibility 7

3.2 How the new State Pension is calculated 7

3.3 Working past State Pension age 8

3.4 National Insurance (NI) records and NI credits 8

3.5 Gaps in a NI record 8

3.6 Claiming or receiving a State Pension on the basis of someone else's NIC record 9

3.7 Divorce 9

3.8 Inheritance 9

3.9 Impact on Guaranteed Minimum Pensions 9

4. Working and retiring overseas 11

4.1 Working abroad 11

4.2 Retiring abroad 12

4.3 Claiming the State Pension 12

5. Checking entitlement and making up for shortfalls 12

5.1 Making up for shortfalls 13

5.2 Cost of voluntary contributions 14

6. Deferring the State Pension 14

6.1 Individuals who reached State Pension age before 6 April 2016 14

6.2 Individuals who reach State Pension age on or after 6 April 2016 14

6.3 Annual increase 14

6.4 Living abroad 14

6.5 If an individual defers, how much might they receive? 15

7. Payment and tax treatment of the State Pension 16

7.1 How the State Pension is paid 16

7.2 When the State Pension is paid 16

7.3 Tax treatment 17

8. Inheriting a State Pension 17

8.1 The basic State Pension 17

8.2 The Additional State Pension 17

8.3 The new State Pension 18

8.4 Deferred payments 19

8.5 Receiving inheritance payments from a deferred State Pension 19

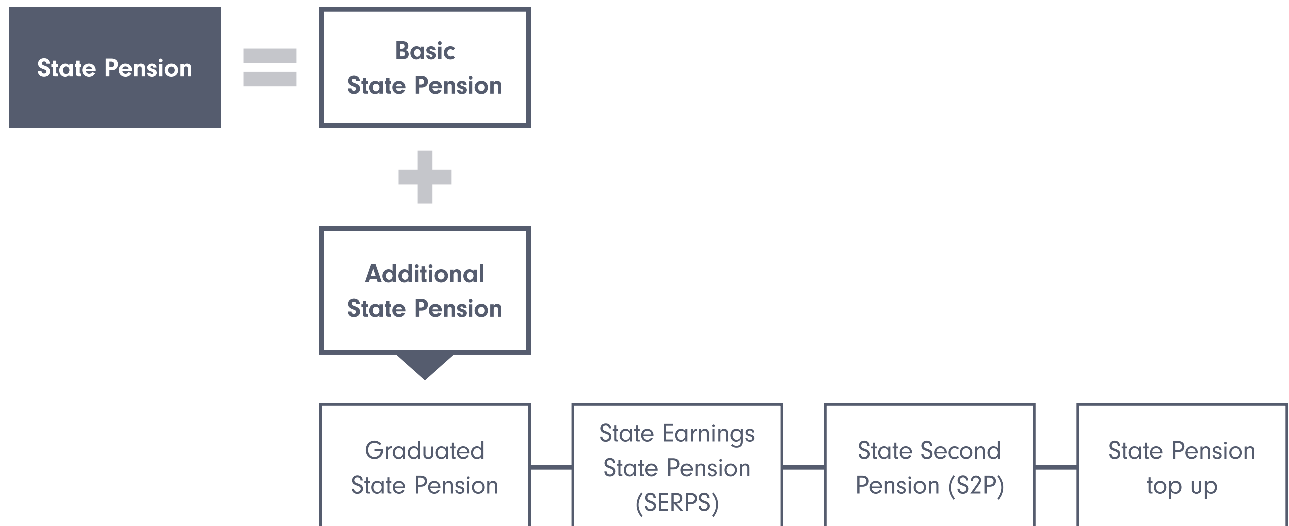
You can navigate the guide from the table of contents. Click on the segment you'd like to review and it'll take you directly to the page.

1. Changes to the State Pension

The UK State Pension changed on 6 April 2016 for people who reached State Pension age on or after that date. This means that men born on or after 6 April 1951 and women born on or after 6 April 1953 now qualify for the new State Pension (assuming they have built up an entitlement). Anyone who reached State Pension age before 6 April 2016 falls under the old system.

The State Pension landscape

Old State Pension (pre-6 April 2016)



New State Pension (post-6 April 2016)

How the State Pension age will rise in the future

As life expectancy has continued to increase, the government has been reviewing the age at which the State Pension is paid to men and women. The current State Pension age is 66 for both men and women. Current legislation proposes that the State Pension age will increase as follows:

- Rising to age 67 between 2026 and 2028.
- Rising to age 68 between 2044 and 2046.

The goverment intends to carry out a further review of the timing of the increse in State Pension age from 67 to 68.

