



Thought piece

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The end of contracting out: What you need to know



Nigel Oakley
Head of Technical Services

Many pension scheme members may be affected by the end of contracting out from 6 April 2016.

Workers with defined benefit pensions have been allowed to contract out of the State Second Pension (S2P) since 1978.

This meant they paid reduced National Insurance contributions, but did not build up the additional State Pension (the State Second Pension/SERPS).

However, the State Pension is changing from 6 April 2016, and contracting out will end. Members reaching State Pension age on or after this date will be affected.

Those who are over State Pension age or reach it before 6 April will get the current State Pension allowance.

From 6 April 2016:

- Contracting out ends.
- State Pension age will depend on an individual's date of birth.
- The new starting level will be £155.65 per week.
- Individuals will need 35 qualifying years of National Insurance (NI) contributions (or credits)

to qualify for the full new State Pension and a minimum of ten qualifying years for any entitlement.

- The changes will be introduced gradually to reflect NI contribution history up to 6 April 2016. The pension's starting amount will be calculated by the government.
- The calculation of this starting amount will include a deduction if individuals have been contracted out of the additional State Pension.
- Those aged 55 or over can request a statement which will estimate the new State Pension based on the new rules. See www.gov.uk/state-pension-statement for details. There is also a State Pension age calculator on the same site.
- What can be claimed at State Pension age will usually be based on NI history up to that time. It may be possible to add contributions and increase the amount of new State Pension received by continuing to work or by making voluntary NI contributions before reaching State Pension age.
- From 6 April 2016, any NI contributions made will increase by the percentage that would be saved if contracted out.

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t: 01325 342852 during normal working hours
m: 07824 804843 for out of hours enquiries
e: press.office@rpm.co.uk

