One for British Expats

Time is Running Out to Increase your State Pension

Every year, retiring British expats realise they will have much less UK state pension income than they expected.

It is very easy, in the excitement of a first overseas job, to forget all about the UK's National Insurance Contributions (NIC) and the impact any shortfall could have on what one assumes is a right to a state pension income in retirement.

However, the reality is that after decades of hard work overseas, people reach retirement age and realise that insufficient National Insurance contributions mean they receive much less than expected.

The good news is that once identified, up to 6 years of the shortfall can be caught up, and for the next couple of months there is a rare window to pay missed contributions going all the way back to 2006.

This deadline was originally until 5th April 2023, but has been extended to 31st July. It seems unlikely a further extension will be offered, and options to 'catch up' on missed years will revert to 'the last 6 years only'.

Sacrificing a bit of time to sort out this admin could add significantly to your retirement income.

What is my state pension likely to pay me?

The first step is to check your state pension forecast. You can do this by visiting the government website at: https://www.gov.uk/check-state-pension

For Brits and foreign passport-holders who have worked in the UK, a 10 year NIC record is required to qualify for any state pension. You now need a 35-year track record to qualify for the full amount of state pension, which for many people will exceed £10,000 per year.

This 35 year payment record was increased from 30 years back in April 2016.

You can check your National Insurance record here: https://www.gov.uk/check-national-insurance-record.

In order to do so, you will need a Government Gateway user ID and password. This can be set up starting here.

You can also request a printed National Insurance statement online, by post if you live abroad or by phone. Calling from overseas, +44 191 218 3600 between 8am and 5pm UK time will get the process started, bearing in mind the July 31st deadline.

You may have gaps if you lived abroad, were unemployed or self-employed. If you think there are gaps in your record, you must check if paying voluntary contributions is the right route for you, as in some cases they do not always boost the state pension and you could be wasting money.

If you think this could be a risk, check with the Government's Future Pension Centre on +44 191 218 3600 well in advance of the deadline on July 31. The deadline was extended from April 5th because of a backlog on their helpline.

The Centre also offers an online form that you can fill out to make an enquiry, although you cannot request a state pension forecast through this.

What will it cost, and what could I get?

The deadline for NI catch-up payments for the tax years from 2006-07 to 2015-16 is July 31 2023.

A six-year deadline usually applies to fill missed contributions, but a change to the state pension in 2016 has created a one-off longer concession.

The standard cost to make up a year of missing NI contributions is £824.20, although the self-employed pay just £163.80.

The full flat-rate state pension is currently £185.15 a week. Someone who has made 25 years of NI contributions rather than the 35 years needed for a full state pension would get £132.25 a week.

Topping up all the gaps from 2006-07 to 2015-16 would give an extra £52.90 a week or £2,750 a year, or around £55,000 extra in total, over an assumed 20-year retirement.

Sir Steve Webb, former pensions minister and now partner at the consultancy LCP, said: “It may seem like a hassle but is worth it. You will kick yourself on 1st August if you have missed a chance to boost your retirement income substantially and relatively cheaply”.

“The key thing about voluntary NI contributions is that they are subsidised by the Government. It is a profitable transaction because the Government is selling it to you below cost.”

Sir Steve added that it was unwise to leave any contributions for 2006-07 to 2015-16 to deadline day on July 31.

"Many people are finding it long or difficult to get through to helplines at the minute," he said. "Don't leave it to the last minute as after the legal deadline there is no plan B."

Should everyone pay voluntary National Insurance contributions?

While there is a window of opportunity to boost your NI record, it will not make sense for everyone to pay extra contributions.

For people who do not plan on retiring in the near future, the pay-off may be limited. If you have many more years ahead in the UK workforce, then you cannot get the money back if you overpay and you will likely make up the contributions through work anyway, should you return to the UK as an employee for the majority of your career.

If you are in ill health, then you may not be drawing on the state pension for very long and spending your cash now may not work to your advantage.

However, for many in their 40's or older, and intent on a long-term expat career, catching up makes sense, and can add thousands to your future retirement income.