You can check someone's State Pension age at gov.uk/state-pension-age

2. The old State Pension (including the basic and Additional State Pension)

Anyone who reached the State Pension age before 6 April 2016 is entitled to the basic State Pension, subject to having an adequate National Insurance contributions (NIC) record. This covers men born before 6 April 1951 and women born before 6 April 1953. Once a person reaches State Pension age, they have to make a claim in order to receive the basic State Pension – it is not paid automatically.

For the 2024/25 tax year, the maximum weekly payment is £169.50. The State Pension will usually increase each year by the higher of the rise in earnings, prices or 2.5%. This is called the 'triple lock'.

2.1 Eligibility

Since April 2010, a person will need to have built up 30 qualifying years of NICs in order to be entitled to the full basic State Pension. If they have fewer than 30 qualifying years their basic State Pension will be less.

Prior to the 2010/11 tax year, an individual would need to have been credited with NI contributions across at least 25% of the qualifying period in order to be eligible for any State Pension at all. Since the 2010/11 tax year, someone only needs to have been credited with qualifying NI contributions for one year.

A person may have earnt qualifying years through:

- Working and paying National Insurance. NI is payable by employed individuals and, prior to 6 April 2024, by self employed individuals (albeit at different rates).
- Receiving NI Credits (received because they were, for example, unemployed, unwell or a parent or carer).

2.2 Claiming a State Pension on the basis of someone else's NIC record

Where a spouse or civil partner has not paid or been credited with enough NICs to qualify for at least 60% of the basic State Pension in their own right, they may be able to claim a category B pension based on the NIC record of their spouse or civil partner. To be able to claim, their spouse or civil partner, including where deceased, must have reached State Pension age before 6 April 2016.

The old State Pension rules will still apply to people who reached State Pension age before 5 April 2016, but they will only be able to use the NI contributions their spouse or civil partner made for tax years up to and including 2015/2016 to improve their basic State Pension entitlement.

An individual will only be able to use their ex-spouse or civil partner's NIC record to increase the level of their basic State Pension provided they have not remarried or formed a new civil partnership before they reached State Pension age.

Depending on the contributions their spouse or civil partner has made, they could receive a category C or D basic State Pension of up to £101.55 per week in the 2024/25 tax year, including any basic State Pension of their own.

If a spouse or civil partner reached State Pension age on or after 6 April 2016, their State Pension will normally be based exclusively on their own NIC record. Spouses and civil partners may also benefit from a deferred pension (please see section 6 on page 14).

2.3 Supplementary earnings-related pension payments

Recipients of a basic State Pension may also qualify for supplementary pension payments through the Graduated Retirement Benefit scheme or the Additional State Pension.

Entitlement to these could be built up by someone who was employed (but not self-employed) and was based on their earnings and Class 1 NIC history. The rules relating to entitlement under each scheme changed several times over the years.

Graduated Retirement Benefit

This was the earliest form of earnings-related pension which preceded the State Earnings Related Pension Scheme (SERPS) and the Second State Pension (S2P). It was intended to top-up the basic State Pension, although it is independent of a basic pension entitlement. It operated between 1961 and 1975 and any payment to an individual is based on graduated contributions made on earnings over the period the scheme operated.

The Additional State Pension

The Additional State Pension can be made up of three separate schemes, which are listed below. These were in place at different times, and an individual may have contributed to more than one. Until 6 April 2016, it was possible to have been contracted out of all elements of the Additional State Pension:

State Earnings Related Pension Scheme (SERPS)	State Second Pension (S2P)	State Pension top up
A person may have built up entitlement to this scheme, which ran between 1978 and 2002, through being employed and paying Class 1 NICs.	Someone may have also built up entitlement to the State Second Pension (S2P) between 6 April 2002 and 5 April 2016 through: ■ Being employed and earning at least the lower earnings limit. ■ Looking after children aged under 12 and claiming Child Benefit. ■ Caring for a sick or disabled person for more than 20 hours a week and claiming Carer's Credit. ■ Working as a registered foster carer and claiming Carer's Credit. ■ Receiving certain other benefit as a result of illness or disability.	This scheme allowed anyone who reached State Pension age before 6 April 2016 to top up their additional State Pension through payment of a one-off lump sum. The maximum extra pension someone could buy was £25 per week. The scheme operated until 5 April 2017.

Protection of benefits

If benefits have been built up under these former schemes, they are protected both for those who have already retired and those who have not yet reached State Pension age. This means that anyone who reaches State Pension age after 6 April 2016 will receive the higher of the two amounts when comparing the old and new schemes.

