

State Pension top up – Class 3A Voluntary National Insurance Contributions

Following an announcement in the Budget, I am today providing further details on a new class of Voluntary National Insurance contribution - Class 3A. We are calling this the State Pension top up and it is specifically designed to allow some of today's pensioners and those close to pension age to boost their retirement incomes.

This change will allow existing pensioners and those reaching State Pension age before 6 April 2016 the opportunity to gain additional State Pension by paying Class 3A Voluntary National Insurance contributions. It will provide an opportunity for pensioners to improve their retirement income by obtaining inflation-proofed extra additional State Pension. This could be particularly beneficial to women and other groups such as self-employed people who have not done well under additional State Pensions and have not previously been able to top these up. Along with the newly announced Pensioner Bond that will be available from National Savings and Investments in 2015, it further demonstrates the Government's commitment to improving outcomes for those in retirement and providing increased flexibility for people to make the most of their savings.

There are two entitlement conditions – contributors must have entitlement to a UK State Pension and must reach State Pension age before 6 April 2016.

The rules on additional State Pension will apply to entitlements resulting from Class 3A contributions including inheritance – a surviving spouse or civil partner will be entitled to at least 50% of the additional State Pension.

On 20 March 2014, the Department for Work and Pensions published the results of an online polling exercise conducted by Ipsos MORI, which was used to estimate potential take up of the Class 3A voluntary contributions. The online poll was conducted last month (February 2014) and 2,000 people at or close to State Pension Age took part. We provided them with indications of the Class 3A contribution rates and what this would mean in terms of additional State Pension throughout their lifetime. We found that one in five (twenty percent) of those polled were either “very” or “fairly interested” in taking up this offer. The level of interest seems to differ by age group with those under age 70 showing the highest level of interest. I have placed copies of the report in the House library and it is available on the Gov.uk website.

These results have been used to make some assumptions about take up rate: using a proportion of those who said they were “very interested” and “fairly interested”. The Office for Budget Responsibility has agreed a conversion rate between levels of interest expressed through the polling and possible take up. Using these agreed assumptions we estimate that around 265,000 people may take up this offer.

This new measure is in addition to the existing Class 3 Voluntary National Insurance contributions which allow people to fill gaps in their contributions record for basic State Pension.

I have established the facility for people to register their interest so that they can receive updates in advance of the State Pension top up becoming available from October 2015. This includes a personal calculator for people to work out the contribution needed to increase their pension by a weekly amount. This is available at www.gov.uk/state-pension-topup or by searching for 'state pension top up'. A dedicated telephone line facility is also available – 0845 600 4270 or 0345 600 4270 from mobile lines.

Primary legislation for this measure has been introduced in the Pensions Bill 2013. We also intend to bring forward secondary legislation covering the prices and features of the State Pension top up.

The following features will be defined in regulations, that:-

- £25 per week should be the maximum amount that contributions can provide;
- Class 3A VNICS will be available for 18 months from October 2015; and
- There will be a cooling off period of 90 elapsed days.

The State Pension top up has been set at an actuarially fair rate that ensures that both individual contributors and the taxpayer get a fair deal. The rates set out below show the contribution needed for £1 per week of additional State Pension, according to age. The rates are the same for males and females. As an illustration, the contribution required for an extra £1 pension per week for a person aged 65 is £890. This means that for £4,450, the individual could receive an additional £260 per year for life, increased in line with prices and inheritable on death in the same way as existing additional State Pension: with a minimum of 50% for the surviving spouse or civil partner. For a 70 year old the rate reduces to £779 and at age 75 the rate is £674.

I will be laying the rates at which pensioners can buy Class 3A voluntary national insurance contributions in the House library later today.