FT Financial Literacy and Inclusion Campaign

Opinion **Serious Money**

This could be the best £800 investment you'll ever make

National insurance top-ups can provide an oversized boost to your state pension

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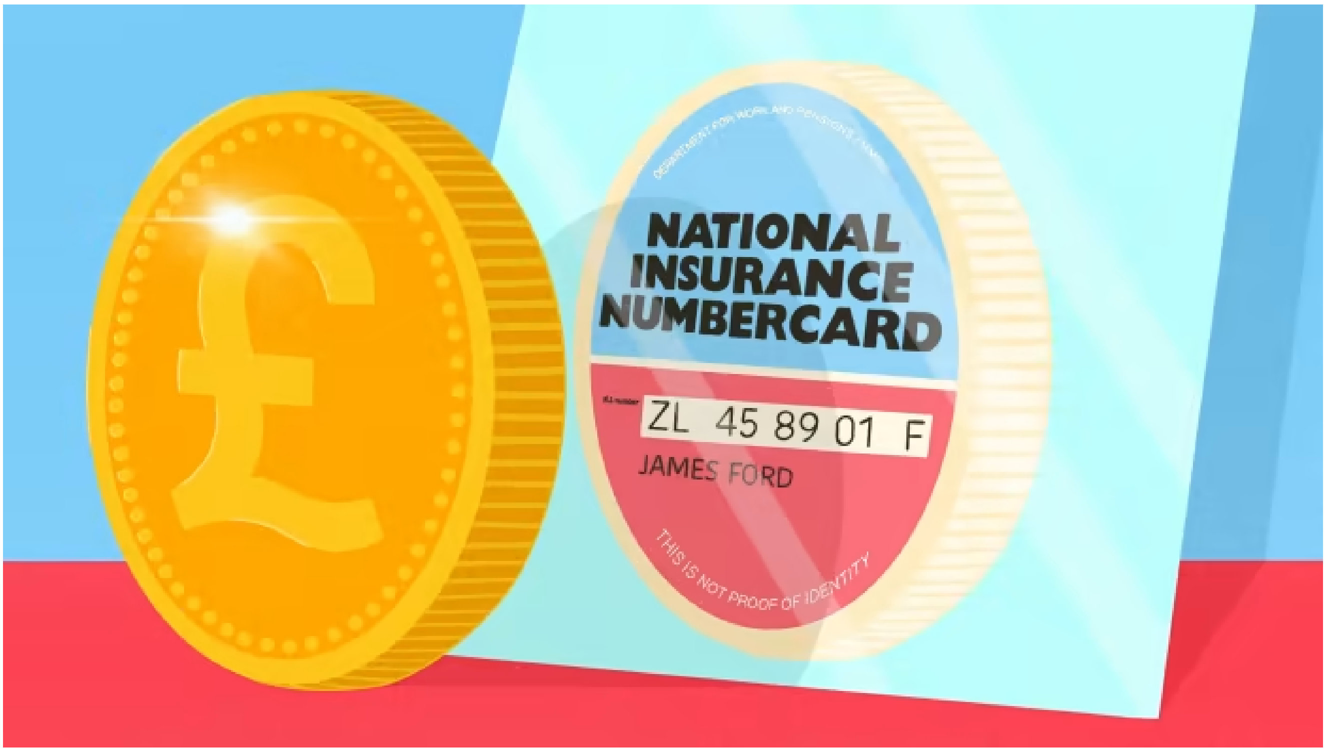

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This article is the latest part of the FT's Financial Literacy and Inclusion Campaign

It could be the best return on £800 you'll ever make — and the good news is you have until April 2025 to get it sorted.

I'm talking about making voluntary contributions to fill gaps in your national insurance record to ensure you receive the maximum amount of the new state pension when you retire.

If you have gaps dating back to 2006, it currently costs around £800 to top up a missing year. At current rates, this would add more than £300 each and every year, before tax, to your state pension — so three years to break even — or £6,000 over the course of a typical 20-year retirement.

Spend £4,000 filling five missing years, and this could generate £30,000. Yet because the state pension rises in line with inflation, the true amounts could be even higher than this.

Hold on all you people at the back there fretting that the state pension will be abolished before you retire! I will address this, and other caveats.

