BANK OF AMERICA

The new State Pension and the end of contracting-out

Bank of America UK Pension Plan (the Plan)

Important information

On 2 June 2021, the Plan administrator will change. This will affect some of the information included in this document and an updated version will be made available in June. Please read the information on the Plan information website to ensure you understand how you may be affected by temporary interruption to Plan services as we prepare for the transition to the new Plan administrator.

In April 2016 the Government introduced a new single-tier State Pension. This replaced the pensions provided by the State under the previous system.

The State Pension for the 2021/22 tax year is £179.60 a week (£9,339 a year) for a single person who has a minimum of 35 years of full National Insurance contributions.

People who have been paying National Insurance contributions and building up State Pension before 6 April 2016 may receive a different amount depending on whether or not they built up an 'Additional State Pension' called the State Second Pension (S2P) or previously the State Earnings Related Pension Scheme (SERPS), prior to April 2016.

How the old system worked

Before April 2016, whilst you were paying National Insurance contributions you would have built up the Basic State Pension and possibly an Additional State Pension. Both the Basic and Additional State Pensions are paid from State Pension Age.

The maximum Basic State Pension you could currently be paid is £137.60 a week (£7,155 a year).

In order to receive this maximum you would need to have paid National Insurance contributions for 30 years.

You can calculate both your State Pension Age and expected Basic State Pension at www.gov.uk/calculate-state-pension.

In order to use this calculator, you need to know how many years of full National Insurance contributions you have. You can ask for a copy of your National Insurance contribution record through completing this form.

Whether you are eligible for any Additional State Pension depends on your National Insurance contribution history as well as whether you were 'contracted-out' of the Additional State Pension (see below) for any period. How much you get depends on your earnings, period of any 'contracting-out' and whether you have claimed certain benefits. There is no standard maximum amount like the Basic State Pension.

Sponsors of occupational pension schemes (schemes provided by employers to their employees) could 'contract-out' of the Additional State Pension. This means that whilst building up benefits in a company scheme, a member would not be building up any Additional State Pension. Both employer and members paid lower National Insurance contributions during the period of 'contracting-out'. The employer was required to provide a minimum level of benefit to members in place of the Additional State Pension. You will therefore need to understand whether any schemes provided by your employers were 'contracted-out' (and if so, during what period) in order to understand whether you are eligible for any Additional State Pension.

History of the Plan's contracting-out	Date	
	Up to 5 April 2012	After 5 April 2012
Contracted-out status	Contracted-out	Contracted-in

For the period that the Plan was contracted-out you would have:

- Not built up Additional State Pension.
- Paid lower National Insurance contributions on earnings between certain limits. For example, if you were a member of the Plan during the tax year 2011/2012, you would have been contracted-out and therefore paid National Insurance contributions of 10.4% instead of 12% on earnings between £139.00 and £770.00 a week.
- The Plan is required to provide a minimum level of benefit (known as Guaranteed Minimum Pension for accrual before 6 April 1997 and Protected Rights for accrual between 6 April 1997 and 5 April 2012).

For the period that the Plan was contracted-in you would have:

- Built up Additional State Pension.
- Paid National Insurance contributions at the standard level.

How the current system works

When you reach State Pension Age you will receive:

1. A proportion of the new State Pension, plus
2. A 'Foundation Amount'.

The Foundation Amount depends on any period of contracted-out membership you had in occupational pension schemes and is the higher of:

- Any State Pension built up at 6 April 2016 under the old system, and
- A proportion of the new State Pension less an 'amount to reflect contracting-out under the old system' (for those who have had contracting-out service).

The maximum amount payable will be the full new State Pension amount based on 35 years of National Insurance contributions. A minimum of ten years' National Insurance contributions (or credits) will be required for you to receive a State Pension.

What proportion of the new State Pension will I receive?

Full new State Pension for the 2021/22 tax year is £9,339 a year. In order to receive the full new State Pension, you will have to have paid National Insurance contributions over 35 years (or received credits).

