



Deferring Retirement Pension Questions & Answers (April 2008)

Ref IS/12

This information sheet refers to the situation in England. If you live in Scotland, Wales or Northern Ireland you may wish to contact:

The Scottish Helpline for Older People – Age Concern Scotland,
tel: 0845 125 9732 (local call rates) Monday to Friday, 10am – 4pm;
website: www.ageconcernscotland.org.uk;

Age Concern Cymru, Units 13 & 14 Neptune Court, Vanguard Way,
Cardiff CF24 5PJ, tel: 029 2043 1555 (national call rate); website:
www.accymru.org.uk;

Age Concern Northern Ireland, 3 Lower Crescent, Belfast BT7 1NR,
tel: 028 9032 5055 (national call rate) Monday to Friday, 10am – 12pm
and 2pm - 4pm; website: www.ageconcernni.org.

Claiming State Pension

When you reach state pension age – currently 60 for a woman and 65 for a man you can claim your state pension or you can choose to delay your claim. This is called deferring your pension. You may do this in order to receive a higher state pension at a later date or a one-off taxable lump sum payment.

In the past most people have chosen to draw their state pension but under more generous rules more people may consider deferring.

This information sheet explains the rules and the things to consider to help you decide whether to draw your pension or defer it.

Why would I choose to defer my pension?

There are a number of reasons why you may choose not to claim your pension. Rules were introduced in April 2005 which may make it more attractive to defer your pension. The Government say they hope to encourage more people to work flexibly after retirement age and to consider deferring in the future.

If you defer your pension it can be paid at a higher rate when you eventually claim it, or you may choose to take a lump sum instead of an increased rate of weekly pension.

Your decision will depend on your individual circumstances. Two things to consider are

- can you afford to manage for the period of deferment?
- should you take an increased pension or a lump sum?

When your retirement pension is paid it will be taxable income. If you continue to work after pension age you may choose not to claim your pension because that extra income may take you into a higher income tax bracket. This could mean that you could lose up to 40% of your pension through tax. For more information on your tax position as an older person see Age Concern Factsheet 15 *Income Tax*.

What do I do if I want to defer?

There is no need for you to formally tell the Pension Service that you wish to defer your pension. Any extra amount you have earned will be calculated when you eventually claim, and you will be asked to choose either a higher weekly pension or a lump sum. If you have already claimed your pension you can give it up and de-retire if you wish, but you are only allowed to do this once.

While you are deferring your pension you will still be entitled to the annual Winter Fuel Payment (entitlement is based primarily on age, not receipt of any benefit) but you will not be entitled to the £10 Christmas Bonus (and it will not be included in the lump sum or increment calculations).

The rules before April 2005

Under the old rules you could defer claiming your pension for a maximum of five years and earn a 1% increase in your weekly pension for every seven weeks that you deferred claiming. This gave a rate of increase of around 7.5% per year, or around 37.5% for five years.

Current Rules

From April 2005 the rate of increment has been improved so that you will become entitled to a 1% increase in your pension after every five weeks deferred (this gives an annual rate of around 10.4%), and there is no longer any limit on the time you can defer for. This increase is applied to all components that go to make up the state pension, including the basic pension, SERPS, State Second Pension and any Graduated pension. It will **not** be applied to an increase claimed in respect of a partner or other adult dependent.

Lump Sum

The biggest change introduced in April 2005 was the option of taking a one off lump sum rather than the increased rate of pension. The lump sum is the amount of state pension not claimed plus interest added each week and compounded. The interest rate is set at 2% above the Bank of England base rate, and is adjusted as the base rate changes. You have to defer for at least a full 12 months after April 2005 to receive a lump sum with interest, and you will not be entitled to any increase in your weekly pension if you take the lump sum instead. If you defer for less than a year you can receive a lump sum of all the pension you have not claimed with no interest (in effect this means that a claim for state pension can be backdated for up to one year), but the extra increment you have built up will be added to your pension.

If you have deferred for a period both before and after April 2005 you can only receive an increased rate of pension for the period before, but you have the option of either the increment or lump sum for the period after.

What about other benefits while deferring?

