MONEY BOX LIVE

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LEWIS: Hello. Today Money Box Live is about the state pension. And it really should be simple: you pay 30 years full contributions and you get a full basic pension of £97.65 a week, and that goes up to £102.15 from April 11th. But 102 years of hard work by politicians and civil servants have created one of the most complex pension systems in the world. This week even the Pensions Minister admitted that his officials "struggled" to understand it. Many women are angry that they'll have to wait up to another 2 years to claim their pension as the rise in state pension age is accelerated and it'll be 66 for men and women as soon as 2020. Further rises will follow. If you've not paid enough national insurance contributions to get a full pension, there's still the chance to do so, but you have to act quickly to take advantage of the concession that lets you buy 6 older missing years as well as 6 recent ones. April this year will be the first time that part of the pension will rise in line with two separate price indexes - the basic pension with the RPI this year, and SERPS and the extras with the lower CPI - and in future this twin track rise will make it very hard for you or indeed the Revenue to know how much your pension will be. There are new complexities about contracting out and the state second pension on the horizon, and the Pensions Minister said again this week that his aim is to do away with all these obscure rules that even his officials find difficult and replace them with a simpler and bigger pension for almost everyone. Whatever your question about the state pension, you can call Money Box Live now. The number is 03700 100 444. With me today to answer your questions: Malcolm McLean, who's Pensions Consultant with actuaries Barnett Waddingham; and Mervyn Kohler, Special Adviser to the charity Age UK.

And our first question is from Suzy in Shropshire. Suzy, your question?

SUZY: Yes I'm a single female born in January 1954, and I wondered when I might expect my state pension. Contributions have been paid throughout my entire working life.

LEWIS: Can you tell us when in January you were born?

SUZY: January 9th.

LEWIS: January 9th, okay. Do we have an answer to that, Mervyn?

KOHLER: Well Suzy, it will certainly be 65 and it could be 65 in a couple of months. The best thing to do here is to look at one of the calculators, which are available on a number of different websites. There will be one shortly on the Age UK website, but the BBC Money Box programme has also got one on its site.

LEWIS: Well we've got a chart, yes. And I think for your birth date, Suzy - you said it was 9th January 1954 …

SUZY: That's right.

LEWIS: Your old pension date that you would have been expecting was November 2017. That's now been put off until 6th July 2019, by which time you will be, what, 65½ just about?

SUZY: Yes.

LEWIS: That's a 1 year 8 month delay. So you're not quite the worst. The worst is 2 years, but it's still quite a long delay.

SUZY: It's still a blow, yes.

LEWIS: But you've paid your 30 years contributions because, Malcolm McLean, you only need 30 years now to get a full pension.

McLEAN: That's right, 30 years of full national insurance contributions. I've got to say this. I'm afraid the married woman's stamp, the old reduced rate for married women, does not count towards this 30 years.

LEWIS: No. But I think, Suzy, you said you'd paid full contributions, so you will …

SUZY: *(over)* Well I've had 7 years in school teaching when it was paid, a few years of unemployment and sickness benefit when the stamp was paid for me, and 20 years also of self-employment paying class 2 contributions.

LEWIS: Right, well that should certainly do it for you. But anyway you'll get a full pension, but the bad news is not for rather longer than you were expecting.

SUZY: Right, well thank you for your help.

LEWIS: Thank you, Suzy.

SUZY: Thank you.

LEWIS: Before we go to the next call, I'll just read an email because Mike has emailed us. 'I'm now 37', he says. 'When will I be able to claim my state pension - 65 or 66?'

KOHLER: And I'm afraid, Mike, the answer to that is probably a great deal older than 66. All we know at the moment is the legislative intention to take us to 66 by 2020. Exactly what the government will then propose to do going forward for the next 30 odd years, I think it's anyone's guess.

LEWIS: Yes because of course they were going to … the old government was going to raise it to 67 and then 68, which I think would cover Mike. But now the minister said this week it might be even longer than that.