The proportion of the new State Pension that you will receive for post 6 April 2016 National Insurance contributions is calculated as:

The years you pay National Insurance contributions from 6 April 2016 to State Pension Age divided by 35, times the starting level of the full new State Pension.

What will my Foundation Amount be?

Your Foundation Amount will be the greater of:

a) Your Additional State Pension entitlement at 6 April 2016, and

b) The number of years you paid National Insurance contributions to 6 April 2016 divided by 35, times the starting level of the full new State Pension less an 'amount to reflect contracting-out under the old system' (for those who have had contracted-out service).

The calculation of the 'amount to reflect contracting-out under the old system' is very complex and you can request a statement from the Government which shows the amount you will get here.

How can I increase my State Pension entitlement?

You can pay voluntary National Insurance contributions to fill gaps in your National Insurance record. Gaps can mean you won't have enough years of National Insurance contributions to get the full State Pension. Check your National Insurance contribution record to find out if you have gaps. You can ask for a copy of your National Insurance contribution record through completing this form.

Your record will tell you if you can pay voluntary contributions to fill gaps and how much it will cost you.

What do I need to do?

1. Review the example on the next page.
2. Check your National Insurance contribution history by completing this form.
3. If you are aged 55 or over, go online to request a statement from the Government showing your State Pension entitlement here.
4. Consider paying additional contributions to fill any gaps in the National Insurance contribution history to 'top up' your State Pension benefits.

Example

Sarah joined the Plan on 6 April 1995 in her first job, so she has no National Insurance contributions (NICs) before this date. Sarah reaches State Pension Age in 2030 and will pay NICs until State Pension Age.

Under the old system Sarah would have a Basic State Pension of £7,155.20 a year (£137.60 a week). Plus, she has a State Pension statement from the Government showing that she has Additional State Pension of £240 a year at 6 April 2016 (for contracted-in service from 6 April 2012 to 6 April 2016).

Her total State Pension under the old system would be £7,395.20 a year.

Under the current system, Sarah will build up the new State Pension from 2016 to her State Pension Age, plus she would have the Foundation Amount up to 2016.

The different elements used to calculate her State Pension are as follows:

A	Years paid NICs	1995 to 2030 =	35
B	Years paid NICs before 6 April 2016	1995 to 2016 =	21
C	Years paid NICs after 6 April 2016	2016 to 2030 =	14
D	Years of NICs needed for full Basic State Pension		30
E	Years of NICs needed for full new State Pension		35
F	Basic State Pension as at 6 April 2016 (used for Foundation Amount calculation)		£5,881 a year
G	NEW State Pension as at 6 April 2016 (used for Foundation Amount calculation)		£7,717 a year
H	NEW State Pension (2021/22) for accrual post 2016		£9,339 a year
I	Additional State Pension Sarah built up at 6 April 2016 (from her State Pension statement) (used for Foundation Amount calculation)		£240 a year
J	Adjustment for contracted-out period*		£4,182 a year

*This amount is very complex to calculate. You should request a State Pension statement from the Government to understand your entitlement under the new system.

Proportion of the new State Pension based on Sarah's NICs after 6 April 2016 is worked out as:

C ÷ E × H = New State Pension

14 ÷ 35 × £9,339 = £3,735.60 a year

Sarah's Foundation Amount will be the greater of 1 or 2

1. Old State Pension at 6 April 2016

B ÷ D × F + I =

21 ÷ 30 × £5,881 + £240 = £4,357 a year

OR

2. New State Pension earned for 6 April 2016 less adjustment for contracting-out

B ÷ E × G − J =

21 ÷ 35 × £7,717 − £4,182 = £448 a year

Sarah receives

Sarah's Foundation Amount is therefore £4,357 a year as this is the greater of 1 and 2.

Her total State Pension = New State Pension post 6 April 2016 + Foundation Amount (£3,735.60 + £4,357 = £8,092.60 a year).

Therefore, Sarah receives a total State Pension of £8,092.60 a year (less than the new full State Pension amount of £9,339 a year).

Please note:

- The above example has been simplified and the sums are approximate.
- Your actual State benefit will depend on many different factors such as earnings and any other contracted–in or contracted-out employment with different employers.