

State Pension Deferral - if you reached State Pension age before 6 April 2016

Extra information



Department
for Work &
Pensions

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This factsheet includes more information about deferring your State Pension than the quick guide www.gov.uk/deferring-state-pension. The Department for Work and Pensions recommends that you get independent advice before making any financial decision based on the information in this factsheet. You may have to pay for this advice.

When can I get my State Pension?

You can get your State Pension when you reach State Pension age, but you need to be entitled to it and claim it. Alternatively you may delay claiming it for a while and build up an increase to your State Pension. This is called “deferring” your State Pension.

If you **are not claiming** your State Pension yet, you do not need to tell DWP that you want to put off claiming it. But if you get another social security benefit, you need to tell DWP what you want to do. If you get certain other social security benefits you won't build up a deferral payment for those days you don't claim your State Pension. So check whether this applies to you. To find out more see www.gov.uk/deferring-state-pension

If you are **already getting** your State Pension, you can choose to stop getting it for a while. You will need to tell DWP the date you want to stop claiming from (this cannot be a date in the past or more than 4 weeks in the future). You can only stop claiming once.

You must normally live in the UK to stop getting your State Pension. If you live outside the UK and have claimed your State Pension, you will not normally be able to choose to stop claiming it. However, you may have this option if you live in one of the EEA countries and you are a UK national, a national of one of the EEA countries or you are allowed to live there for other reasons. For more information on the EEA countries see www.gov.uk/eu-eea

Can I put off claiming some of my State Pension and claim the rest?

No. Normally you need to put off claiming all your State Pension. The only time when this is different is if you qualify for Graduated Retirement Benefit or shared additional pension before you could get a Category A Pension (based on your own National Insurance contributions) or Category B State Pension (based on your husband's, wife's or civil partner's National Insurance contributions.)

If you have claimed your Graduated Retirement Benefit or shared additional pension, you will not need to stop claiming it if you put off claiming your Category A or Category B pension.

If I defer my State Pension does this affect other benefits?

If you claim Pension Credit while you are putting off claiming your State Pension, DWP will work out your Pension Credit as if you were getting your State Pension.

If you claim Housing Benefit (but not Pension Credit) while you are putting off claiming your State Pension, then the amount of State Pension you are putting off will not affect the amounts you can get.

If you claim tax credits while you are putting off claiming your State Pension, then the amount of State Pension you are putting off may not affect the amounts you can get.

You will not qualify for a Christmas Bonus for the period you put off claiming unless you got another qualifying benefit during the relevant week.

You may need to make a claim for your first Winter Fuel Payment, if you are not getting another social security benefit or the only benefits you get are Housing Benefit, Child Benefit, a reduction on your council tax or Universal Credit.

How much will I get if I defer my State Pension?

If you reached State Pension age **before** 6 April 2016 you may choose one of these two options:

- **Extra State Pension** - taking a higher weekly State Pension for life if you defer for **at least five** weeks. For each full year you put off claiming, you could get a 10.4% increase of your State Pension, or
- **Lump-sum payment** - taking a one-off, taxable lump-sum payment if you put off claiming your State Pension **for at least 12 months** without a break, and then getting your normal weekly State Pension for life. This means that you will get a one-off payment based on the amount of State Pension you would have got if you had been claiming it, as well as interest on this amount. (The interest will always be at least 2% above the Bank of England 'base rate'.) You will also get your State Pension at the normal rate when you claim it.

What counts as 'weekly State Pension' if I put off claiming State Pension?

When DWP work out your extra State Pension and lump-sum payments, they use a 'weekly State Pension' amount. This includes:

- basic State Pension
- additional State Pension (State Earnings-Related Pension Scheme (SERPS) and/or State Second Pension)
- Graduated Retirement Benefit

- Incapacity Benefit age addition
- Invalidity Addition, and
- extra State Pension inherited from your late husband, wife or civil partner.

