



# First Release

12 October 2011

Coverage: United Kingdom

**Theme**  
People and Places

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**Next publication:**  
March/ April 2012

## NATIONAL INSURANCE CONTRIBUTIONS & QUALIFYING YEARS AND SECOND TIER PENSION PROVISION

### Introduction

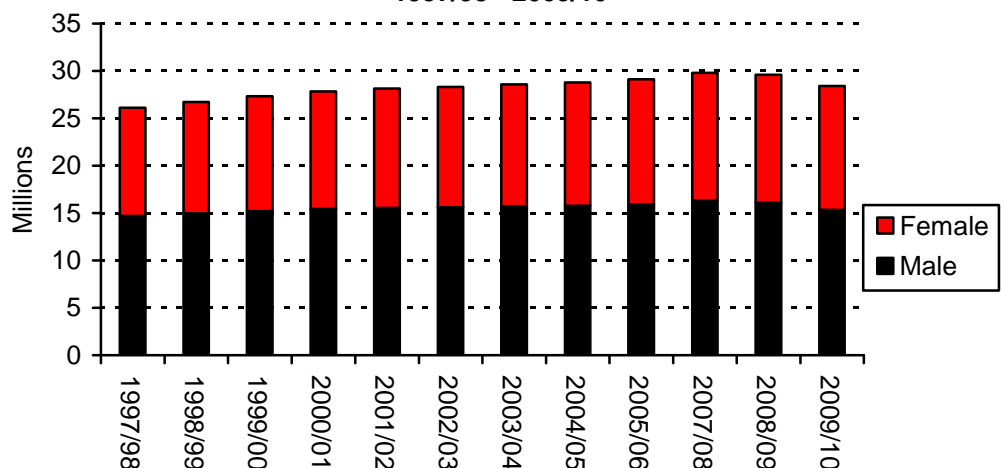
The Second Tier Pension Provision (STPP) and Contributions and Qualifying Years (C&QY) Tabulation Tools will be published at 9.30am on Wednesday 12 October 2011. The Tools can be accessed at: <http://83.244.183.180/NIRS/live/tabtool.html>

These data are based on analysis of National Insurance contributions using the Lifetime Labour Market Database (L2), which is created using a 1% sample taken from the National Insurance Recording System (NIRS2). The sample is taken 14 months after the end of the latest tax year to be analysed, to allow time for employers to make returns.

**In some circumstances, contribution postings have a lengthy timeframe in which they can be paid and input onto the system. In order to capture the vast majority of postings, HMRC extract the data from NIRS 14 months after the tax year has closed. To determine the amount of retrospection used, we look at providing an acceptable trade-off between quality and timeliness. The published numbers capture the vast majority of these retrospective entries to the computer systems but are classed as provisional for the most recent two tax years.**

### Contributions and Qualifying Years Key Findings

People making National Insurance contributions by gender:  
1997/98 - 2009/10



- In 2009/10 there were 28.4 million people making National Insurance contributions. As the 2009/10 tax year figure is provisional it is likely that the final numbers will be higher as additional returns are incorporated. This will continue the upward trend since 1997.
- The number of people accruing qualifying years toward State Pension has been stable and rising slowly since 1997. In particular, the Pension Reform Act 2007 has meant a substantial change in the proportion of basic State Pension people can expect to receive at State Pension age.