You will not accrue either increments or a lump sum payment if you defer your pension while receiving any of the following benefits (or if anyone else receives an increase in these benefits in respect of you – eg, if your partner claims an increase for you with their retirement pension)

- Carers Allowance
- Incapacity Benefit
- State Retirement Pension (of any category, including Graduated Retirement Benefit)
- Severe Disablement Allowance
- Unemployability Supplement paid under the Industrial Injuries or War Pensions schemes
- Widows Benefit or Widowed Mothers Allowance

You will also not be entitled to any increase if you had claimed your pension but were disqualified from receiving it because you were in prison.

What about means-tested benefits?

You can defer your state pension while receiving a means-tested benefit like Pension Credit, Housing Benefit or Council Tax Benefit (or while you are included in your partner's claim), and you will still build up entitlement to increased pension or a lump sum. However for Pension Credit the notional income rules mean that the amount will be calculated as if you were actually receiving the rate of state pension you have chosen not to claim. For example if you are entitled to £30 state pension your Guarantee Pension Credit will be reduced by this amount whether you claim it or not.

Whether the notional income rules are applied to your claim for Housing Benefit and Council Tax Benefit from your local authority depends on whether you receive Pension Credit Saving Credit.

- If you do not receive or claim Pension Credit the notional income rules do **not** apply to the calculation for Housing Benefit or Council Tax Benefit.

- If you receive Pension Credit guarantee credit you will be entitled to the maximum eligible amount of Housing Benefit or Council Tax Benefit. Any notional income from the state pension you have deferred will have already been taken into account in your Pension Credit and will make no difference to the amount of Housing Benefit or Council Tax Benefit you receive.
- However if you receive Pension Credit savings credit only while deferring your pension your Housing Benefit and Council Tax Benefit will be reduced to take account of the notional pension you are entitled to. In these circumstances if you are only entitled to a small amount of savings credit it may be better to not claim Pension Credit at all. You should seek advice from your local Age Concern or Citizens Advice Bureau.

Notional income from your deferred pension will **not** be taken into account if you apply for Working Tax Credit or Child Tax Credit (which you claim from Her Majesty's Revenue and Customs).

Deferment for married women

If you are a married woman entitled to a state pension on your own contributions you can defer your claim and build up entitlement to extra pension or a lump sum.

If you are entitled to a pension (or an increase to your pension) based on your husband's contributions, you can only draw this when your husband claims his own pension. If he decides to defer claiming his pension you will not be able to draw any pension based on his contributions until he stops deferring his, but when you do draw it you will get an increase (or a lump sum).

However, you will not get an increase or a lump sum payment for deferring the pension from your husband's contributions if, while your husband is deferring his pension, you draw any pension you are entitled to on your own contributions or certain other benefits. It may be better not to draw your own pension (for example if this is a small amount) if your husband is deferring his pension.

How will the lump sum affect tax and other benefits?

The lump sum payment is treated in a special way for tax and benefits.

- it is taxable, but only at the rate of tax you already pay on your other income (it will not be added to the rest of your other income, and will not put you into a higher tax bracket). In addition you can have your lump sum paid in the tax year after your pension starts, so that if your income is lower after you retire and you are liable for a lower rate of tax, you will pay that rate of tax on the lump sum
- it will be disregarded indefinitely for means-tested benefits.

Things to consider

If you want to build up savings you do not have to defer your claim – instead you could claim your pension and invest it in a bank or building society account. The deferred lump sum option offers interest at a rate that compares favourably with most accounts, but interest is only paid if you defer for at least a full 12 months, so if you chose to take your pension sooner you could lose out.

If you die while deferring your pension, your spouse or registered civil partner will inherit 100% of the extra pension or lump sum accrued on the basic pension, 50% of the extra pension or lump sum accrued on State Second Pension or Graduated pension and a proportion accrued on SERPS. Your spouse will only be able claim any of this once they claim their own pension.

Until April 2010, a widower or registered civil partner will not be able to inherit a lump sum unless s/he was also over State Pension age when her/his partner died.

Lump sum or extra weekly pension?

When you eventually claim your state pension after a period of deferral you will be asked to choose either the increased rate of pension, or a lump sum. The DWP call this making an election. If you do not make a decision within three months the DWP will pay you a lump sum. After you have made your choice you are allowed up to a further three months to change your mind, but you can only do this once. If you received a lump sum payment you will have to pay it back before you receive the higher rate of weekly pension.

If you initially took an increased pension but change your mind, your lump sum will be reduced by the extra pension you have already received.

