

Update number 2015/840 – updated April 2017

Class 3 Voluntary National Insurance

This briefing can be read in conjunction with Prospect's Briefing "The New State Pension" (Briefing Number 2015/783) which describes the State Pension and National Insurance systems.

Background

State Pensions are based on an individual's National Insurance record. Different State Pensions apply to people who reach State Pension age (SPa) on or after 6 April 2016 to those who reach SPa before this date.

The new Single Tier State Pension applies to men born on or after 6 April 1951 and women born on or after 6 April 1953. To qualify for any Single Tier state pension, you will need to have at least 10 years of National Insurance contributions and/or credits. To maximise entitlement under the Single Tier Pension you need at least 35 years of National Insurance contributions and/or credits.

For anyone who built up National Insurance prior to April 2016, but who is getting a new State Pension, transitional arrangements apply. Each individual will have a Starting Amount which will act as a baseline which can be built upon through National Insurance paid after April 2016. More information on these transitional arrangements can be read in the Briefing referred to above.

The old State Pension system is applicable to men born before 6 April 1951 and women born before 6 April 1953. To qualify for a full Basic State Pension you need at least 30 years of National Insurance (NI) contributions and/or credits. If you reached SPa before 6 April 2010 you needed 44 years (men) or 39 years (women) of NI to get a full Basic State Pension.

Checking your Record for a Shortfall

Your National Insurance record build ups over periods in which you are in work (and paying NI contributions), actively seeking work, in receipt of illness/disability benefit, child benefit or carer's allowances.

However it is possible that a shortfall could occur meaning that you do not have the National Insurance record required to get the maximum state pension.

You can check your record by calling HMRC on 0300 200 3500, or by visiting <https://www.gov.uk/check-national-insurance-record>

If a shortfall does exist, and you don't think you can make this up before your State Pension age, you can pay voluntary National Insurance contributions in order to maximise your state pension. Voluntary National Insurance contributions can be paid either as a Class 3.

Note that for men born before 5 December 1953 who are not working, National Insurance contributions should be credited on your behalf from the date on which you would have reached State Pension age if you were a woman. So there would be no need to pay voluntary contributions to cover the period between an equivalent woman's State Pension age and your own.

Class 3 contributions

Class 3 allows you to make up any gaps in your record for specific years. It does not allow you to effectively "top-up" any year in which you only paid married women's reduced rate of NI. Historically the government has only allowed you to cover any gaps that have occurred in the last six tax years. So for example, if you have not paid NI for the tax year 2011/12 (or received any credits), you would have until 5 April 2018 to pay a voluntary contribution to make up this shortfall.

An enhancement to the Class 3 regime has been applied for people reaching State Pension age between 6 April 2008 and 5 April 2015 (that is men born between 6 April 1943 and 5 April 1950, and women born between 6 April 1948 and 5 October 1952). Anyone in this group has the facility to buy **Additional Class 3 contributions** so long as they already have already built up 20 existing qualifying years of NI. Additional contributions allow you to pay for up to six extra tax years from 1975/76 onwards. This means that in total anyone in this group could pay for up to 12 years of Class 3 contributions. The deadline for paying Additional Class 3 contributions is six years after the date on which you reach State Pension age.

A further enhancement to the regime has been introduced by extending the deadline for people reaching State Pension age from 6 April 2016. For this group, and in respect of tax years from 2006/07 to 2015/16 the deadline for paying Class 3 contributions will be extended to 5 April 2023 (rather than six years after the tax year in question).

How much you pay for Class 3 Contributions

Government keeps the cost of Class 3 contributions under review and it will change from tax year to tax year. For the current (2017/18) tax year the cost of a Class 3 contribution is £14.25 for each week, or £741.00 as a payment to cover one extra qualifying year. Lower rates can apply in respect of previous tax years, depending on when you pay for these.

If you have requested a statement of your NI record and HMRC have identified any gaps which can be made up through voluntary Class 3 contributions, they will write to confirm how much you can pay.

Payments can be made by direct debit, cheque, online banking, at the Post Office or your bank/building society.

Example

Jen is approaching SPa and is forecast to receive a new State Pension of £150pw. To increase her new State Pension and increase it from £150pw to £154.56pw, she pays £741.00 for one extra year. If she lives four years or more in retirement, the extra state pension received will exceed the Class 3 payment she has made.