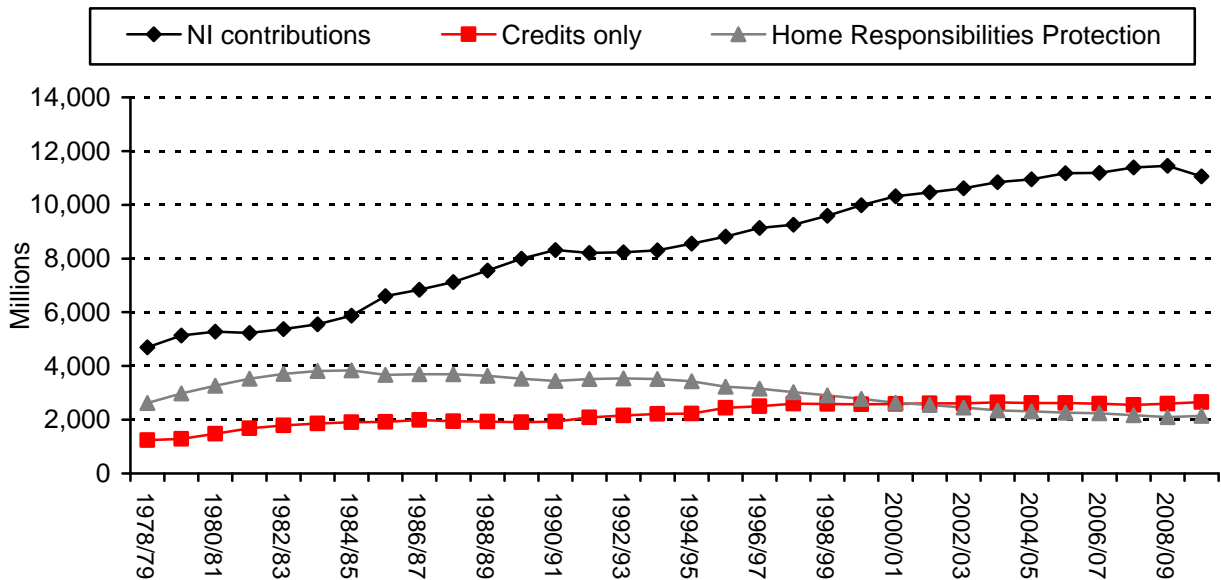


**People under State Pension age with at least one qualifying year for Basic State Pension, by percentage entitlement: April 1999 and April 2009**



- The charts above show snapshots of all people who are under State Pension age in the relevant years, by the percentage of Basic State Pension already accrued (taking in to account retirement age and the 2010 changes). As each cohort contains a mixture of ages, the lower percentages tend to contain younger people who could not possibly have worked for long enough to accrue a full State Pension. However, the effect of Pension Reform Act 2007 can be clearly seen in the higher proportion of the 2009 cohort already having a full State Pension entitlement.

**Number of women who have accrued a qualifying year for State Pension, by method of accrual: 1978/79 - 2009/10**

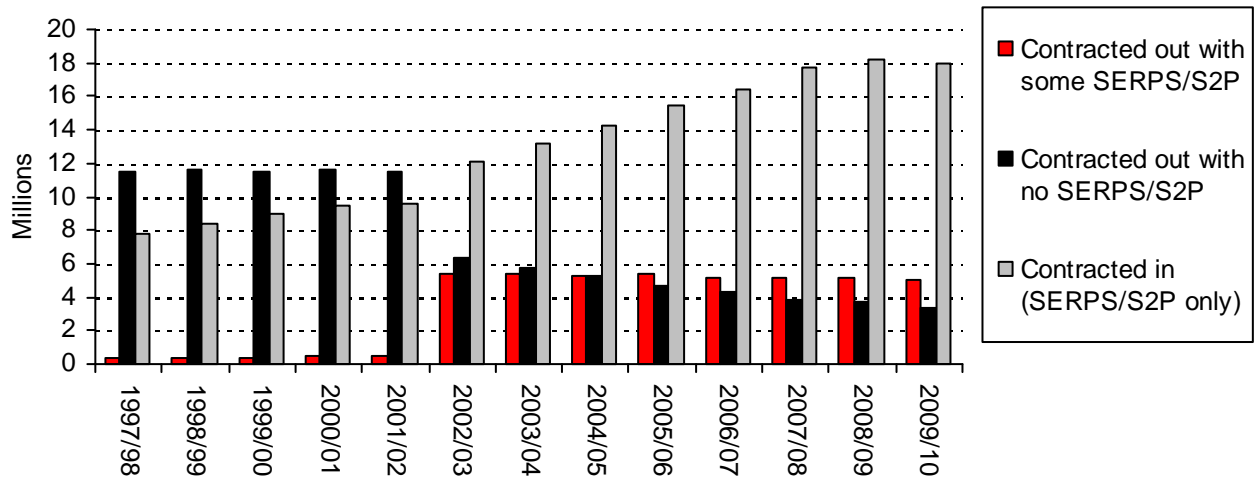


- The distribution of women accruing qualifying years for basic state pension has changed between 1978/79 and 2009/10. In 1978/79, 31% of females accrued qualifying years through being awarded Home Responsibilities Protection (HRP). In the same year, the percentage of women accruing qualifying years through paying National Insurance (NI) contributions was approximately 55%. In 2009/10, 14% of women were awarded HRP credits, compared to 70% of women accruing a qualifying year through paying NI contributions.