Contracting out

If, at any time, someone was 'contracted out' (typically through a workplace pension, though some stakeholder and personal pensions were also contracted out), no entitlement to the Additional State Pension would have built up over that period. Instead, members paid lower NICs or some of their NI was paid to their private pension scheme instead. As a result, they gave up some Additional State Pension in return for building up extra pension entitlement through their 'contracted out' pension arrangement. This amount is usually the same or more than the amount they would have been entitled to from the Additional State Pension had they not contracted out.

The amount of money someone would have built up in the state scheme, but which is now part of their work scheme, is shown on their pension statement (please see section 5 on page 12). This is known as their 'Contracted Out Pension Equivalent' or COPE.

There are circumstances where part of the Additional State Pension may still be payable, even when someone has been contracted out:

- Over the period 1978-1996, where the amount provided by a defined benefit scheme, in lieu of the Additional State Pension, is considered less than the Additional State Pension that would have been payable, the State will pay the difference.
- From 2002-2015, low to moderate earners who are contracted-out could benefit from a S2P 'top-up'.

Divorce

If someone gets divorced, or if their civil partnership is dissolved, the court may decide that any Additional State Pension should be shared as part of the settlement. The order will only be calculated in relation to any Additional State Pension or protected payments.

Inheritance

Please refer to section 8 on page 17 for the rules on inheritance.

3. The new 'Single-Tier' State Pension

The scheme was introduced in April 2016 to simplify the previous system. The new scheme combines the basic and Additional State pension into a single payment built up gradually over a period of 35 years. An individual is able to claim the new State Pension if they reach State Pension age on or after 5 April 2016:

- Men born on are after 6 April 1951.
- Women born on or after 6 April 1953.

It is different to the basic State Pension in the following ways:

- The maximum payment is set at £221.20 per week in 2024/25.
- 35 qualifying years are required in order to obtain the full amount.
- 10 qualifying years are required in order to be entitled to any amount (where someone has less than 10 qualifying years they may receive some State Pension if they have lived or worked abroad).
- There is no option to contract out.
- Someone can no longer claim based on their spouse's or civil partner's NI record (except those covered by transitional protection).

As with the basic State Pension, the new State Pension usually increases each year in line with the government's 'triple lock' commitment.

3.1 Eligibility

An individual can build up entitlement to the new State Pension through:

- Working and paying National Insurance (class 1 for employed individuals).
- NI Credits (received because they are, for example, unemployed, unwell, a parent or carer or self-employed with profits above the Small Profits Theshold).
- Voluntary NI contributions (these allow someone to make up any shortfall in their payments – this is still an option for clients who have already passed State Pension age and these payments are covered in section 5 on page 12).
- A person may also qualify if they paid married women's or widow's reduced rate contributions.

A person has to claim the new State Pension – it is not paid automatically.

3.2 How the new State Pension is calculated

An individual's National Insurance record prior to 6 April 2016 is used to calculate what is known as their 'starting rate'. This is the higher of either:

- The amount they would have received under the old basic State Pension (including any extra payments from the Additional State Pension).
- The amount they would get if the new State Pension had been in place at the start of their working life.

The starting amount may have been adjusted downwards to take account of any period the person was contracted out of the Additional State Pension. It is possible to have a starting amount which is above the full new State Pension. The extra amount is known as an individual's 'protected payment' and will be paid on top of their new State Pension. If the starting amount is less than the full new State Pension, a person can add qualifying years through any of the ways listed above (this has been possible since 6 April 2016). Qualifying years can be added until they reach the full State Pension amount or State Pension age – whichever comes first.

Each qualifying year on an individual's NI record will add 1/35th of the full amount of the new State Pension to their starting amount.

The new State Pension – an example

As at 6 April 2016, Mr A has a starting amount of £110 per week. He has continued to make NI contributions since that date and has eight more qualifying years as at 5 April 2024. Each additional year entitles Mr A to an extra £6.32 per week (£221.20 divided by 35) based on 2024/25 figures.
His starting amount is now circa £156.32 after allowing for the triple lock over this period, which means his total entitlement at 6 April 2024 is £206.85.

In order to be entitled to the full new State Pension (£221.20 as at 2024/25), Mr A will need a little over two further qualifying years.

3.3 Working past State Pension age

No one has to stop working any more once they reach State Pension age. However, they cannot accumulate further qualifying years by continuing to work. This is because they no longer pay National Insurance once they reach State Pension age.

3.4 National Insurance (NI) records and NI credits

As indicated above, a person will need to accumulate 35 qualifying years in order to be entitled to a full new State Pension.

A person will earn a qualifying year through working if they:

- Are employed and earn over the Primary Threshold (PT) from one employer (they may still earn a qualifying year if they earn between the Lower Earnings Limit (LEL) and the PT from one employer).
- They are self-employed with profits above the Small Profits Threshold (SPT).
- Are eligible to receive NI Credits. Examples include if they are looking for work, unable to work through ill health or disability, are on certain benefit, are looking after a child or are a carer. A full list can be found on the government's website at gov.uk/national-insurance-credits/eligibility
- Make voluntary NI contributions.