McLEAN: Yes, it's actually enshrined in legislation that from 2034 state pension age will increase to 67, and from 2044 to 68. But that is very likely to get changed given that the present government has accelerated the earlier part of it, and that will probably go back.

KOHLER: And indeed the current bill before parliament gives the government permission to do that without needing to go back for further primary legislation.

McLEAN: So they can just do it when they finish?

KOHLER: When they feel like it.

LEWIS: *(laughs)* Feel like it, yes. Well that's not much comfort, is it, to people in their 30s? So thanks for your email, your message Mike, and I'm afraid it's not a very helpful answer. And we're now going to South London to talk to Karen. Karen, your question?

KAREN: Oh hello. Well my question is that I worked full-time until I had my first child 6½ years ago, and then I've had two children since then and decided to take time out to you know spend time with them. So obviously I paid my contributions when I worked full-time, and in between children I've done the odd freelance project where I've paid my own national insurance contributions when I've had a short contract. But apart from that, obviously when I haven't worked I haven't paid them, and I assume they haven't been paid for me and I don't really know where I stand in terms of a pension.

LEWIS: Okay. May I ask … We have to ask people awful questions. May I ask how old you are, Karen?

KAREN: 42.

LEWIS: You're 42, right. Okay, so Malcolm?

McLEAN: Well the first thing to bear in mind, Karen, is that you only need 30 years of national insurance qualification to get the full pension. So you've got years ahead of you when you may well be able to pay those contributions, may have to pay contributions if you are continuing in work, so really it may not be necessary to start rushing into considering paying voluntary contributions at this point in time. The best thing to do is to get in touch with the Pensions Service and ask for a forecast of what your state pension is. That will show you where the gaps are in your record, and from that it will be possible to work out whether a) you can meet those gaps with voluntary contributions and b) probably more importantly, whether you need to do. You need to take all that into account, but bear in mind at 42 you've probably got time to make good any deficiency in your contribution record to bring you up to those 30 years.

KAREN: Even if you work part-time, because when I do go back to work, I'm probably with small children more likely to work part-time than full-time?

McLEAN: Well it depends what you're earning. There are figures on this. Currently if you're earning I think £97 a week or more, then you will get a credit at that point towards your national insurance contribution. And beyond that, if you come into the bracket for paying national insurance contributions, then obviously you will have to pay those contributions and that will count. So it does depend what you mean by part-time work and how much you're actually earning.

LEWIS: And it's worth saying, Karen, that if you've been looking after your own children, you will have got what they used to call Home Responsibilities Protection. But now it's actually been converted into a credit, hasn't it, for each year that you've got?

McLEAN: Yeah, I think just going back to what I said before, Karen, don't assume you know where the gaps are in your record. It may well be, as Paul says, because you've been getting child benefit that they will give you a credit for that period. And there are other ways to get credits as well, so important to find out a) whether you've got the gaps; where they are; whether you can make them good; and indeed whether you need to do.

LEWIS: And to get a pension forecast, Mervyn, you go onto the DWP website, do you?

KOHLER: Yes, the DWP will have the figures and the information available.

LEWIS: And you can do that online I think now and get a forecast, can't you? Though the minister did say that some of them were very hard to understand this week.

KOHLER: It's fair to say the DWP does have a little bit of difficulty.

KAREN: I'll have a go.

McLEAN: There's a thing called the Future Pension Centre. They change their name about every 2 years, but I think at the moment they call themselves the Future Pension Centre. But if you get in touch with the DWP or the Pensions Advisory Service to somebody, they'll direct you to the right place.

LEWIS: Yes, best to go online and see what you can find.

KAREN: Great.

LEWIS: Thanks very much for that, Karen.

KAREN: Thank you.

LEWIS: We've also been getting emails about this Home Responsibility Protection, this credit that now people who are looking after children and child benefit get. And this one is fairly typical from Sarah who says: ‘If I lose child benefit because of the new rules regarding higher rate taxpayers’ - that’s what happens in January 2013 when child benefit will still be given to mothers in many cases but will be taken back from their partners - ‘do I lose this protection for my national insurance?’ Do we know the answer to that, Mervyn?

