

End of contracting out from April 2016

This guide is to support you in understanding the changes that are happening due to the end of contracting out. It provides more details about:

- What contracting out means
- Why contracting out is ending
- How this will affect you
- What State Pension you will be entitled to

What contracting out means

Defined benefits schemes, such as the Railways Pension Scheme (RPS) and British Transport Police Force Superannuation Fund (BTPFSF), have been able to contract-out of the additional State Pension, which you may also know as the State Second Pension or SERPs.

If the scheme you were contributing to was 'contracted out', you and your employer paid a reduced rate of National Insurance contributions. However, because you paid less National Insurance, you wouldn't build up any additional State Pension on top of your basic State Pension.

Why contracting out is ending

The government wants to make the State Pension system simpler – by replacing the basic State Pension and the additional State Pension with a new single-tier State Pension for everyone who reaches State Pension age from 6 April 2016.

As the additional State Pension will no longer exist, schemes can no longer contract out of it.

How this will affect you

From 6 April 2016, you and your employer will have to pay the full National Insurance contribution. If you have been contracted out this will mean an increase of 1.4% for you and 3.4% for your employer on your taxable earnings between £112 per week and £770 per week.

Your Scheme/Fund benefits may also be affected as your employer can decide to make changes to future benefits to take into account the increase in the National Insurance contributions.

The law says that employers can make some limited changes to their workplace pension schemes, without members' agreement. This is to help them with the increased National Insurance costs after contracting-out stops.

Employers may also make other changes to help members cope with the rises in their National Insurance contributions and keep membership affordable, but to do this they must consult with members on any changes they propose.

The only exception will be if you are a 'Protected' member as your benefits can't be changed without your permission. Protected members and those with what's known as 'indefeasible rights' were members when British Rail was privatised. You can learn more about this on the RPS website at www.railwayspensions.co.uk.

Your employer will let you know if there will be any changes to your Section/Fund and if there is, what they will be and any options you may have.

What State Pension you will be entitled to

If you reach State Pension age before 6 April 2016, there will be no change to the benefits that you receive from the government.

However, if you reach State Pension age from 6 April 2016, you will fall under the new regulations.

The starting level of the new single tier State Pension for 2016/17 was £155.65 per week. To qualify for the full amount you need 35 years of full 'qualifying' National Insurance contributions. If you have less than this, you may still receive a State Pension but the amount you will receive will be reduced according to how many years you have accrued. You must have at least 10 'qualifying' years of National Insurance contributions to be entitled to receive any of the new single tier State Pension.

Members of the RPS and BTPFSF were previously contracted out of the additional State Pension and this means your State Pension may be lower than the full amount as the government takes into account any years that you were contracted out and were paying a reduced National Insurance contribution.

A 'starting amount' of State Pension will be calculated using the National Insurance record you had built up to 6 April 2016. This will be compared to what you would have received under the old system. The higher of the two values will be your 'starting amount'.

If you continue to work after 6 April 2016, you will be able to increase your pension up to the full entitlement. You will get £4.45 per week ($£155.65 \div 35$) towards your State Pension for each additional qualifying year you work.

You can see how much State Pension you may get and calculate your new State Pension age at www.gov.uk/check-state-pension

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