Grandparents or other family members who care for a child under 12, usually while the parent or main carer is working, may also be entitled to 'specified adult childcare credits'. These also help to build up NI contributions.

National Insurance thresholds for 2024/25	
Lower Earnings Limit (LEL)	£123 per week, £6,396 per year
Primary Threshold (PT)	£242 per week, £12,570 per year
Small Profits Threshold (SPT)	£6,725 per year

3.5 Gaps in a NI record

An individual may have a gap in their NI record for a number or reasons. The most common ones are:

- Living abroad for a period of time.
- Were employed but on low earnings (less than the LEL).
- Not working and not claiming any benefit.
- Were self-employed but not paying NI contributions because their profits were below the Small Profits Threshold.

A gap in an NI record does not necessarily mean the person will not receive a full new State Pension – as long as 35 qualifying years are accumulated by the time they reach State Pension age they will receive payment in full. However, if gaps in a record will prevent full payment, then the person could choose to make voluntary NICs to make up for these (please see section 5 on page 12).

3.6 Claiming or receiving a State Pension on the basis of someone else's NIC record

Someone who reaches State Pension age on or after 6 April 2016 will receive the new State Pension based on their NI record only. There is one exception to this – where transitional protection was provided for married women or widows who previously opted to pay reduced rate NI contributions. This was known as Reduced Rate Election or 'the married women's stamp'.

Where these rules apply, the person does not need 10 qualifying years of their own to receive any State Pension. They will receive a State Pension that will be about the same as:

- The lower rate basic State Pension of £101.55 a week in 2024/25 (if married and their husband has reached State Pension age).
- The rate of the basic State Pension of £169.50 a week in 2024/25 (if widowed or divorced).

They will also receive any Additional State Pension that they built up before 6 April 2016 on top of this basic amount. To qualify, the Reduced Rate Election must have been in force at the start of the 35-year period ending on 5 April before the person reaches State Pension age.

3.7 Divorce

If someone gets divorced, or if their civil partnership is dissolved, the court may make a pension sharing order.

If State Pension age is reached before 6 April 2016, the Basic State Pension can't be shared, but the Additional State Pension can.

If State Pension age is reached on or after 6 April 2016, the new flat rate pension can't be split, but any protected payment can.

A protected payment is any additional payment in excess of the flat rate pension. In some cases, the previous state scheme produced a higher pension than the new scheme and this extra amount is called a 'protected payment'.

3.8 Inheritance

Please refer to section 8 on page 17 for the rules on inheritance.

3.9 Impact on Guaranteed Minimum Pensions

As we described above, members of occupational pension schemes were able to contract out of the Additional State Pension under the old pension system. For individuals who were contracted out of defined benefit schemes between 1978 and 1997, the pension scheme had to provide a Guaranteed Minimum Pension (GMP) so that they are not worse off as a result of contracting out.

Under the old system GMPs had to be increased each year, a practice known as 'uprating'. Responsibility for this was borne by both the pension scheme and the government. In practice, pension scheme providers are required to uprate GMP rights in line with the legislative minimums:

- GMP accrued between 1988 and 1997: CPI subject to a 3% cap.
- GMP accrued between 1978 and 1988: no requirement to uprate.

Although these are the minimums, GMP amounts can be increased by more subject to scheme rules.

Scheme providers will continue to revalue GMPs based on earnings growth for people who remain in defined benefit schemes after 6 April 2016. If a member leaves a scheme after 6 April 2016 but before they reach the scheme's pensionable age, the scheme provider can choose to revalue the GMP by earnings growth or by a fixed rate.

Under the old system, the amount of State Pension paid each year was recalculated with the GMP deducted from the Additional State Pension the person would have earned had they remained contracted-in. The effect was to ensure the full GMP amount was uprated with the government sharing some of the costs for paying the annual inflation increases. The government paid any increases above those paid by the scheme by adding it to the individual's Additional State Pension.

Under the new system the government will no longer take account of the value of any GMP when it uprates the new State Pension each year. The government is not required to know the value of any individual's GMP in order to calculate their new State Pension entitlement as it will have already been factored into the starting amount. The scheme provider is therefore now solely responsible for maintaining member GMP records in view of the GMP data reconciliation period ending in October 2018. This is different to the old system, where reconciliation took place at the point a person left the scheme, reached GMP age or reached State Pension age. In effect, this means that GMPs will not be fully uprated through the State Pension. However, individual schemes may decide to uprate GMP for those affected by this change.

