£205,000 to replace – the cost of a full State Pension.

There can be lots of reasons why a client might not get the maximum State Pension.

If they've taken time out of work to raise kids or care for elderly parents, if their earnings have been very low or they've worked for themselves, or if they've spent time living and working abroad - all can be reasons why they may not get the full State Pension.

If that's the case, it could cost them dearly in retirement because the State Pension is an extremely valuable income stream and very expensive to replace.

How expensive? Based on latest market prices, Fidelity International and www.sharingpensions.co.uk have calculated it would cost slightly more than **£205,430** to replace the current maximum State Pension (available to those retiring after 5 April 2016). That's based on buying an annuity to replace the income provided by the State Pension.

The reason it costs so much to replace is because the State Pension is both **guaranteed and protected against inflation**, two things that are precious and difficult to replicate any other way.

The rates on annuities paid to a healthy 65-year-old are around 5.16% at the moment (source: Fidelity International and www.sharingpensions.co.uk – 27 June 2023). That's with income payments escalating by 3% a year to combat rises in prices – not the full protection against inflation that the State Pension enjoys thanks to the 'triple lock' (the promise to raise the payment by the greater of inflation, wage rises or 2.5%) but still very valuable.

On the basis of that rate, it would require **£205,430** of pension savings to replace the current full State Pension of £203.85 a week.

As you may know, annuities are not the only way to get an income from retirement savings. Income drawdown is another option. If a client withdraws 4% a year from a drawdown pot over a 30 year period, Fidelity International and www.sharingpensions.co.uk have calculated a client would need **£265,005** of pension savings in drawdown to recreate State Pension income - **more than an annuity** and without the guarantee that income will last until death, but with the benefit that the money remains the clients (if it isn't all spent, of course!).

Why the State Pension is so valuable: -

Current full State Pension (weekly)	£203.85
Cost of recreating at current annuity rates (5.16%)	£205,430
Cost of recreating via drawdown (4% withdrawal)	£265,005

Source: Sharingpensions.co.uk, as at 21.06.23

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Given the high cost of getting the income in another way, it is often sensible for a client to maximise the income they get from the State Pension. The entitlement to the State Pension is, of course, based on a client's National Insurance (NI) contributions and to get the full State Pension a client needs to have made NI contributions for 35 complete years by the time they retire.

As discussed in our June 2023 Newsletter "The Importance of a State Pension Forecast", the government has an online service that lets individuals check their NI record for any gaps and to see whether they'll get the full amount. If there are gaps in the record, a client may be able to pay voluntary NI contributions to fill them, or else fill them with NI credits that apply in some circumstances.

If you would like to discuss how the State Pension interacts with the other areas of your financial circumstances, please do get in touch by contacting the office on 0161 839 8229 or rob@mgp-financialplanning.com.