

## Contracting Out Catching Up...

If you've noticed that money's been deducted from your State Pension, then it could be because of contracting out. Most people who had either a workplace pension or a personal pension from 1978 to 2012 have been affected, according to Gov.UK. And because the scheme was fully abolished in 2016, anyone who held either a personal pension or workplace pension before then may have been contracted out – with or without their knowledge. Millions were affected then, and millions are still being affected now.

### What was contracting out?

Being contracted out of your additional State Pension meant that both you and your employer could pay lower National Insurance contributions, resulting in – it was hoped – short-term benefits and long-term gain.

The scheme was established in 1978 for Defined Benefit (DB) pensions, and 1988 for Defined Contribution (DC) ones. It was a way to, quite literally, 'opt out' of the additional State Pension (also known as the State Second Pension or SERPs).

Why would I do that, we hear you ask? Well, some people might have felt that their workplace pension scheme or personal pension could eventually replace (and perhaps even outgrow) what they'd have received from the additional State Pension. Some, however, may have been automatically enrolled in their workplace pension, which just happened to be a part of the contracting out scheme. That explains why so many are only now finding out why money is being deducted from their retirement. Contracting out was abolished on 6<sup>th</sup> April 2016, to tie in with the introduction of the new State Pension.

It was a slightly different deal for people who had a personal pension because they received a rebate on National Insurance contributions which was then invested into their personal pension fund instead of the State Pension.

And as always, the complicated jargon associated with a State Pension and the State Pension reforms doesn't help.

### So, was I contracted out?

That complicated jargon we mentioned? Brace yourself. This is where all that comes in. You might notice that you see things like COPE, COD, or GMP – amongst others when it comes to your State Pension. These typically indicate a pension deduction because of contracting out and/or a lack of qualifying National Insurance contributions. So, scrutinise your payslip. Look for those codes. You never know, you might notice something important.

A Contracted Out Pension Equivalent (COPE) is the most concrete way of checking whether you were contracted out in the past. For more information about COPE and whether it could have affected – and still affect – your State Pension entitlement, [check out this Government guide all about contracting out.](#)

Alternatively, you can always contact your previous pension service provider, or former employer, to determine any dalliances you've had with contracting out in the past.

### **Am I likely to have been contracted out?**

If you were in full-time employment between 1978 and 2012, then it's likely that you were contracted out. In fact, Gov.UK suggests that [“most people were contracted out at some point during their working life”](#).<sup>1</sup>

The government also say that public sector workers were more likely to have been contracted out than those in the private sector. So, if you were employed in a public sector role before 2016, it's likely that you were contracted out – even if this is the first time you're hearing about it.

These roles include:

- The NHS
- Local councils
- Fire services
- The civil service
- Teachers
- Police forces
- The armed forces

### **So how can I catch up on contracting out?**

It's possible to catch up on missed National Insurance qualifying years. If you're a woman born on or after the 6<sup>th</sup> April 1953, or a man born on or after the 6<sup>th</sup> April 1951, you're eligible for the new State Pension. At its maximum, this is worth £221.20 per week, but to receive that amount you'll need at least 35 years of qualifying contributions.

So if you were contracted out before 2016, but you've been making National Insurance contributions since then, you might be able to slowly 'burn off' your contracted out history, and qualify for the full new State Pension.

You might have even already done this.

Let's say you'd worked for 30 years before 2016, when contracting out was completely abolished. Depending on whether you'd been contracted out during that time – and for how long – you might have built up a number of 'qualifying years' of National Insurance contributions. Therefore, if you've been in work *since* 2016, you could have built up more full qualifying years, bringing your total up and maybe even over the 35 needed to maximise the new State Pension.

Effectively, you might have made up for those lost qualifying years already.

You can check how many qualifying years you've accumulated by reviewing [your State Pension forecast](#). It's even possible to make additional payments to ensure you'll receive the full amount of State Pension.

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<sup>1</sup> [Contracting out and why we may have included a Contracted Out Pension Equivalent \(COPE\) amount when you used the online service - GOV.UK \(www.gov.uk\)](#)

Remember that it might be a good idea to track down your old pension provider or ask a former employer whether you were contracted out. If you can't remember your ex-providers, you might be able to find their name or an account number on the old paperwork stashed in a shoebox under the stairs. You know what we're talking about...

You can also use the [Pension Tracing Service](#) to find any forgotten pots if that old shoebox has gone walkabouts or disintegrated.

Whilst it does not affect your current workplace pension, a history of contracting out might leave you reconsidering some of your current investments or contribution amounts. That's a natural reaction, but remember that investing is a long-term gig and the value of them might fall and rise over time. You could even receive less than what you put in in the first. So, if you're considering re-focusing your future finances to make up for contracting out, make sure that it's right for you in the long run and not a kneejerk reaction.

For more on contracting out, check out the [Gov.UK website](#), which has a wealth of in-depth information about contracting out.

Gov.UK also has a contracting out factsheet for all the technical details. You can find that [here](#).