The uprating of Guaranteed Minimum Pensions is a complicated area. The impact of this on people with GMPs will vary depending on a number of factors including their age, employment history, earnings and future inflation. Modelling by the National Audit Office shows that some people may actually be better off if they are able to build up additional qualifying years after 6 April 2016. However, people who spent long periods in contracted-out schemes and who retired – or plan to retire – shortly after 6 April 2016 are likely to be amongst the worst affected. This is because they have little time to build additional entitlement to the new State Pension. Those who have built up high amounts of pre-1988 GMP are also likely to be amongst the worst affected as scheme providers will only uprate post-1988 GMPs up to the 3% cap. If inflation is higher than 3% then both pre-1988 and post-1988 GMP holders could be worse off.

Guaranteed Minimum Pensions (GMP) uprating example

Scenario 1 – State Pension as at 4 April 2016 (old scheme)							
Pension element	**Starting amount**	**Increase by scheme**		**Increase by Government**		**Total increase by end of year**	
State Pension	**£7,000**	**–**	**–**	**5.00%**	**£340**	**4.86%**	**£340**
Basic State Pension	£6,500	–	–	5.00%	£325	5.00%	£325
Additional State Pension	£500	–	–	3.00%	£15	3.00%	£15
Scheme Pension	**£6,000**	**3.80%**	**£230**	**1.20%**	**£70**	**5.00%**	**£300**
Excluding GMP	£4,000	5.00%	£200	–	–	5.00%	£200
Pre-88 GMP	£1,000	–	–	5.00%	£50	5.00%	£50
Post-88 GMP	£1,000	3.00%	£30	2.00%	£20	5.00%	£50
Overall total	**£13,000**	**1.77%**	**£230**	**3.15%**	**£410**	**4.92%**	**£640**

Scenario 2 as at 6 April 2016 (new scheme)							
Pension element	**Starting amount**	**Increase by scheme**		**Increase by Government**		**Total increase by end of year**	
State Pension	**£7,000**	**–**	**–**	**5.00%**	**£340**	**4.86%**	**£340**
Basic State Pension	£6,500	–	–	5.00%	£325	5.00%	£325
Additional State Pension	£500	–	–	3.00%	£15	3.00%	£15
Scheme Pension	**£6,000**	**3.80%**	**£230**	**–**	**–**	**3.80%**	**£230**
Excluding GMP	£4,000	5.00%	£200	–	–	5.00%	£200
Pre-88 GMP	£1,000	–	–	–	–	–	–
Post-88 GMP	£1,000	3.00%	£30	–	–	3.00%	£30
Overall total	**£13,000**	**1.77%**	**£230**	**2.61%**	**£340**	**4.38%**	**£570**

Assumptions: earnings at 5%, scheme pension at 5% and CPI at 3%.

4. Working and retiring overseas

4.1 Working abroad

If you plan to move abroad to work or retire you will need to tell the government office that deals with your benefits or your UK State Pension. A person's UK State Pension is based on their UK NI record and so a period working abroad will not generally count when calculating the State Pension they will receive. However, time spent abroad can in some cases be used to make up 10 qualifying years, the minimum required to qualify for the new State Pension. This should be possible if the individual has lived or worked in:

- The European Economic Area (EEA).
- Gibraltar.
- Switzerland.
- Certain countries which have a social security agreement with the UK.

So, for example, if someone has worked in Switzerland for 20 years but for only five in the UK, they will meet the minimum 10 qualifying years requirement. However, their UK State Pension will only be based on their UK NICs – five years in this example.

If individuals have made social security contributions in the EEA or Switzerland by 31 December 2020 and they are covered by the Withdrawal Agreement, they can still use these to help them qualify for a UK State Pension.

4.2 Retiring abroad

People retiring abroad are able to claim their UK State Pension in most countries around the world. However, the State Pension will only increase each year if that person lives in one of the following places:

- The European Economic Area (EEA).
- Gibraltar.
- Switzerland.
- Certain countries which have a social security agreement with the UK.

If someone lives in a country where their UK State Pension is not increased, it may be increased for the time they visit the UK (or other countries where the annual increase is paid). When they return to the country they normally live, their UK State Pension will return to its usual rate.

4.3 Claiming the State Pension

Depending on where someone has lived or worked, they may need to make more than one pension claim. If the claim relates to a State Pension accumulated in the EEA, Gibraltar or Switzerland, they will only need to claim their State Pension in the last country they lived or worked in. Their claim will cover all EEA countries (including the UK), Gibraltar and Switzerland. They don't need to claim for each country separately.

If they are living in a country outside the EEA, Gibraltar or Switzerland, they will need to claim for each pension separately.

