Contracting out and why we may have included a Contracted Out Pension Equivalent (COPE) amount when you used the online service

If you don't already have one, you can get a State Pension forecast. This will give you an estimate of your State Pension.

Introduction

For people who reached their State Pension age before 6 April 2016, the State Pension was made up of 2 parts:

- basic State Pension –a flat rate where you got the full amount if you had 30 years of National Insurance (NI) contributions
- additional State Pension (called State Second Pension or S2P, but before 6 April 2002 it was called SERPS) – this paid different amounts depending on earnings as well as what type of NI contributions or credits the person had and what type of contracted-out private pension scheme they paid into

They may have also contributed to the Graduated Retirement Benefit Scheme, an earlier form of earnings related State Pension, between 1961 and 1975.

For people who reach their State Pension age from 6 April 2016 onwards, the new State Pension replaced the basic State Pension and the earnings-related additional State Pension.

If you qualify for the new State Pension, we have used your NI record to 6 April 2016 to work out a Starting Amount for you. This Starting Amount calculation compared the amount of State Pension you would have received under the old State Pension rules with that under the new State Pension rules, based on your NI record as of 6 April 2016. The higher of these amounts is your Starting Amount for the new State Pension system.

Find out more about the new State Pension

What is contracting out?

Under the old State Pension rules, up to 5 April 2016, you were able to 'contract out' of the additional State Pension. This meant that you and your employer could pay less NI contributions into the state system. You could not contract out of the basic State Pension. You could only opt out ('contract out') of the additional State Pension, and you could only pay less NI contributions into the state system if you were part of a private pension – such as a workplace or personal pension scheme – that could build up to replace the State Pension you were opting out of.

Find out more about the additional State Pension.

You are likely to have been contracted out of the additional State Pension if:

- you are or were in a final salary or career-average pension scheme, or
- before 6 April 2012, you were in some other types of pension scheme at work

Some stakeholder and personal pension schemes were also contracted out.

So, although you may not have realised this, when you were contracted out, depending on the type of pension scheme(s) you belonged to during the period(s) you were contracted out, either:

- you and your employer paid NI at a lower rate than the full standard rate, or
- some of the NI contributions you paid were used to contribute to your private pension instead of the additional State Pension

Contracting out finally ended on 6 April 2016, and this means that all employees now pay the same rate of NI. If you have been contracted out in the past, we need to take account of this in the amount of new State Pension you get. Do not forget that when you were contracted out, you were building a workplace or personal pension(s) instead of the additional State Pension you were opted out of.

Did you contract out?

Most people were contracted out at some time during their working life.

Many workplace pension schemes where the pension you get is linked to your earnings (for example – defined benefit, final salary or career-average salary schemes) contracted out all their scheme members as part of their scheme rules. If you were a member of a defined contribution workplace scheme (sometimes called a money purchase scheme) or bought a personal or stakeholder pension from a pension provider, you may also have been contracted out of the additional State Pension.

How does this affect the amount of State Pension you get?

Your Starting Amount for the new State Pension may be lower than that for people with similar circumstances who were not contracted out.

However, you should bear in mind that you may be able to increase your State Pension by adding further NI qualifying years before you reach your State Pension age.

Find out more about how the new State Pension is calculated (https://www.gov.uk/new-state-pension/how-its-calculated)

The following sections explain your Contracted Out Pension Equivalent amount.

The Contracted Out Pension Equivalent (COPE)

The pension you get from your workplace or personal pension scheme for the periods you were contracted out, should include an amount that, in most cases, will be the equivalent of the additional State Pension you would have got if you had not been contracted out. This is your Contracted Out Pension Equivalent (COPE) amount.

An estimate of your COPE will be shown if you use the online Check your State Pension service or if you request a State Pension Statement through the post. The COPE amount is based on your National Insurance contribution record up to 5 April 2016 used to calculate your Starting Amount for the new State Pension. The COPE estimate shown in your statement is based on April 2016 State Pension rates.

If you were a member of 2 or more contracted out schemes, the COPE amount shown is based on all your schemes and covers all the years you were contracted out.

We will not know the exact amount your scheme will pay you as a result of contracting-out as it will depend on the actual rules of your private scheme, and possibly any investment choices you may make.

Will my pension scheme(s) pay the COPE amount separately?

In most instances your workplace or personal pension(s) will include an amount that is equivalent to the estimated COPE amount shown in your statement. This is not normally identified specifically but is paid by your pension scheme(s) as part of your total private pension.

The date when you get your workplace or personal pension, and the full amount you receive, will depend on the rules of your scheme(s) and possibly any investment choices you make.

If you are unsure when you will be paid your workplace or personal pension, please contact your scheme to find out. If you are unsure of their contact details, you can use the Pension Tracing Service.

[Find pension contact details](#)

Will I always get an amount equivalent to the COPE amount from my workplace/personal pension?

That depends on your scheme.

(a) If you were part of an earnings-based private pension scheme

Schemes that pay an amount of pension based on your earnings (often called defined benefit, final salary or career-average salary schemes) are required to provide benefits to replace the State Pension you were opted out of, in return for allowing members and employers to pay lower NI. The private pension you built up during the years 1978 to 1997 as a result of being contracted out is called your Guaranteed Minimum Pension (GMP). If you are no longer contributing to this earnings-based private pension scheme, your scheme is required to revalue your GMP each year either by a fixed rate or by the rate of increase in average national earnings. If your scheme uses a fixed rate, your GMP amount should be higher than the additional State Pension you otherwise may have got.

In some cases, it is possible that your schemes may not pay you an amount equivalent to the COPE if:

- your scheme got into financial trouble and wound up underfunded
- your rights were transferred to a scheme that was not linked to your earnings and investments in that scheme did not perform well

You should know if this applies to you, but if you are in doubt and think you may be affected you can contact your scheme.

(b) If you were a member of a defined contribution, personal or stakeholder pension scheme

These types of scheme pay you according to the investment returns on the contributions you (and where appropriate your employer) have paid in.

This means that the actual pension amount you get will depend on the performance of your investments (for example, where your pension pot is invested, the fees you are charged and how much these investments increase), and the choices you make when you decide how to take your fund.

For instance, under the pension flexibility reform that was introduced in April 2015, you may take some or all of your pension pot as a cash payment. The amount you take will affect your private pension income amount – and if you decide to take all your pension pot as a cash payment, you may not get any private pension income.

If you use your private pension investment to buy an annuity that provides a regular pension income, the type of annuity you buy will also determine your private pension income.

More information

You can find out more information about:

- your pension options from MoneyHelper's service 'Pension Wise'
- types of private pensions

If you are divorced or your civil partnership is dissolved

If as a result of you being divorced or your civil partnership being dissolved, the courts have awarded a share of your private pension to your former partner, your workplace or personal pension income may be lower.

To find out more you can check:

- workplace pensions
- MoneyHelper's service 'Pension Wise'