## Second Tier Pension Provision key findings

- Between 1978/79 and 2009/10, second tier cover rose from 17.8 million to 26.4 million. These increases have primarily been amongst women, with the exception of those contracting out through Stakeholders and Appropriate Personal Pensions where members are predominantly male. The introduction of State Second Pension (S2P) in April 2002 brought in more generous rules for low earners plus those who cannot work due to disability or caring responsibilities. This has caused a step jump in second tier membership.

**People with Second Tier Pension Provision during the year, by Contracted Out/In status: 1997/98 - 2009/10**



- Please note that the “Contracted out with some SERPS/S2P” category relates to people who are contracted out (and therefore a member of an occupational pension scheme or a stakeholder/personal pension) but have accrued an amount of S2P/SEPRS during that tax year. In April 2002, low to moderate earners began to accrue S2P whilst still members of their contracted out scheme. See the Notes section for details on the UK pension system.
- Between 1997/98 and 2007/08 (the most recent non-provisional year) there had been a 24% fall in the number of people with some form of contracted out cover, 15.0 million in 1997/98 compared to 11.4 million in 2007/08. This reflects the trend of falling contracted out memberships in the wake of the introduction of State Second Pension in April 2002. Provisional figures for 2009/10 indicate this trend is likely to continue. This move to State Second Pension is especially true of women as in 1978/79 under 2.4 million women were covered by State Earnings Related Pension Scheme (SERPS), however by 2007/08 11.5 million women were covered by the State Second Pension (S2P). There were 10.8 million people with some form of contracted out cover in 2009/10 but this figure is subject to change as additional returns are included.
- The number of people moving to the State Second Pension (S2P) has risen over time. 23 million people are covered under the S2P in 2009/10, down 1.7% on the 2008/09 figure of 23.4 million. 68% of people were covered principally through S2P in 2009/10 compared to 40% of people principally gaining cover through SERPS in 1997/98. At the same time 19% had cover principally through public sector schemes, 6% through private sector schemes and 5% through an APP or Stakeholder scheme
- Due to the entitlement conditions for the State Second Pension, in 2009/10 an extra 4.1 million people gained cover from the rules for carers and long term sick or disabled compared to if SERPS arrangements were still in place. In addition to those having entitlement to S2P during periods when they cannot work, a further 5.1 million people in 2009/10 who were contracted out were potentially accruing some extra second tier entitlement under the new scheme. This brought the total number of new people who potentially accrued extra pension benefits under the S2P arrangements to 9.2 million in 2009/10.



## NOTES

### 1. The Lifetime Labour Market Database

The Lifetime Labour Market Database (L2) publications are published annually and aim to give users a structured overview of National Insurance Contributions and Qualifying years as well as Second Tier Pension Provision.

Alongside the First Release, there are a number of tables which enable the user to delve in to the detail:

- The DWP Tabulation Tool - for National Insurance Contributions and Qualifying years as well as Second Tier Pension Provision with an interactive tool to select one of many possible tabulations. Some statistics remain outside the scope of the Tabulation Tool but will continue to be available via the internet as pre-defined summary tables.
- Other tables and background information via links on the Tabulation Tool pages

### 2. National Statistics Code of Practice

DWP complies with the National Statistics Code of Practice and supporting Principles. Detailed policy statements and statement of compliance with the pre-release access to official statistics order 2008 are given below:

[DWP policy statements](#)

Detailed policy and methodology relating to these National Statistics can be found at:

- [Quality](#)
- [Methodology](#)
- [Uses and Users](#)
- [Ad hocs and pricing](#)

DWP would like to hear your views on our statistical publications. If you use any of our statistics publications, we would be interested in hearing what you use them for and how well they meet your requirements. Please email DWP at [stats-consultation@dwp.gsi.gov.uk](mailto:stats-consultation@dwp.gsi.gov.uk). If you would like to receive occasional e-mails from DWP to directly inform you of documents seeking the views of users, please email [general.statistics@dwp.gsi.gov.uk](mailto:general.statistics@dwp.gsi.gov.uk) giving details of the DWP publications you use.