5. Checking entitlement and making up for shortfalls

Individuals can get an estimate of their State Pension based on their current NI contribution record and the assumption they continue to make NICs up until they reach State Pension age.

This service is available online at gov.uk/check-state-pension (the individual needs to be registered for HMRC's online services)

A State Pension statement can also be obtained by completing and returning form BR19 which can be downloaded from gov.uk/government/publications/application-for-a-state-pension-statement

Alternatively, anyone who lives in the UK can get a State Pension statement by calling 0345 3000 168. They can also apply for a National Insurance statement from HMRC to check if their record has any gaps at tax.service.gov.uk/shortforms/form/NIStatement

5.1 Making up for shortfalls

A shortfall in someone's NI record may mean they will not qualify for a full State Pension (35 qualifying years are required in order to qualify for full payment). The most common reasons for a NI gap are:

- Living abroad for a period of time.
- Employed but with earnings below the Lower Earnings Limit (£123 a week in 2024/25).
- Not working and not claiming any benefits.
- They are self-employed and not paying NICs because their profits are below the Small Profits Threshold of £6,725.

If this is the case – and the person is unable to make up for the gap by the time they reach State Pension age – they could consider making voluntary NICs. However, they must be eligible to make voluntary payments for the time the contributions cover (please see the table below).

Situation	Class to pay
Living abroad and working (but only if the person worked in the UK immediately before leaving and previously lived in the UK for three years in a row or paid three years' NI contributions)	Class 2
Living abroad and not working (but only if at some point the person lived in the UK for three years in a row or paid three years' NI contributions)	Class 3
Employed on low earnings (less than £123 a week in 2024/25) and not eligible for NI credits	Class 3
Self-employed with profits under £6,725 or self-employed as an examiner, minister of religion or in an investment or land and property business	Class 2 or 3 (they count towards different benefit)
Unemployed and not claiming benefit	Class 3
Married woman or widow who stopped paying reduced NI rates	Class 3
Someone who has reached State Pension age and wants to fill NI gaps	Class 3

It is usually only possible to fill gaps in tax years which are not already qualifying years. There are also time limits for paying. Individuals can only pay voluntary contributions to fill gaps in the previous six years. However, there are special arrangements for people who reach State Pension age on or after 6 April 2016. They have until 5 April 2025 to pay voluntary contributions to make up gaps between April 2006 and April 2018.

Voluntary contributions do not have any impact on the eligibility or amount of the Additional State Pension someone receives.

5.2 Cost of voluntary contributions

The cost to fill in gaps in an NI record for the 2024/25 tax year are being held at the rates for 2022/23 until 5 April 2025. The 2022/23 rates are shown in brackets below:

	Weekly amount	Annual equivalent
Class 2	£3.45 (£3.15)	£179.40 (£163.80)
Class 3	£17.45 (£15.85)	£907.40 (£824.20)

Each additional qualifying year equates to an extra £6.32 a week (or £328.64 a year) in State Pension based on 2024/25 rates. Where individuals are paying Class 2 contributions for the previous tax year or Class 3 contributions for the previous two tax years they'll pay the original rate for those tax years.

6. Deferring the State Pension

A person can also increase the starting level of their State Pension through deferment (this is not an option if they are on certain benefits). This is also an option for someone who is already claiming their State Pension, although this can only be done once (this is not normally possible if the person lives outside of the UK). The increase they gain from deferring depends on when they reach State Pension age:

6.1 Individuals who reached State Pension age before 6 April 2016

These people can choose to receive higher weekly payments or a one-off lump sum as a result of deferring their pension:

- Higher weekly payments (they must defer for a minimum of five weeks) – their State Pension increases by 1% for every five weeks they defer (equivalent to 10.4% for every full year)
- A lump sum payment which will include interest of 2% above the Bank of England base rate (they must defer for at least 12 months in a row)

6.2 Individuals who reach State Pension age on or after 6 April 2016

These people can only take the increased amount as a weekly payment. Their State Pension increases by 1% for every nine weeks they defer (equivalent to 5.8% for every full year). They must defer taking their State Pension for a minimum of nine weeks.

6.3 Annual increase

The extra amount someone receives through deferment normally increases each year in line with inflation (CPI). However, it does not increase for people living abroad in certain countries (please see below).

6.4 Living abroad

The rules on deferring a UK State Pension are the same as in the UK if someone moves to any of the following places:

- The European Economic Area (EEA).
- Switzerland.
- A country which has a social security agreement with the UK (except Canada and New Zealand).

If someone moves to a country which is not on this list, then the following applies:

- The extra payment will not be increased over time.
- If the individual reaches State Pension age on or after 6 April 2016, their extra payment will be based on the date they reach State Pension age or, if later, the date they moved abroad.

