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Buy back pension years before costs rise

Philip Scott, This is Money
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Individuals planning to buy back a few years of state pension need to get their skates on because from April 2009 the Government will be hiking the cost by almost 50%.

People buy back missed years in order to get more income from the basic state pension; the typical example being women who have broken career histories as a result of having children.

Presently, those with an incomplete National Insurance record can purchase a missed year for £421 but from next April it will soar to £627.

While experts say the deal will still be worthwhile to bolster income in retirement, the offer is far better for those who take advantage now.

Peter Chadborn of CBK Colchester, an [independent financial adviser](#), says: 'What recent times have shown us is that certainty of income in retirement is highly valuable.'

'In light of this, buying back state pension years, especially now, as opposed to after next April makes a lot of sense.'

But not everyone stands to receive this increase, such as those individuals who are entitled to means-tested pension credit.

A full basic state pension is worth £4,716 a year. For those who do stand to benefit from buying back an extra year then the rewards are pretty good, but they do depend on when you reach state pension age because of changes that are being made to the state pension.

If you retire before April 2010, then buying a year gets you an extra £107 a year for life if you are a man and £120 if you are a woman. The difference comes from the fact that men need 44 years of NI contributions for a full basic state pension, women only need 39.

From 2010, you will only need 30 years of NI contributions for a full basic state pension and the benefits will be exactly the same for men and women, namely an extra £157 a year.

In terms of how much better off you could be, think of it this way; if you are 12 years short of the full term and are due to reach state pension age in 2009 you could pay £5,052.

For a woman this would mean an extra annual income of £1,444 or £1,286 for men. In terms of average life expectancy and it adds up to an overall gain of £35,386 for women and £21,962 for men.

But remember there are reasons not to buy back years – for example, you are a number of years from retirement and will probably achieve a full entitlement by the time you reach state pension age and as you will only need 30 years of National Insurance contributions to qualify for a full Basic State Pension, you could be less likely to need extra years.

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In addition, remember that it may not be worth your while buying extra years if you stand to get means tested pension credit when you retire or if even after you bought the years you still will not have the minimum required to qualify for any state pension. Of course you could put money away now and the interest earned on it may offset the increased cost of buying a year in the future.

Women should also bear in mind that up to a point they get credited with NI contributions in years when they are claiming child benefit and can build up an entitlement that way.

Chadborn adds: 'Buying back years will not be suitable for everyone, especially for those who could fall into the means-testing trap as they may see no or little benefit.'

Laith Khalaf, of Hargreaves Lansdown, another adviser, agrees, adding: 'This is a fantastically good deal at the moment if you qualify for it. It will still be very attractive after the changes come in, but if you are thinking about buying back years of state pension then for most people it makes sense to do so before April.'

A state pension forecast can be obtained at thepensionsservice.gov.uk or by calling 0845 3000 168. People who are buying back tax year 2007/8 have until April 2010 to do so at the lower rate, similarly people buying back tax year 2008/09 have until April 2011.

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