KOHLER: It’s a good question. I do not know the answer to it. I suspect yes is the answer.

LEWIS: Right.

KOHLER: But that is certainly well worth checking out.

LEWIS: No-one has said. I suppose the answer is carry on claiming child benefit because you can claim it. It’s just that it will be taken away from your partner and then you might keep it. But at the moment because it’s not starting till 2013, Sarah, we’re not completely sure of the rules and we probably won’t know them for a year or two. Whether the intention is to do that or not, we just don’t know, but we hope not. Thanks very much for your email. We’re going to Howard now who’s in Manchester. Howard, your question?

HOWARD: Yes, hello there. I’ve been paying full national insurance contributions since I was 16. That’s 46 years ago now. If one is entitled to a full pension after 30 years, have I been paying for too long? Am I due a refund or do I have to keep paying?

KOHLER: I’m afraid you’re a bit of an optimist, Howard. You will not qualify for your state pension until you reach the state pension age. The 30 years worth of contributions is establishing your eligibility for a full pension when you reach the state pension age. So you’ve been paying for 46 years. Effectively bad luck; that was the old rules and there’s not going to be a refund for you or anything like that.

McLEAN: I think the political answer to that is that the government would say that national insurance is like any other form of insurance - it's to cover yourself against a number of things, and if you don't need to claim then it doesn't matter, you're still paying the contributions. Now in the case of national insurance, that would be a qualification condition for jobseeker's allowance or incapacity benefit, for example, so it's not just for the state pension. And the other thing I would say quite openly is that national insurance is a form of payroll tax. Really it is a tax. Some of it is designed to be a contribution towards the National Health Service. So it's not just about the state pension. And, as Mervyn says, if you go over the 30 years, you still have to pay it if you're working and earning enough, and you may not get anything back for it.

LEWIS: Yes and you have to pay it up to state pension age. And of course because state pension age for women is rising, that means women have to pay it for longer and longer.

KOHLER: They will indeed be paying it for longer and longer. The 30 year rule is a really good one. We welcome that as an improvement than the previous legislation which required 44 years for a man and 39 years for a woman to get a full state pension. 30 years is definitely better. But, as Paul has been saying, you carry on paying your national insurance, so long as you are earning enough money to pay it however long you work.

LEWIS: Bringing it down to 30 years though makes it very stark, doesn't it, because you could have paid enough to get a full pension by the time you're, what, under 50, and yet you're going to have to pay it for maybe another 20 years before you reach the rising state pension age?

McLEAN: It could have happened under the old system. A woman required 39 years whereas her working life was more than that - was 47 something years. But it is, as Paul says, much more stark now, the difference between the two. It's quite ironic in a way that the government brings in a change, which everybody thinks is a very good change, but then people start complaining about the fact that they're having to pay national insurance contributions for years when they've already reached the 30. I can understand the reason for the question, but the idea of bringing it down to 30 was really to help women qualify whereas they didn't often qualify before.

KOHLER: I think the reason was very much around the fact that too many people, especially women, were retiring with a very measly state pension. It's not exactly generous even at £97.65. But if you were retiring with only two thirds of that or half of that or something, then you really were facing an older age in poverty.

LEWIS: Let me just bring in one email that's just come in just to clear up this Home Responsibilities Protection point. This is from Barbara who's just emailed us. And she says that she was bringing up children when they were small and she understood as long as she got child benefit, she would get a Home Responsibilities credit. But she doesn't know if that's enough or whether her contributions in employment will be enough. She had some sick periods. And she was born in April 1951, so she's coming up for 60, though she'll have to be 62. So again, Malcolm, this is a question of getting a forecast and finding out what your position is.

McLEAN: Find out what your position is. And, as I say, the two questions then are can I pay the contributions and should I?

