



Basic State pension

This focus item covers the key features of the Basic State Pension.

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1. Basic State Pension

The Basic State Pension (BSP) is a flat rate pension paid to everyone with an adequate national insurance (NI) record. For tax year 2007/08, the BSP is £87.30 a week for single people or £139.60 a week for married couples.

Once in payment, the BSP is increased each April in line with the increase in the Retail Prices Index (RPI) to the previous September. The government currently provide a minimum annual increase of 2.5%. It is proposed that, from 2012, increases will be linked to changes in National Average Earnings.

BSP is never subject to income tax. It is added to any other income to establish if any income tax is due, with the tax itself being taken from the other income.

2. State Pension Age

At present, the State Pension Age (SPA) is 65 for men and 60 for women. However, the SPA for women is gradually being increased from 60 to 65 for those retiring between 2010 and 2020.

The government have also announced their intention to increase SPA for those retiring in future: to 66 from 2024, 67 from 2034 and 68 from 2044. This is intended to keep the SPA cost manageable in light of improving mortality.

3. Working life & NI contribution record

Entitlement to BSP depends on an individual's NI contribution record over their working life. Working life is currently 49 years for a man and 44 years for a woman. For women whose SPA is above 60, the working life is being phased up to 49 years for those born after 5 October 1954. However, as the government has recently proposed to reduce the working life requirement for everyone to 30 years from 2010, this may prove to be largely irrelevant.

To qualify for full BSP, an individual must have paid (or been credited) with NI payments for 90% of their working life. BSP entitlement is reduced proportionately for those without a full NI contribution record and there is no entitlement at all for those with less than a quarter of the NI record needed to qualify for full BSP entitlement.

NI contributions are credited to various categories of people including:

- Those claiming unemployment, maternity and sickness benefits.
- Unemployed men over age 60. This will be extended to women from 2010 when their SPA increases.
- School children aged 16 to 18.
- Carers.

4. National Insurance contributions

There are 3 types of NI contribution that count towards BSP entitlement.

- Class 1 contributions – These are paid by employers and employees on earnings above the contribution threshold (£5,200 for tax year 2007/08). The employer's standard NI rate is 12.8%. Employees pay a standard rate of 11.0% on earnings up to the Upper Earnings Limit (£34,840 for tax year 2007/08) and 1.0% on earnings above this. Lower rates are paid for those contracted-out under an occupational pension scheme.
- Class 2 contributions – These are flat rate contributions paid by the self-employed.
- Class 3 contributions – These are voluntary flat rate contributions paid to make up for missed contributions in previous years.

5. Delaying taking BSP

Since 6 April 2005, it has been possible to defer drawing BSP indefinitely. By delaying their pension, individuals will have it increased by 0.2% for each week of deferral (10.4% a year). If the pension is delayed for over a year, the individual can take a taxable lump sum in lieu of increased BSP pension payments.

Before 2005, the maximum deferral period was 5 years. The increase for deferring was 7.5% a year and there was no lump sum alternative to the increased BSP pension.

6. Assessment

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7. More focus items

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