State pension alert: Britons could miss out on £5,500 a year boost

Britons with missing years in their National Insurance record have until April 5 to make voluntary contributions or risk missing out on thousands of pounds extra in retirement.

By Temie Laleye 08:58, Fri, Feb 17, 2023 | UPDATED: 08:59, Fri, Feb 17, 2023

Plugging National Insurance gaps can boost state pension (Image: GETTY)

Changes to the state pension are set to come into place in April, and missing the deadline could cost people up to £5,500. From April 6, the number of extra years available to purchase drops to the last six tax years.

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Workers with National Insurance shortfalls have less than seven weeks to plug the gap. Alice Haine, personal finance analyst at Bestinvest explained that buying back missed years can be a good way to boost retirement income for the future.

With the end of the financial year edging ever closer, many savers may be looking for ways to top up their savings.

A potentially rewarding strategy, however, is to check National Insurance (NI) records for any missed years of contributions.

Ms Haine said: "Buying back missed years can be a good way to bolster retirement income as just one qualifying year of NI at the standard rate of £824.20 adds up to £275 per year (1/35 of the full rate of the state pension) to your pre-tax state pension – putting the breakeven point of making those contributions at three years after you start claiming your state pension.

“If you live 20 years beyond the current state retirement age of 67, each year bought back could give you up to £5,500 per year to take home, a great return particularly when you consider this is likely to rise in line with inflation. Make up five missing years at a cost of about £4,121, for example, and that could potentially be worth up to £27,500 over a typical 20-year retirement.

“However, anyone with a shortfall in their record needs to act fast as they only have until midnight on April 5 to buy back their missed years to qualify for a full state pension. Failure to do so by the deadline might mean they don’t receive the full pension payment they are expecting.”

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State pension age is currently 66 in the UK (Image: EXPRESS)

Ms Haine added: "This particularly applies to shortfalls between the 2006/07 and 2016/2017 tax years, as from April 6, 2023, only missing contributions over the past six years can be made up.

"The concession to buy back more than six years only applies to those on the new state pension, which came into force in April 2016, so they should use this opportunity to improve how much they receive while they still can."

With less than seven weeks to go until the deadline, there are certain steps for men born after April 5, 1951, and women born after 5 April 1953, to help them decide whether it’s worth making up any missed years before they are lost forever.

Check state pension record

There are several reasons for having a gap in a NI record - from a career break or taking time out to raise a family, to caring for elderly relations, living and working abroad, earning a low income or being self-employed and not paying contributions, again because of a low income.

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Ms Haine explained "the danger" of gaps is that people don't accrue enough qualifying years to receive a full state pension.

Britons typically need at least 10 years of NI contributions to receive anything at all and typically need at least 35 years to receive the maximum new state pension, which currently stands at £9,600 a year for those retiring after April 6, 2016, and will rise to £10,600 from April.

It does not need to be 35 consecutive years, but they must have hit that target over the course of their working life to receive the full entitlement.

If someone is not at state pension age, they can simply check their NI contribution record by logging onto the state pension forecast calculator, which they can access through their Government Gateway.