6.5 If an individual defers, how much might they receive?

There are many reasons why an individual may or may not choose to defer their State Pension. Whether they should or not will depend on their personal and financial circumstances. Essentially there are no direct costs when deferring the State Pension. However, it does mean the person will not receive any State Pension income during the period of deferment.

It should be noted that the treatment on death of any deferred benefit differs depending on whether someone reached State Pension age on after 6 April 2016.

Extra Income

The increase in the amount of State Pension income an individual may be entitled to receive from deferring can be calculated using the following formula:

$$\text{Amount of increase} = \frac{1}{\text{Number of weeks needed to defer}} \times \frac{\text{Starting amount}}{100} \times \text{Number of weeks deferred for}$$

As an example:

Number of weeks deferred	52
Weekly State Pension at date of claim	£221.20
Number of weeks needed to defer for	9
Amount of increase	£12.78 (1/9 x £221.20/100 x 52)
Total weekly State Pension after deferral	£233.98

Calculating the lump sum

The lump sum is based on the pension the individual would have been entitled to had they not deferred, plus a rate of return that will be applied weekly and compounded. The pension forgone will be calculated at the rate that would have been applicable in each week (or 'accrual period') for which the person defers.

Tax treatment

If the lump sum is taken it will be taxed at the marginal rate that applies to the individual's other income. It will not be added to any other income received during the year in which it is paid out, meaning they will not be pushed into a higher tax bracket as a result of claiming the lump sum. Individuals can also choose to delay receiving it until the following tax year when their income may be lower.

Annual increase

The extra amount an individual earns from deferring is increased each year in line with prices (CPI). The triple lock arrangements that apply to the basic State Pension (BSP) and new State Pension (NSP) do not apply to the extra amounts earned by deferral.

Current maximum flat rate State Pension

Weekly State Pension	Years State Pension deferred for	Amount of State Pension given up	Extra State Pension amount (gross)		Total amount of State Pension paid (gross)	
			Per week	Per year	After 5 years	After 10 years
£221.20	1	£11,502.00	£12.78	£664.57	£3,322.87	£6,645.74
	2	£23,004.00	£25.56	£1,329.17	£6,645.83	£13,291.66
	3	£34,506.00	£38.34	£1,993.75	£9,968.73	£19,937.45
	4	£46,008.00	£51.12	£2,658.33	£13,291.66	£26,583.31
	5	£57,510.00	£63.90	£3,322.91	£16,614.53	£33,229.05
	6	£69,012.00	£76.68	£3,987.49	£19,937.45	£39,874.91
	7	£80,514.00	£89.46	£4,652.08	£23,260.41	£46,520.81
	8	£92,016.00	£102.24	£5,316.66	£26,583.31	£53,166.62
	9	£103,518.00	£115.02	£5,981.25	£29,906.24	£59,812.48
	10	£115,020.00	£127.80	£6,645.82	£33,229.11	£66,458.22

The figures in this table are for illustration purposes only. The amounts actually payable and received by individuals may differ and will depend on the actual number of weeks deferred and the rates of inflation applicable during the term of deferral. Income figures have been prepared without taking into account yearly inflationary increases under the triple lock. The income figures shown are the potential amounts after the period of deferral has ended.

7. Payment and tax treatment of the State Pension

7.1 How the State Pension is paid

The State Pension is usually paid into the claimant's account every four weeks. The new State Pension is paid in arrears. The government's preferred method is direct payment into a bank, building society or credit union account.

7.2 When the State Pension is paid

The day the State Pension is paid depends on a person's National Insurance number:

The last two digits of the person's NI number	Payment day of the week
00 to 19	Monday
20 to 39	Tuesday
40 to 59	Wednesday
60 to 79	Thursday
80 to 99	Friday

There are different rules for people who live abroad. The rules on when a State Pension starts and ends are different under the old and new schemes.

Old scheme	New scheme
Generally, the State Pension is only payable for complete weeks ■ No State Pension was paid for the days falling before the start of the person's first benefit week ■ When the pensioner dies, their State Pension is payable to the end of that benefit week	The State Pension is payable from the day on which a person reaches State Pension Age up to and including the date of their death. Individuals may have to wait a few days for their first payday (as under the old scheme), but they will receive an amount in arrears to cover the gap.

7.3 Tax treatment

Although tax is never deducted from a State Pension, the amount paid is aggregated with any other income an individual may have to establish if there is a tax liability.

8. Inheriting a State Pension

8.1 The basic State Pension

If a spouse or civil partner reached State Pension age before 6 April 2016, they should contact the Pension Service following the death of their partner to check whether they are entitled to claim. They may be able to increase their basic State Pension by using qualifying years built up by their partner if they do not already qualify for the full amount.