It does **not** include:

- increases to your State Pension for another adult
- Christmas Bonus
- any extra State Pension you have previously built up by putting off claiming your State Pension
- Pension Credit, or
- for the lump sum only – any extra State Pension you have inherited because your late husband, wife or civil partner had put off claiming a Guaranteed Minimum Pension. (If you choose a lump-sum payment, you will get extra State Pension instead for that part of your weekly State Pension. DWP will also include this amount in your weekly State Pension if you choose extra State Pension.)

Is the extra State Pension or lump sum payment taxable?

State Pension and any extra State Pension both count as income when working out if any Income Tax is payable. This means you may have to pay tax on them if your total income is above your personal tax allowance.

The amount of tax you may have to pay on a lump sum payment is worked out differently. The lump sum is not added to the rest of your income to work out your total income for tax. Instead, the rate of tax due on your lump sum will usually be the highest main rate of tax that you pay on your other income. That includes any weekly State Pension you get once you have started to claim it. The tax rules for State Pension lump-sum payments are different from the tax rules that apply to any lump-sum payment that you may get from your employer's pension scheme or a private pension. For information on tax after State Pension age go to:

www.gov.uk/tax-national-insurance-after-state-pension-age

Choosing when you get your lump-sum payment

The tax you pay on your lump sum will usually depend on the tax rate that applies to your other income in the tax year that you start claiming your State Pension. However, you can ask to delay payment of your lump sum until the tax year **after** the tax year in which your State Pension claim starts. You should tell DWP about this when you choose your lump-sum.

You will not build up any extra interest on your lump sum for any period you ask DWP to delay payment.

Having less income in the tax year after you start claiming your State Pension will not automatically mean you pay tax at a lower rate. If you are not sure how this will affect the tax you will have to pay, you may want to contact HM Revenue & Customs before you decide.

How do the deferral payments affect other benefits and tax credits?

If you take extra State Pension

- It is taken into account the same way as State Pension when working out any Housing Benefit and tax credits you may get.
- It counts as income when DWP work out whether you qualify for Pension Credit.

If you are getting State Pension (including any extra State Pension) at the same time as you qualify for certain other benefits, DWP cannot pay you both at the same time. So, DWP will lower the amount of the other benefits you get by the amount of your State Pension. This means DWP will not pay other benefits that are worth less than or the same as your State Pension.

These other benefits are:

- Carer's Allowance
- Severe Disablement Allowance
- Unemployability Supplement
- Widow's Pension
- Widowed Mother's Allowance
- Widowed Parent's Allowance

DWP will treat in the same way any extra State Pension you have inherited from your late husband, wife, or civil partner.

If you choose to take a lump-sum payment:

- DWP will ignore the lump-sum payment when they work out any Pension Credit and Housing Benefit, even though your savings normally affect how much benefit you get, but
- it counts as extra income for Universal Credit and when HMRC work out any Child Tax Credit and Working Tax Credit you may get. This means that any extra income you get during the tax year may affect the amount you get.

For tax credits any State Pension, extra State Pension or lump-sum payment you get is part of your 'other income'. HMRC ignore the first £300 a year of 'other income' for tax credits purposes. To find out more about tax credits go to:

www.gov.uk/claim-tax-credits

Does living outside the UK affect State Pension deferral?

If you normally live outside the UK you can put off claiming when you reach State Pension age.

When you finally do claim, DWP will work out how much State Pension you may get based on the amount you would have got if you had been claiming it at the time. This will include any yearly increases to the State Pension, even if you are living in a country where these increases don't normally apply.

Once you have started to get your State Pension, you will only get yearly increases to your State Pension and your extra State Pension if you are living in certain countries. These are:

- countries in the EU and European Economic Area (EEA),
- Gibraltar or Switzerland, or
- [countries with which the UK has an agreement on social security that allows yearly increases to be made](#) (the UK means England, Scotland, Wales and Northern Ireland).