An ongoing questionnaire, enabling DWP to target future consultations at interested users; shaping the future direction of statistics development to address user needs; and helping ensure value for money, whilst giving users a structured way of expressing their views is available at:

[http://research.dwp.gov.uk/asd/l2\\_internet\\_questionnaire.pdf](http://research.dwp.gov.uk/asd/l2_internet_questionnaire.pdf)

Completed questionnaires can be returned by e-mail to [stats-consultation@dwp.gsi.gov.uk](mailto:stats-consultation@dwp.gsi.gov.uk) or by post to the following address:

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Information, Governance and Security  
Department for Work and Pensions  
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Benton Park Road  
Longbenton  
Newcastle Upon Tyne  
NE98 1YX

### 3. Guide to Pensions in the United Kingdom

The UK pension system is complex and many changes over the year have changed entitlement and types of provision. The website listed below describe the system and those changes in detail:

- Complete UK pension system: <http://www.pensionspolicyinstitute.org.uk/default.asp?p=97>
- State Pensions: <http://www.ifs.org.uk/bns/bn105.pdf>
- Historical timeline: <http://www.pensionsadvisoryservice.org.uk/pensions-timeline.aspx>



#### **4. Known Issues, Changes and Revisions to National Insurance Contributions & Qualifying Years and Second Tier Pension Provision**

The following changes and revisions are included in this issue:

- In last year's Tabulation Tool, a substantial number of people paying contributions, but without a qualifying year have been erroneously tabled as having "No entitlement to BSP". As a result, the "Number of years of entitlement to Basic State Pension" and "Percentage entitlement to Basic State Pension" breakdowns were suspended on 4 October. The release on 12 October corrects this issue for the full time series.
- Planned revisions to reflect updated data from HMRC - In some circumstances, contribution postings have a lengthy timeframe in which they can be paid and input onto the system. In order to capture the vast majority of postings, HMRC extract the data from NIRS 14 months after the tax year has closed. To determine the amount of retrospection used, we look at providing an acceptable trade-off between quality and timeliness. The published numbers capture the vast majority of these retrospective entries to the computer systems but are classed as provisional for the most recent two tax years.
- Changes to the First Release format – To better explain the key messages and potential analysis from the Tabulation Tools, the First Release has been improved to provide clearer charts whilst keeping explanatory text.
- Improvements to the methodology for selecting those paying Class 1 contributions who have gained a qualifying year for State Pension. This will produce a small reduction in the numbers with qualifying years by removing some Class 1 contributions which were previously counted in error (e.g. small number of pension schemes).
- A correction of the methodology for dealing with women with reduced rate contributions. These are now correctly treated as not having a qualifying year, regardless of earnings. Some of these women were treated incorrectly and given qualifying years in previous Tabulation Tools

#### **5. Notification of future changes to National Insurance Contributions & Qualifying Years and Second Tier Pension Provision**

As the next publication is some months away, DWP will post the exact changes on the Landing Page ([http://research.dwp.gov.uk/asd/index.php?page=stpp\\_cq](http://research.dwp.gov.uk/asd/index.php?page=stpp_cq)) one month before the release. However, at the time of writing, DWP expect that the next release will include:

- Amendments to the Tabulation Tool income breakdown to a more standard breakdown:
  - Up to £5,199
  - £5,200 and up to £10,399
  - £10,400 and up to £15,599
  - £15,600 and up to £20,799
  - £20,800 and up to £25,999
  - £26,000 and up to £31,199
  - £31,200 and up to £36,399
  - £36,400 and up to £51,999
  - £52,000 and above
- A review of the Pre-2010 rules and Post-2010 rules tabulation Tools to ensure that they still meet users' needs.

Comments from users are welcome on these planned changes.