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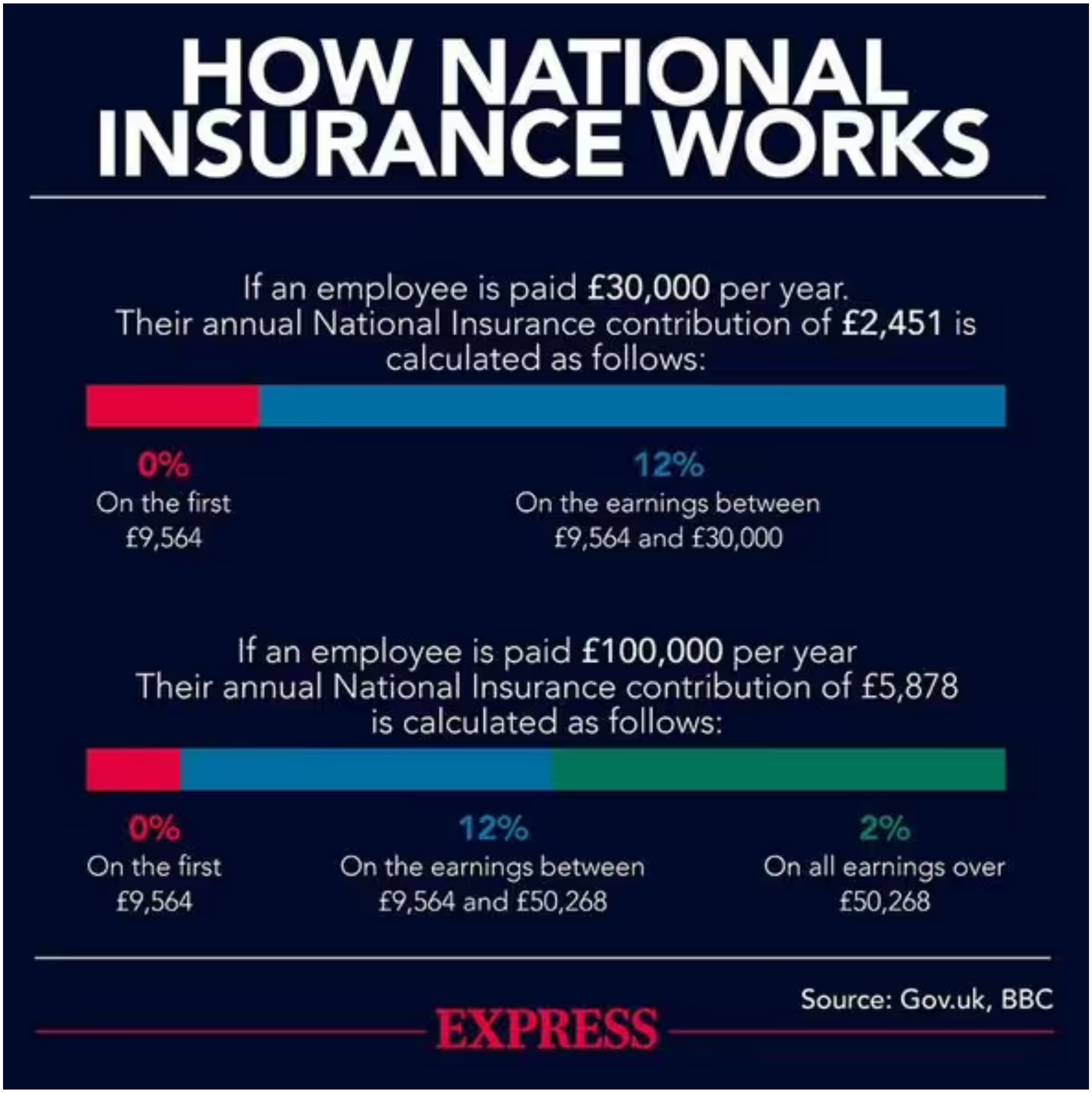

As the cost of living crisis continues, any extra cash could be vital for families on low incomes (Image: EXPRESS)

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Assess whether filling any NI gaps makes sense

A state pension Summary will clearly state how many years of contributions people already have, how many they have left to contribute before they retire and the number of years in which they did not contribute enough. These will be marked as ‘Year is not full’ with guidance on how much people need to pay in voluntary contributions for each year by April 5.

Ms Haine said: “Whether you need to pay up depends on factors such as how many more years you plan to work. Those aged 45 and over who are close to retirement age and won’t have enough time to achieve 35 qualifying years to receive the full state pension may be more inclined to top up, while someone close to retirement and in poor health might not feel it is worth it.”

Get bespoke advice before making a decision

Calculating whether to top up can be confusing and ultimately there is no point paying for more years than people need because they won’t get that money back.

The best solution is to call the Government’s Future Pension Service on 0800 731 0175 to double check how many years people can buy and whether voluntary contributions will add to their state pension. Those who have already reached pension age must contact the Pension Service on 0800 731 0469.

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Calculate the cost of topping up

Ms Haine continued: “For most people the cost to make up a full year by April 5 is £824.20 for gaps between 2006/07 to 2019/20. For the most recent two years, the rate is slightly less at £795.60 for 2020/21 and £800.80 2021/22. This rate of NI contribution is known as Class 3.

“However, people pay different rates depending on their situation. While those in full employment pay Class 1 NI contributions which are based on earnings and automatically deducted by their employer, the self-employed pay Class 2 and 4 based on their taxable profits and those living abroad pay Class 2.

“Class 2 is considerably cheaper at about £160 for one year than Class 3, so when you consider that one qualifying year of NI adds about £275 a year or £5.29 a week to your state pension for the rest of your life – it's easy to see the value of buying back those missed years.

“For someone who was living abroad during their missed year, they need to download and complete HMRC’s CF83 form and send it to the address on the form. To qualify for Class 2 NI contributions, you will need to prove you lived in the UK for at least three years in a row or paid NI contributions for at least three years before you left the UK and give the names and addresses of the employers you worked for during your time overseas.”