UK state pensions: later deadline for NI top-ups that can mean £55,000 extra

By plugging gaps in their national insurance record, some people can increase their entitlement

Rupert Jones

The voluntary national insurance deadline was originally going to be 5 April but it has been extended to 31 July. Photograph: 10'000 Hours/Getty Images

Pay £800 now and, if you live a long time, get back £5,500-plus in total. If you can afford to hand over £8,000, it could be £55,000 or more. That, in very simple terms, is the pensions deal being offered to many people by the government, experts say.

The deadline for taking advantage of what has been called a "bargain price" was originally going to be 5 April but the good news is that this week the government extended it to the end of July.

This is all about topping up your state pension, which may sound dull and complex but it can generate a better rate of return than almost any other way of using your savings, says the former pensions minister Steve Webb, now a partner at the actuarial business LCP.

Anyone who has worked abroad, earned a low salary or had gaps in employment should be paying particular attention.

Those who are eligible have until 31 July to act, after the government decided to give people more time in response to a "surge" in the numbers of individuals contacting it. There had been reports of jammed phone lines.

Many people are unaware that they can cash in by paying voluntary national insurance (NI) contributions to plug past gaps in their NI record and boost their state pension entitlement.

Under the new state pension system introduced in April 2016, you typically need a 35-year NI contribution record to qualify for the full state pension amount, which is currently £185.15 a week.

Deductions are made for any missing years but if you have gaps in your record, you can remedy that situation. Under normal rules it is only possible to plug gaps in your NI record up to six years after the year in question. So normally you would only be able to go back to 2016-17 at present.

However, for a limited period, people are able to go much further back and fill gaps for any year from 2006-07 onwards – an extra 10 years. This concession only applies to those who come under the new state pension system: those who reached, or will reach, state pension age after 5 April 2016.

As the investment platform AJ Bell puts it, this scheme provides "a £275 annual income boost for just £824".

You usually need to pay voluntary class 3 NI contributions to top up your state pension. The current cost of doing this is £15.85 a week, or £824.20 a year.

This one-off payment can add up to one-35th of the full rate to your eventual state pension. As the full new state pension is currently £185.15 a week, this boost is worth £5.29 a week, or £275 a year.

Let's say you decide to top up 10 missing years of contributions, from 2006-07 to 2015-16 inclusive. You would have to hand over £8,242 (10 lots of £824.20). But in return for that payment, you would enjoy a £2,750 annual state pension boost. That would add up to about £55,000 (before tax) over the course of a 20-year retirement, Webb says.

What's more, says Tom Selby at AJ Bell, that income will, as things currently stand, be protected by the triple lock. For example, in April this year, the state pension will go up by 10.1%, in line with September 2022 inflation.

So, in the earlier example, your total gain could actually end up being quite a lot more than £55,000 once you factor in inflation. And the longer you live, the more quids-in you will be.

Webb says some people have gaping holes in their NI record, and this will be the last chance to fill them, adding: "Missing out could cost some workers thousands of pounds."

However, Webb says anyone thinking of topping up their state pension for these earlier years should check with the Future Pension Centre at the Department for Work and Pensions. That is because there are some situations where paying historic contributions would not boost your state pension.

If you haven’t yet reached state pension age, probably the first thing you should do is to find out more about your situation by checking your state pension forecast online: go to gov.uk/check-state-pension.

Bear in mind that the younger you are, the more likely it is that you will, over time, build up your contribution record in the normal way, which means that buying extra years now could be a waste of money.

On top of that, of course, you have to have money to be able to afford to do this. And not everyone will warm to the idea of using today’s cash – which they might need for bills – to buy an income for later, particularly when they do not know how long they might live.

AJ Bell says that, broadly speaking, anyone who increases their state pension on these terms would need to live for at least three to four years after starting to receive it, in order to make a profit from the deal. It adds that with a decent chance of living into your 90s, those in good health who can boost their state pension “could benefit handsomely by doing so”.

If you decide to go ahead, there are various ways you can pay. To find out more, check out the government webpages for this topic.