LEWIS: In the other order probably - should I and can I? *(laughs)* We'll come onto contributions in a minute, but thanks very much Barbara for your email. We've had lots and lots along those lines. And Nina is next in Cheshire. Nina, your question?

NINA: Hello, I just wanted to ask whether it's worth paying 3 years contributions that I've got a shortfall on. I was born in 49, so I needed the 39 years, and my pension's made up of work responsibility years. I retired last year in August over a year ago and I've been told I need 3 more years to make the maximum for myself. At the moment I'm receiving £84 and I'll never ever really be able to get the full pension, but you know is it worth even paying the 3 years to make it a maximum for myself?

LEWIS: Malcolm?

McLEAN: Well it might be and you actually got in a position there which is slightly complicated, but you actually could gain from. Can I just explain very briefly what the rules are on this? Under normal situations, you can only go back over the last 6 tax years to make good missing national insurance contributions and bridge that gap by paying voluntary contributions. That is a 6 year rule. But the government has extended those rules for people who've reached their state pension age between 6th April 2008 and 5th April 2015. Now am I right in saying that you're in that position? Did you reach your state …

NINA: Yes.

McLEAN: Well in that case the concession could apply to you. And providing you have at least 20 qualifying years under your belt already - and that could be a combination of contributions actually paid or the Home Responsibility Protection - providing you've got 20 years, then it is possible to make good a further 6 years missing contributions for any period back to 1976 - 1975/76. So you would have the option of making good those contributions. And also there is a further concession for somebody in your situation. If you've reached your state pension age since April 2008 and are drawing less than the full state pension, which could well be you, and you have those 20 years under your belt - if you make good those missing contributions, not only does it increase your state pension but it can be backdated with arrears back to the time when you actually retired and took your state pension. So you will get back pay in that situation. So it might well be worth doing that. So again you need to inquire as to what you can do for sure in this situation by getting in touch with the Pensions Centre, the Pensions Service Centre, and they will give you the information. But basically speaking it would cost you £626 to buy back 1 year of national insurance, and for that you ought to get in the order of about £170 a year extra on your pension backdated to April 2008. So that might even pay for most of the £626, so it is definitely worth pursuing that one. The deadline for this, for getting it backdated, is 5th April this year, so you need to act now.

NINA: Okay.

LEWIS: Okay, thanks very much for your call. There was lots of complicated information there, which Malcolm's done brilliantly to summarise in a short space of time. You can hear the programme again, you can read a transcript in a couple of days on our website: bbc.co.uk/moneybox. And there's also a link on that to the direct.gov.uk website, the government's website, and that will take you to a page of information about backdated contributions. And there are all sorts of groups and classes of people who can pay this amount or that amount and they charge them different amounts, so it's well worth looking at and making head and tail of it if you can. If all else fails, ring the Pensions Advisory Service or indeed the DWP. But do try and act before - as Malcolm said - before 6th April to get that special concession of going back to 1974/5, isn't it Malcolm - with gaps right back to 1974/5.

McLEAN: I think it's 75/6.

LEWIS: 75/6, sorry. Not 74/5 - 75/6.

McLEAN: The reason for that, incidentally, I found out the other day, is that voluntary national insurance contributions didn't exist before that time, so that's why they've taken it back only to that date.

LEWIS: Okay. So thanks very much for your call. Let's just take an email that might be brief. This is from Cheryl. And she says … This is what she calls a "moral outrage", which I suspect you two might agree with. She's been paying the married woman's reduced contribution and continued to pay it for 35 years, and now discovers that it entitles her to no pension at all. Mervyn?

KOHLER: Absolutely right. Pity she discovered it now rather than 30 years ago. No, the married women's contribution does not build up any entitlement for you in your own right to draw a pension. The only way you will get a state pension is through a partner - through a married partner or a civil partner.

LEWIS: Yes and she says in 2007 she paid more than £1100 in contributions and that's just money down the drain.

McLEAN: Down the drain. There is an opposite view to that of course - and I've heard it and it's not me that's saying it …

LEWIS: Mainly from ministers, I suspect.