For more information see: www.gov.uk/state-pension-if-you-retire-abroad/rates-of-state-pension

Healthcare cover if you live somewhere else in the European Economic Area (EEA) or in Switzerland

If you live somewhere else in the EEA or in Switzerland you may get healthcare paid by the UK if you are getting a UK State Pension. However, for the period you defer taking your State Pension, the UK will not be responsible for providing you with healthcare cover. If you are not entitled to get healthcare paid by the UK, you will need to make your own arrangements. For more information, go to www.nhs.uk

Paying UK tax on extra State Pension and lump-sum payments if you are living outside the UK

If you live outside the UK, your extra State Pension and lump-sum payments are still counted as income for UK tax purposes. If you have to pay tax:

- HM Revenue & Customs will work out the amount in the same way as if you were living in the UK
- you may not have to pay UK tax on your extra State Pension or lump-sum payment if you live in a country that has a double taxation agreement (see below) with the UK, and
- you will need to contact the tax authority in the country you live in to find out if you need to pay that country's tax on your extra State Pension or on a lump-sum payment.

If you have income or savings in one country and are resident in another country, you may have to pay tax in both countries under their tax laws. The UK has negotiated 'double taxation agreements' with a large number of countries for people in this situation so that they do not usually have to pay tax in both countries.

For more about tax if you live outside the UK, or for information about countries with a double taxation agreement with the UK, see: www.gov.uk/tax-right-retire-abroad-return-to-uk

What if I get divorced or my civil partnership legally ends (is dissolved)?

If you get divorced or your civil partnership legally ends, your ex-husband, ex-wife or ex-civil partner may qualify for a share of:

- your additional State Pension (such as SERPS or State Second Pension or extra State Pension), and
- any shared additional pension you qualify for as a result of a previous divorce or civil partnership that has ended.

This is known as **shared additional pension**. Any share you may get will be decided by the courts, based on a valuation of your additional State Pension. The court may issue a pension-sharing order.

If you have put off claiming State Pension, this valuation will include the value of any extra State Pension earned up to the date of the divorce, or the date your civil partnership was legally ended. This will apply even if, when you or your ex-husband, ex-wife or ex-civil partner finally claims the State Pension, you or they choose a lump-sum payment.

If you put off claiming your State Pension, your shared additional pension will be put off for the same period of time. If you put off claiming your shared additional pension and you marry again or form a new civil partnership, your new husband, wife or civil partner cannot inherit the extra State Pension earned on your shared additional pension if you die before them.

What happens when I do claim my State Pension?

If you choose extra State Pension, DWP will pay it from the date when your State Pension claim started.

If you choose a lump-sum payment, you will need to tell DWP what rate of tax to take off the payment and the tax year you want it paid. DWP will write to you about this. DWP will pay your lump sum (after taking off the rate of UK tax you have to pay), and your normal weekly State Pension will continue as before.

Can I choose a combination of extra State Pension and a lump-sum payment?

No. You have to choose one or the other.

Can I change my choice of payment?

If you choose extra State Pension or a lump-sum payment but then you want to change your choice, you can do so as long as you:

- change your choice within three months of making your original choice, and
- repay any amount of extra State Pension or any lump-sum payment you have already got, so that DWP can pay you the correct amount for your new choice.

You can only change your choice once.

What happens if I can't decide?

If you have not told DWP which option you want within three months of being asked to choose, DWP will normally send you a lump-sum payment. DWP will also

assume that you pay UK tax at the basic rate (20% for 2016 - 17) and DWP will take tax off your lump-sum payment at that rate.

But if you make up your mind within another three months, and you want to take extra State Pension instead, DWP will pay this as long as you give DWP back all of the lump-sum payment you received.

If you have decided to take a lump-sum payment, tell DWP straight away because you may lose money if you delay claiming your lump-sum payment.

DWP will sometimes give you longer to decide if there is a good reason for the delay in choosing, for example, if you are ill.

