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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, 15th December 2010. The tabulation tools can be accessed by clicking on the following link: <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 new 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.

The figures for and prior to 2006/07 are now stable. The statistics for 2007/08 and 2008/09 are provisional as they will be subject to change when further information becomes available with headline figures likely to be revised upwards in future publications.

Contributions and Qualifying Years Key Findings

- By 2008/09 there were 29.4 million people making National Insurance contributions, just short of the highest level of the series which was 29.7 million in 2007/08. As the 2008/09 tax year figure is provisional it is likely that the 2007/08 figure will be surpassed as additional returns are incorporated, continuing the upward trend since the mid 1990s.
- Statistics on people who will qualify for state pension under post Pension Reform Act 2007 rules are being published here for the first time. Compared to pre Pension Reform Act 2007 rules this shows a greater proportion of people qualifying for a higher percentage of state pension. The number of people accruing qualifying years toward state pension has been stable and rising slowly since 1997 (**Chart 1**).
- The distribution of women accruing qualifying years for basic state pension has changed between 1978/79 and 2008/09. Using post Pension Reform Act 2007 rules 16% of females accrued qualifying years through being awarded Home Responsibilities Protection (HRP) in 1978/79. In the same year, the percentage of women accruing qualifying years through paying Class 1 National Insurance (NI) contributions was approximately 57%. In 2008/09 13% of women were awarded HRP credits, compared to 66% of women accruing a qualifying year through paying Class 1 NI contributions.

Second Tier Pension Provision key findings

- Between 1978/79 and 2008/09, second tier cover rose from 17.8 million to 27.3 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.
- Between 1997/98 and 2006/07 there had been an 18% fall in the number of people with some form of contracted out cover during the year, 15.0 million in 1997/98 compared to 12.3 million in 2006/07. This reflects the trend of falling contracted out memberships and the move to the State Second Pension and provisional figures for 2008/09 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 2006/07 12.0 million women were covered by the State Second Pension (S2P). There were 11.3 million people with some form of contracted out cover in 2008/09 but this figure is subject to change as additional returns are included.
- The number of people moving to the State Second Pension has continued to rise. 23.7 million people are covered under the State Second Pension in 2008/09, an increase of 0.3% on the 2007/08 figure of 23.6 million. 68% of people were covered principally through State Second Pension in 2007/08 compared to 39% of people principally gaining cover through SERPS in 1997/98. At the same time 18% had cover principally through public sector schemes, 7% through private sector schemes and 6% through an APP or Stakeholder scheme (**Chart 2**).
- Due to the entitlement conditions for the State Second Pension, in 2008/09 an extra 4.2 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 State Second Pension during periods when they cannot work, a further 5.2 million people in 2008/09 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 new State Second Pension arrangements to 9.4 million in 2008/09.

Chart 1 - Number of people who have accrued a qualifying year for State Pension, by method of accrual and tax year