McLEAN: Well I once had a phone-in on the radio and half the people were supportive of what this lady said and the other half were against it. And those that were against it were on the basis that they had paid the full contribution and if you were to sort of give people pension in relation to paying only the lower rate of contribution, then they would have paid for nothing. So whichever way you go on this, you run into trouble, I'm afraid.

LEWIS: Yes.

McLEAN: But yes, many many women object very strongly. And particularly so they would say that it was not explained to them at the time just what was the significance of paying this married woman's rate.

KOHLER: I think the whole world of pensions has been bedevilled by the fact that it has not explained to people what is going on. I mean this proposal that we're focusing on particularly today - to raise the, to accelerate the state pension age to 65 for women and 66 for both thereafter - it is going to need a big information campaign to help people understand what's going on and to make proper decisions about how to plan for it.

LEWIS: And of course they won't do that until the law is passed, which will be a few months ahead.

KOHLER: Absolutely.

LEWIS: And just going back to Cheryl and these married woman's contributions, the other thing which I think is really unfair for them is that although they have a gap in the sense it doesn't count, they can't now make it up. They're prohibited from paying contributions for those years, which I think is the big problem that many women see. Cheryl, thank you very much for your email. And I'm sorry that apart from sharing your moral outrage, there's not very much we can offer by way of practical help. Steven Jones in London is next. Steven, your question?

STEVEN: Hello. I hope I can explain this correctly. Years ago in the 80s when Thatcher was in everybody was encouraged to get a private pension and so I entered into one. And then the chap who was selling it to me encouraged me to sign away my SERPS, which I did, not knowing what was happening. I mean I really wasn't aware of things in those days. And I don't know where I stand with that and what sort of situation does that leave me in with my state pension when it comes to it?

LEWIS: Yes, so you opted out of the state related pension, as it was called then, and put it into a private pension, and there have been a lot of people who thought that they had been mis-sold that idea and got compensation. But it's quite technical to see whether you'd be entitled to compensation. But on the effect on your state pension, Mervyn?

KOHLER: State pension should not be affected here.

LEWIS: The basic state pension?

KOHLER: The basic state pension. It is the additional element, the State Earnings Related Pension, which you are going to be missing out on, Steven. You will perhaps …

STEVEN: And how much would that be, do you think?

KOHLER: It depends how many years you contributed into it before you actually swapped it into your private pension scheme.

STEVEN: Oh well I was 29 when it happened. I'm 55 now.

KOHLER: Well again to get an entitlement prediction on that, you would have to, I'm afraid, go to this wonderful DWP website we've been talking about …

STEVEN: Oh right. *(laughs)*

KOHLER: …to learn how many years they've credited you with in the scheme.

LEWIS: So if you are paying into a personal pension, from next April - that's 2012, Malcolm - you won't be opted out anymore, will you? You'll be paying into the state second pension.

McLEAN: *(over)* That's right. It's coming to an end is opting out from SERPS in relation to people who have private pensions, personal pensions. That will end. We're not quite sure what's happening with company schemes - whether that will continue. At the moment it seems it will. But just to make a point, Steven. That because you've opted out of SERPS and are not getting SERPS, you have been getting what's known as a rebate into your personal pension plan or occupational plan or whatever it is, so they should have been giving you some money in return for that.

STEVEN: I fell into a situation where I couldn't afford the pension plan, so I had to give it up and so I've only got a few years of the private pension plan.

LEWIS: Oh so you're not paying into a pension at all now?

STEVEN: No, no, not at all.

LEWIS: Well in that case, from when you gave it up, you will have been paying into SERPS if you've been working.

McLEAN: And paying national insurance contributions.

LEWIS: Through your national insurance contributions, yes. So if you weren't paying into a pension of any sort, then your national insurance would have gone back to the full rate and you would have been paying into SERPS, so you might find that you have considerable SERPS. And it's a sorry fact that the average time to stay in a private personal pension is about 4 years. Most people give them up after that, which is not what should happen. So you may well have a nice surprise. You may have more SERPS than you thought. So it's time to get a pension forecast, Steven, so good luck with that.