Example – Extra State Pension post 6 April 2005

Ann reached State Pension age in 2011 and decided to put off claiming her State Pension. She starts claiming it from May 2013. On **the date she claims**, her weekly State Pension (before DWP add any extra State Pension) is £120.

Ann has put off claiming for 100 weeks. This means she is entitled to an extra £24 a week on top of her £120. DWP have worked this out as follows.

Ann has put off claiming for more than the five week minimum period, so for every week she put off claiming, DWP pays Ann 1/5th of 1% of the weekly pension she would have been receiving during that time.

This is equivalent to 1% for every five weeks. To work out Ann's extra State Pension for each year she put off claiming, DWP divide this 1% figure by five.

In Ann's case this is:

£120 divided by 500 = £0.24 (500 is used because £120 is divided by 100 to get 1% and then divided by five to get it over the 5 weeks, so 500 is 100x 5)

£0.24 x 100 (the number of weeks Ann put off claiming) = £24.

Ann gets a total State Pension of £144 a week. This is made up of her £120 a week State Pension **plus** her £24 a week extra State Pension.

Example – Lump-sum payment

Note: Example interest rates have been used. The actual rates are not known until the pension is paid. Exact amounts have been used when working out interest, but the final figure will be rounded to the nearest penny.

Tony puts off claiming his State Pension from 4 August 2010 to 1 August 2012. When he claims his State Pension he chooses a lump-sum payment. DWP work out his lump sum by looking at how much State Pension he would have received if he had been claiming it, and then add interest at the rate that applied at the time he would have been claiming it.

In August 2010, Tony would have got £100 a week State Pension if he had claimed it. The yearly interest rate was then 2.5% (2% above the Bank of England base rate of 0.5%). However, DWP add interest weekly not yearly, and this works out at 0.0005% a week.

At the end of the first week Tony would have claimed, DWP take his weekly State Pension of £100 and increase it by 0.0005%. This comes to £100.0005. At the end of the second week, DWP add another £100 to £100.0005 (making £200.0005) and then increase the total amount by 0.0005%. This comes to £200.0014, and so on.

On 6 April 2011, because of the yearly increase in benefits and pensions, Tony's weekly State Pension increases to £102.70. By this date, his lump sum, built up over the previous 35 weeks with interest added, comes to £3,530.08. Because Tony's pension is payable in arrears on a Tuesday, from 12 April 2011 instead of adding £100 State Pension each week, DWP add the new amount of £102.70 for the next 53 weeks.

From April 2012, Tony's weekly State Pension rate goes up to £105.30 because of the yearly increase to benefits and pensions. By 11 April 2012, his lump sum, built up over the previous 88 weeks with interest added, comes to £9,133.54. DWP continue to apply interest at 0.0005%, but DWP add the increased amount of State Pension each week, which is now £105.30.

There are no further changes before Tony claims his State Pension from Wednesday 1 August 2012, two years after he could have started claiming. His lump sum, worked out over a total of 104 weeks, comes to £10,894.81 before tax.

If you reached State Pension age before 6 April 2005 special rules apply

Before 6 April 2005, there were different rules for State Pension deferral. You could only defer for a maximum of five years, you could not choose to get a lump-sum payment, and the extra State Pension was worked out using a different interest rate.

If you have not already claimed your State Pension:

- when you finally do claim it, you can get extra State Pension for the **period before 6 April 2005** (this is worked out using the old rate of about 7.5% for each full year that you put off claiming), and
- for the **period since 6 April 2005** you can get extra State Pension (worked out at the higher rate of 10.4% for each full year), or if you have put off claiming for 12 months in a row you can get a lump-sum payment.

You may have to pay tax on the extra State Pension or lump-sum payment.

If you put off claiming your State Pension for more than five years in the period before 6 April 2005 you will not earn any extra State Pension between the end of that five-year period and 6 April 2005.