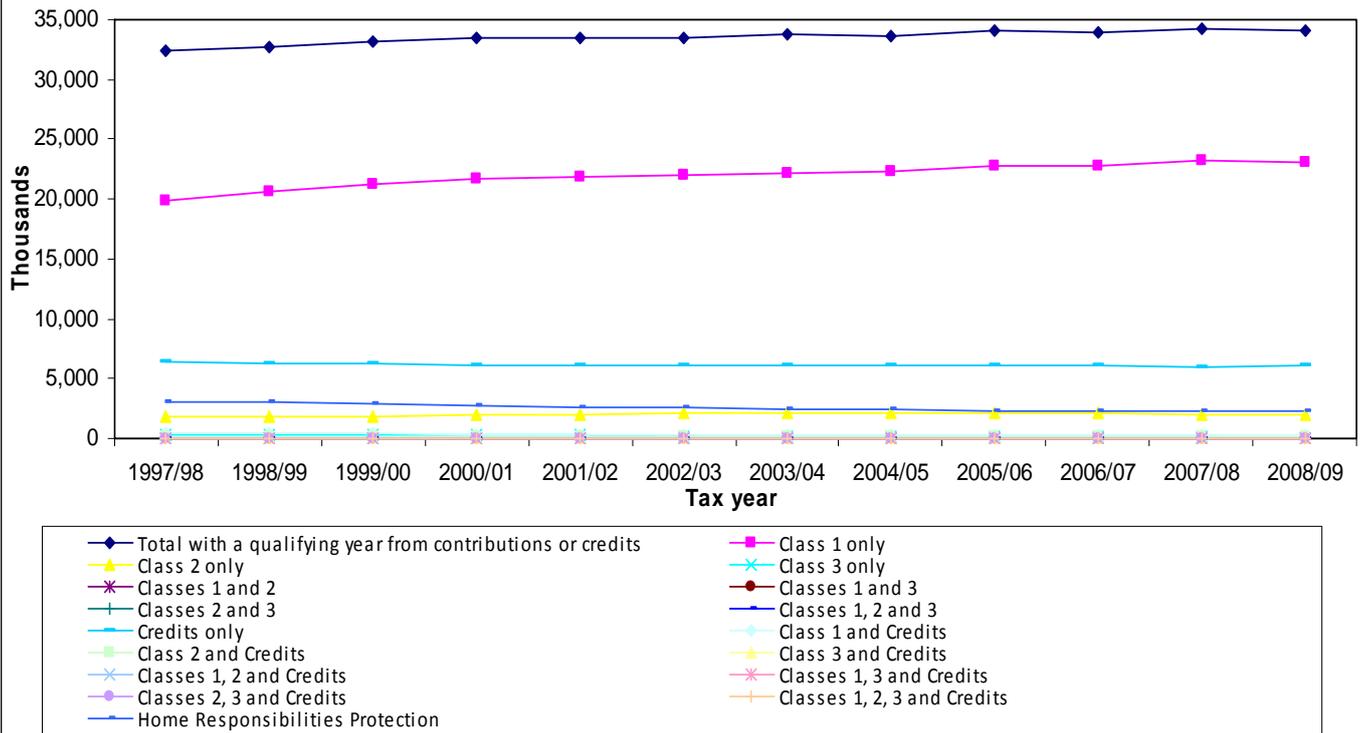
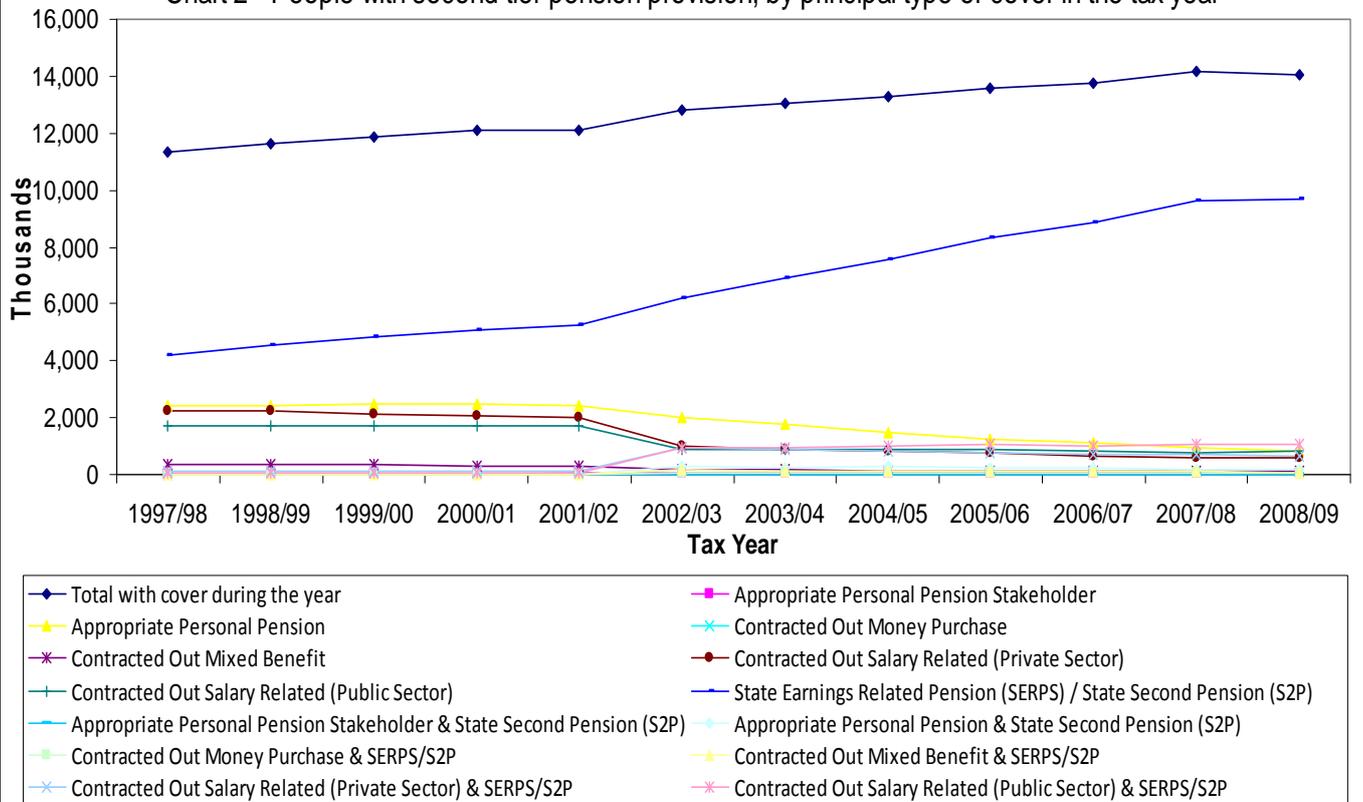


Chart 2 - People with second tier pension provision, by principal type of cover in the tax year



Note:
The figures for the 2007/08 and 2008/09 tax years are provisional.