Let's imagine for a minute that the state pension didn't exist. If a person in good health wanted to buy an index-linked annual income equivalent to the full state pension of £10,600 at the age of 66, it would cost them over £230,000, according to the MoneyHelper annuity calculator.

Paying to fill gaps in your record could offer extraordinary value. However, there's a danger this could be the best investment some people will *never* make.

Only half of 4,000 people surveyed by Royal London knew that they needed 35 years of national insurance contributions to get the full amount of the new state pension. Proportionally, more women were in the dark about this than men. And although awareness increased with age, three in 10 respondents aged over 50 were surprised to learn this was the case.

And 71 per cent of those surveyed had never checked their national insurance record to see if they were on track or had any gaps — even though you can do this using the free Check State Pension service on Gov.uk.

I find this level of ignorance worrying. However, I'm sure that the numbers would have been even lower if the survey had been conducted *before* Money Saving Expert founder Martin Lewis started his commendable public awareness campaign.

"People are really waking up to the importance of understanding what they're going to get and when they're going to get it — and if they're not going to get the full amount, trying to do something about it," says Sarah Pennells, consumer finance specialist at Royal London.

If your NI record shows a gap, you need to phone the Future Pensions Centre to ensure that paying to fill it will actually boost your state pension in retirement (it doesn't always).

The phone line meltdown caused by people rushing to fill gaps between 2006-16 before they lost the chance forever has resulted in the deadline being extended until April 2025. After this, it will still be possible to fill gaps within the past six tax years.

Nevertheless, people still have a lot of questions about the process, and we've addressed common queries on my Money Clinic podcast this week.

Click here to listen

Podcast: Should you top up your National Insurance?

Claer Barrett and former pensions minister Sir Steve Webb answer readers' questions about topping up your state pension

If you have ever worked overseas, been self-employed, worked part-time or taken a career break you will be more likely to have gaps — but not everyone needs to rush to fill these. The nearer you are to state pension age, the more pressing the concern becomes.

Former public servants and members of large, occupational schemes who were "contracted out" of making state pension contributions often have the most to gain from buying extra years — especially if they've taken early retirement — but must speak to the helpline to find out.

Revealingly, the people who ask me the most questions about NI top-ups are the under-40s. Even if they do have the odd gap, most are young enough to end up with 35 years' worth of contributions over their working life.

Nevertheless, it's still worth checking your NI record for accuracy. If you do want to challenge a missing year, it will be much easier to do so now than if you allow several years to elapse (you're more likely to have the relevant paperwork needed to prove it).

More recently, there has been good news for stay-at-home parents who missed out on state pension credits because they opted out of receiving child benefit.

The government and HM Revenue & Customs have committed to finding a solution to top up any missing years resulting from this. Although we have yet to find out precisely how, the details are expected before the April 2025 deadline. Plus, any parent who has already paid to top up these years will be entitled to get their money back.

Even if they had the money to do so, topping up is less likely to benefit those on very low incomes who may find that getting more state pension will simply reduce the level of pension credit they would otherwise be entitled to.

More complicated decisions await those who have worked in the UK, but are now living (or intend to retire) overseas.

As long as you have notched up 10 or more qualifying years, you will be entitled to some level of UK state pension in the future wherever you are in the world.

However, you won't get the annual inflationary uplift unless your country of residence has a social security agreement with the UK. The US and most European countries do, but an estimated half a million expats living elsewhere suffer from frozen pensions. Still want to top up? You will need to speak to the International Pensions Centre.

> **The closer you are to state pension age today, the higher your chances of getting the maximum return on an £800 investment**
>
> **Claer Barrett**

This leaves us with the thorny question of what will happen to the state pension in the future. "Will it even exist by the time I retire?" was how one of our 45-year-old listeners put it.

I think it will in some form — as did our special podcast guest, former pensions minister Sir Steve Webb — but the younger you are, the more likely it is that future rule changes will alter your entitlement and increase the age you'll have to reach before you receive it.

"Even if there was some plan to means-test or phase out the state pension, it would have to be done over a very long period, and there would have to be transitional protection [to ensure] what you'd already paid in was honoured," is Sir Steve's view.

The closer you are to state pension age today, the higher your chances of getting the maximum return on an £800 investment. As more people wake up to the full facts about the state pension, it's a chance I think more and more people will be willing to take.

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