Should you defer your state pension?

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IFA Peter Chadborn weighs up the pros and cons for an older Moneywise reader debating whether to defer a pension.

Q: My husband is due his state pension in a few weeks' time. However, he still works on a self-employed basis and won't need to touch his pension for two years. What is the best way forward?

A: Peter Chadborn is a director and co-founder of Plan Money.

If your husband doesn't need the money he should consider deferring his state pension for two years until he stops working. By doing so he'll increase the amount he'll get later on.

One option is to claim an extra 1% for every five weeks deferred. Over a two-year period, this would equate to an additional 20.8% a month. This increased amount will normally be increased annually in line with his original pension entitlement.

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Alternatively, as long as he has deferred claiming for at least 12 months, he can claim a taxable lump sum. This will equal the amount of pension he'd have received, plus interest equivalent to 2% above the Bank of England ***base rate***.

The disadvantage of deferring is that if your husband dies, his state pension ceases, so the deferred income will have effectively been lost. However, depending on certain circumstances, you may be able to claim a proportion of the additional pension.

Of course, the disadvantage of taking his state pension now is that he'll be receiving income which is not required, which will be subject to income tax.