If a recipient of the basic State Pension dies when they are single, divorced or where their civil partnership has been dissolved, their estate may be able to claim up to three months of the deceased's State Pension (but only if the pension hasn't been claimed).

8.2 The Additional State Pension

A spouse or civil partner may be able to inherit an Additional State Pension following the death of their partner:

- **If the surviving spouse or civil partner is under the State Pension age**
  They may inherit an Additional State Pension if they receive Widowed Parent's Allowance (WPS), although if WPS ends the Additional State Pension ends too. It may be paid again when the individual reaches State Pension age if, for example, they haven't remarried or formed a new civil partnership. If the surviving partner receives Bereavement Allowance, they will only inherit any Additional State Pension once they reach State Pension age, and only if they haven't remarried or formed a new civil partnership.

- **If the surviving spouse or civil partner has reached State Pension age**
  The maximum amount that can be inherited by the surviving spouse depends on when the deceased died:

<table>
<tr><th>Date the deceased spouse died</th><th colspan="2">SERPS and State Second Pension (S2P)</th></tr>
<tr><td>Before 6 October 2002</td><td colspan="2">Up to 100% for SERPS
Not applicable for S2P</td></tr>
<tr><td>On or after 6 October 2002 and reached State Pension age before 6 October 2002</td><td colspan="2">Up to 100% for SERPS
Not applicable for S2P</td></tr>
<tr><td rowspan="7">On or after 6 October 2002 but did not reach State Pension age before 6 October 2002</td><td colspan="2">Depends on the date the deceased reached State Pension age</td></tr>
<tr><td>Date</td><td>Maximum entitlement</td></tr>
<tr><td>6 October 2002 to 5 October 2004</td><td>90%</td></tr>
<tr><td>6 October 2004 to 5 October 2006</td><td>80%</td></tr>
<tr><td>6 October 2006 to 5 October 2008</td><td>70%</td></tr>
<tr><td>6 October 2008 to 5 October 2010</td><td>60%</td></tr>
<tr><td>6 October 2010 or later</td><td>50%</td></tr>
</table>

8.3 The new State Pension

Generally, there is no entitlement to further benefits under the new State Pension when someone dies. However, there are two exceptions to this:

Protected payments

Where someone received more than the amount payable under the new State Pension because they had built up a higher entitlement under the previous State Pension scheme, the extra payment is protected. Their partner can inherit 50% of any protected payment if the marriage or civil partnership began before 6 April 2016 and their partner:

- Reached State Pension age on or after 2016.
- Dies on or after 6 April 2016.

It will be paid with the State Pension. There is no entitlement to payments if someone remarries or forms a new civil partnership before they reach State Pension age.

8.4 Deferred payments

There is no entitlement to any deferred payment on death where someone reached State Pension age after 6 April 2016 when the new State Pension scheme started (though up to three months of backdated State Pension payments is payable to the deceased's estate).

However, someone can normally inherit a partner's extra pension if their partner reached State Pension age before 6 April 2016 and the following circumstances apply:

- They were married or in a civil partnership when their partner died.
- They didn't remarry or form a new civil partnership before they reached State Pension age.
- Their partner had deferred or was claiming a deferred State Pension when they died.

If the partner died before 6 April 2010, one of the following must also apply:

- They were over State Pension age when their partner died.
- They were female and under State Pension age when their husband died.

8.5 Receiving inheritance payments from a deferred State Pension

How someone receives an inherited deferred State Pension depends on whether it was claimed or not before the deceased passed away:

- If the partner died before claiming their State Pension, payment depends on how long the pension was deferred for:
  - A year or more: the surviving partner can choose to inherit a lump sum or weekly payments.
  - Between five weeks and a year: the payments are received as weekly payments.
  - Less than five weeks: the deferred payments will form part of the deceased's estate.
- If the partner was claiming their State Pension before they died, the surviving partner will receive payments as extra weekly payments with their own State Pension.

Important information

This document provides information and is only intended to provide an overview of the current law in this area and does not constitute financial advice, tax advice or legal advice, or provide any recommendations. Tax treatment depends on individual circumstances and all tax rules may change in the future. You cannot normally access your pension savings until age 55 (57 from 2028). Different options may have different effects for tax purposes, different implications for pension provision and different impacts on other assets and financial planning.

More insights on tax and pensions

We're committed to providing you with technical support to help you keep pace with the latest rules and legislation. Our range of practitioner material is designed to help you keep on top of all aspects of retirement planning. Themes covered include death benefits, pensions and divorce, the State Pension, pension withdrawals taxation and much more.

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