What the Papers Say

This is the latest in a regular series of summaries where we look to review some of the main articles written in the financial sections of the Sunday papers.

These articles often cover issues that are important to our personal financial well-being and we hope that the summaries will provide you with information and ideas that will be of interest to you.

If you would like to discuss any of the issues raised within these summaries or any other financial planning issue, please do contact our wealth management division on 01204 414243.

Articles reviewed

“The New ‘Flat Rate’ Pension where everybody gets different amounts”

The Sunday Telegraph

From next year the State Pension will pay around £2,000 per annum more than the current basic rate of £115.95 per week (£6,029.40). The new full pension is predicted to be £155 per week (£8,060 per annum) but for those contracted out of the state second pension, this could be reduced. The actual amount will be set in Autumn 2015 but will be no less than £148.40 per week.

Being “contracted-out” meant that DSS rebates were made to your company or personal pension arrangement instead of the State Second Pension. The ability to contract-out (via a personal arrangement) was abolished in April 2012, for occupational schemes contracting our will end in April 2016. For those who previously contracted out, reductions are being made to the Flat Rate Pension, unfortunately, the Government has declined to disclose the formula that is used to calculate any reductions.

The Sunday Telegraph provided a list of how the entitlement works under the new Scheme:

1. In April 2016 the Department for Work and Pensions will assess your “foundation amount”, this will be the starting point for which future pension accrual will build.
2. Under the old system, you needed 30 years National Insurance Contributions to qualify for the basic state pension. This will increase to 35 years.
3. Deductions will be made for any period in which you were contracted out of SERPS or the State Second Pension and these could be applied across your career.
4. After 2016, if you continue working you will add £4.24 per week for each year worked to your state pension age (this will rise in line with the increase to the flat rate pension).
5. The value of the state pension is guaranteed to rise in line with earnings, inflation or 2.5% whichever is the highest.

The new single-tier pension will only affect people reaching State Pension age from 6th April 2016 onwards (women born on or after 6th April 1953 and men born on or after 6th April 1951). The current State Pension will continue for those already in receipt of their pension before 6th April 2016.

For those already receiving their State Pension or who will reach their State Pension age before 6th April 2016, a new scheme starting in October 2015 will be available to allow people to pay a new class of voluntary National insurance Contributions (class 3A). This is intended to help people boost their additional State Pension by a maximum of £25 per week. This scheme will be open for 18 months from October 2015.

“Pensioner bonds are gone, but there’s another state-backed deal paying 5.8%”

The Sunday Telegraph

In a continuation of the above, paying the pension top-ups for those who qualify provides the chance to “buy” extra state pension. By swapping capital for a state-backed promise to pay an income for life which is both inflation-proofed and provides a 50% spouses’ benefit on death could be attractive and valuable. As the Sunday Telegraph puts it “it’s like buying a great-value annuity from HM Government”.

Pensioner bonds closed on Friday, these were hugely popular and so the availability of the top up to the State Pension (which will only be available from October 2015 and to those born before certain dates as detailed above) could provide an added boost to retirement income. As an example, if you are a man aged 65 and pay the maximum top up amount to generate the extra £25 per week permitted, the cost would be £22,250. This translates into an “annuity rate” of 5.84%, given that this is inflation-proofed and provides a 50% widows benefit, you would need to pay twice as much to buy the same pension through an insurance company.

As with any annuity, your likely lifespan is key, in the above example, you would need to live 17 years to “get your money back” (assuming no inflation). Nevertheless, this option could be worth considering when the scheme is available.

The key points to note in respect of the top up are:

- It will be available from 12th October 2015 through to 5th April 2017
- You will be able to make “class 3A voluntary national insurance contributions”
- You can choose to top up your State Pension by between £1 and £25 per week. How much you need to contribute depends on how much extra pension you want and how you are when you make the contribution
- You must be:
    - A man born before 6th April 1952
    - A woman born before 6th April 1953

You must be entitled to the basic State Pension or Additional State Pension before 6th April 2016.

As with all investments it is important to note that the value of investments and any income taken from them can fall as well as rise. You may not get back the full amount of your original investment.

Any questions?

If you have any questions on any of the articles covered in this publication or would like our help with any financial planning issue, please contact:



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