McLEAN: And I have to say that the ending of contracting out, as it's called, is very welcome from a simplification point of view. It is arguably one of the most complicated things in pensions. And that's quite a statement to make, I have to say, given all the other complexities that attach itself to pensions. But to decide whether to contract out or in does trouble a lot of people and many people probably get it wrong.

KOHLER: Can I just add one other complexity to this issue, which not a lot of people understand. The women's pension age, which we're now seeing being accelerated upwards, is also the age which is used for the award of age related welfare benefits. So things like pension credit, the winter fuel payment, even your £10 Christmas bonus obviously, these will be going up in line with the increase in the women's pension age. Disability living allowance ...

LEWIS: And they're going up for men and women in line with women's pensions?

KOHLER: … attendance allowance and things of that nature. So I mean although we're talking primarily about pensions today, there are ramifications right across the welfare benefit system.

LEWIS: Absolutely. Thanks for saying that, Mervyn. We've just got time now. Marina in Crouch End is calling us. Marina?

MARINA: Yes, hello, good afternoon to you. My question is I was a full-time carer for my daughter till September 2007 and since then I've become what they call a borderline carer because my daughter comes home for weekends and for holidays. So I'm not sure what the state of my contributions are.

LEWIS: Okay. Well Malcolm?

McLEAN: Well if you were getting carer's allowance, then you would get a credit on your national insurance record for that - be treated as though you're paying national insurance. And indeed more recently even if you're not getting carer's allowance, if you're actually caring for a set number of hours a week, which isn't very high, then you'll get a credit for that as well. So it may well be that you will have covered yourself under the national insurance scheme for your state pension. So again we're back to you need to find out whether you have gaps in your record, where those gaps are and whether you need to do anything about it by going to this website or one of the help lines to find that out.

MARINA: That's great. Thank you very much for your help.

LEWIS: Yes, I think from April 2010, if you cared for more than 20 hours a week, then you would qualify for the new carer's credit even if you weren't paid. So it's well worth checking if you've got that credit from April 2010. And we're just going to squeeze David in. David from Walton on Thames, can you be very quick with your question?

DAVID: Yes, I'm 68. And at 65 I was still working, so I decided to defer my pension because I thought I'd work for another year, and in fact I'm still working so I've still not taken my pension. And I just wonder first of all how long can I continue to do this, and is it a risk that they'll change the rules and I'll actually end up losing out?

McLEAN: I don't think … If they change the rules, they'll not change them retrospectively, David. Basically you have a choice. You will get either an increase in the rate of your state pension, which would give you 10.4% for every year that you're delayed, or you can take the money back in cash as a lump sum increased by a rate of interest for the period that you haven't drawn your pension. I don't think you've anything to worry about there. Many people think it's a good thing, particularly if you carry on at work, to delay taking your state pension. You've done that and you should get the reward for it.

LEWIS: Yes and it's quite a good deal, isn't it Mervyn, very briefly?

McLEAN: It is a very good deal. I think the important thing also to bear in mind here is that we're thinking about people working longer and we've actually got to put more emphasis on the work creation agenda.

LEWIS: Okay, thanks very much for that. And also to point out to Jennifer who emailed us that that deferred bit of the pension is uprated differently from the main basic pension and people have complained about that. But that is all we have time for. I'm sorry to rush things at the end, but my thanks to Malcolm McLean from Barnett Waddingham; Mervyn Kohler of Age UK. And thanks to you for all your calls and emails, which are still flooding in. An obscure but very popular subject - state pension. As I said, more on our website: bbc.co.uk/moneybox. Listen again, read a transcript in a couple of days. I'm back at noon on Saturday with Money Box and I'll be interviewing the Pensions Minister Steve Webb about the state pension. I'm on Twitter - Paul Lewis Money. Back here to take more of your calls on Money Box Live next Wednesday afternoon.