Case Study

Title: Deferring State Pension

Source: Moneywise http://www.moneywise.co.uk/

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My husband is due his pension in a few weeks' time. He is still working self-employed, and he will not need to touch his pension for two years. He currently has a stocks ISA and will receive about £700 a month, what is the best way forward? (The money is from his state pension).

It would be worth your husband considering deferring his state pension for two years until he needs it. In doing so he has two options. Your husband can claim an extra 1% for every five weeks deferred. Over a two year period this would equate to an additional 20.8% per month. This increased amount will normally be increased annually in line with his original pension entitlement.

Alternatively, as long as your husband has deferred claiming for at least twelve months he can claim a taxable lump sum. The lump sum will equal the amount of pension he would 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 will be receiving income which is not required, which will be subject to income tax.

http://www.direct.gov.uk/en/pensionsandretirementplanning/statepension/statepensiondeferral/dg_10027570

http://www.pensionsadvisoryservice.org.uk/state-pensions/deferring

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