The table below illustrates that if you live for at least 10 years after retirement you may be better off overall by taking an increased weekly pension rather than a lump sum.

However, if you are going to be entitled to means-tested benefits when you retire, there is little advantage in taking a higher rate of state pension. It will be taken into account for Guarantee Pension Credit, although this may be partially offset by an increase in your entitlement to Savings Credit. If you will be entitled to Guarantee Credit you could lose out twice by taking extra pension after deferment – your benefit would have been reduced while you were deferring due to the notional income rules, then any extra you receive will be taken into account and will reduce your ongoing entitlement.

If you do not receive Guarantee Credit, an increased weekly pension will reduce any Housing Benefit or Council Benefit you are entitled to – for every extra £1.00 of extra pension you gain you will lose 65 pence in Housing Benefit and 20 pence in Council Tax Benefit.

Even if you will be entitled to means-tested benefits you may choose to put off claiming your pension in order to receive a lump sum. This will not affect your other benefits and may be more advantageous than an increased pension. If you are only entitled to a small state pension you may find the prospect of a lump sum with interest attractive – but as Pension Credit is a subsistence benefit you may face hardship in forgoing income you are entitled to now to pursue this option. If you receive a means-tested benefit you may be better off by deferring a small state pension rather than claiming it and paying the money into a savings account. That way the lump sum that accrues would be disregarded for benefits instead of being counted as capital in the usual way.

Effect of deferring state pension

| Amount of State Pension due | | Years of deferral | Lump sum payment | Extra State Pension | | Extra State Pension earned over time | | |
|-----------------------------|-----------|-------------------|------------------|---------------------|-----------|--------------------------------------|-------------|-------------|
| Each week | Each year | | | Each week | Each year | In 5 years | In 10 years | in 15 years |
| £50 | £2,600 | 1 | £2,688 | £5.20 | £270 | £1,352 | £2,704 | £4,056 |
| | | 2 | £5,558 | £10.40 | £541 | £2,704 | £5,408 | £8,112 |
| | | 3 | £8,622 | £15.60 | £811 | £4,056 | £8,112 | £12,168 |
| | | 4 | £11,893 | £20.80 | £1,082 | £5,408 | £10,816 | £16,224 |
| | | 5 | £15,384 | £26.00 | £1,352 | £6,760 | £13,520 | £20,280 |

| | | | | | | | | |
|-----|--------|---|---------|--------|--------|---------|---------|---------|
| £80 | £4,160 | 1 | £4,302 | £8.32 | £433 | £2,163 | £4,326 | £6,490 |
| | | 2 | £8,894 | £16.64 | £865 | £4,326 | £8,653 | £12,979 |
| | | 3 | £13,795 | £24.96 | £1,298 | £6,490 | £12,979 | £19,469 |
| | | 4 | £19,028 | £33.28 | £1,731 | £8,653 | £17,306 | £25,958 |
| | | 5 | £24,614 | £41.60 | £2,163 | £10,816 | £21,632 | £32,448 |

| | | | | | | | | |
|------|--------|---|---------|--------|--------|---------|---------|---------|
| £100 | £5,200 | 1 | £5,377 | £10.40 | £541 | £2,704 | £5,408 | £8,112 |
| | | 2 | £11,117 | £20.80 | £1,082 | £5,408 | £10,816 | £16,224 |
| | | 3 | £17,244 | £31.20 | £1,622 | £8,112 | £16,224 | £24,336 |
| | | 4 | £23,785 | £41.60 | £2,163 | £10,816 | £21,632 | £32,448 |
| | | 5 | £30,768 | £52.00 | £2,704 | £13,520 | £27,040 | £40,560 |

This table is taken from a Pensions Service information leaflet. The calculations were performed by the DWP. The lump sum is calculated assuming 6.75% interest and the amount paid will be taxable

The Pension Service leaflet SPD2 "Your State Pension Choice: Pension Now or Extra Pension Later: A Guide to State Pension Deferral" gives more information about the effect of deferring your pension. Contact your local Pension Service to ask for a copy or go to www.dwp.gov.uk

If you would like to receive this information in large print phone 0800 00 99 66 (free call) or write to Age Concern FREEPOST (SWB 30375), Ashburton, Devon TQ13 7ZZ.

Find out more about Age Concern England online at www.ageconcern.org.uk

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IS/12
FG/April 2008