Dear Mairead,

State Pension Regulations 2015

I promised to write to you on the points you raised in the debate on these regulations on 22 January. You had some concerns about the transitional arrangements for the new State Pension and also our approach to informing people of the new arrangements. In addition, this letter provides an update on the work on “mini-jobs” — those people whose total earnings are above the lower earnings limit but are not covered in National Insurance because their earnings from more than one job are not aggregated.

I will start with the transitional arrangements for the new State Pension. Firstly, you will recall this discussion around the media attention given to the contracted out deduction that is included in the 2016 valuation of people’s National Insurance records. As you know we value people’s National Insurance contributions up to and including the 2015/16 tax year using both the old and new scheme rules and also undertake a one-off adjustment to reflect periods when people have been contracted out. The higher of the two values becomes the person’s starting amount in the new State Pension. The one-off adjustment reflects the fact that people who were contracted out have either paid National Insurance contributions at a lower rate, or some of the National Insurance contributions they paid were used to contribute to a private pension instead of the additional State Pension. If we ignored the fact that people were contracted out, people would be paid twice for the same National Insurance contributions.

You had asked whether people would be worse off because of the calculation. The direct answer is that people will not be worse off because of the calculation. The old scheme rules valuation will use the same rules as if someone had reached State Pension age in 2016/17 and a starting amount based on the new scheme rules can only be higher than the old scheme rules valuation. However, I should add that because of the minimum qualifying

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period and other changes, including particularly the rules concerning pensions that are derived from a spouse or civil partner’s National Insurance record, people can be better off under the existing scheme rules compared to the new State Pension.
You also suggested that it may now be too late for people to take action in light of the introduction of the new State Pension in 2016 and asked how we are going to notify people.

Taking notifications first, we have introduced changes to the State Pension statement service from 4 October 2014. From this date, individuals who are closest to State Pension age (reaching it between 2016 and 2021) can get a statement that provides an estimate of the starting amount for the new State Pension, based on their current National Insurance contribution record. Our intention is to expand the availability of this service in the coming weeks to everyone age 55 and over. We will make an announcement about this shortly.

Regarding your point that it may be too late for people to take action, you will wish to note that we have taken special action to help people better their starting amount by paying voluntary National Insurance contributions. These voluntary contributions are available to make up gaps in people’s National Insurance records but the change to new State Pension will create some uncertainty and for this reason HMRC have introduced new regulations which change the time limits and higher rate provisions that apply to the payment of voluntary contributions for those that reach State Pension age on or after 6 April 2016.

The regulations extend the time limits for paying voluntary National Insurance contributions to 5 April 2023 for the tax years 2006/07 to 2015/16. They also amend the higher rate provisions that apply to the late payment of voluntary National Insurance Contributions so that the 2012/13 rate will be payable until 6 April 2019 in relation to:

- voluntary Class 3 National
- Insurance contributions for the years 2006/07 to 2009/10; and
- voluntary Class 2 National Insurance contributions for the years 2006/07 to 2010/11.

For the remaining tax years up to and including 2015/16, no higher rate provisions will be applied until 6 April 2019.
You asked for an update on the situation of those who have several jobs, which each pay below the National Insurance lower earnings limit but which, in total, bring in earnings above the lower earnings limit.

In line with the commitment we made during the passage of the Pensions Bill 2013/14, DWP has carried out an analysis to understand the scale and nature of this issue. In July 2014, we published an updated analysis of the number of individuals impacted at any one time, as well as an additional analysis of this group’s characteristics.

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We also convened a group of analytical experts, chaired by the Institute for Fiscal Studies, with the aim of understanding how far these individuals are losing out in terms of State Pension outcomes. This group has met twice, most recently in November 2014. Having refined our snap-shot analysis, which suggests that in recent years around 50,000 individuals a year have been affected, we are now working with stakeholders to develop methods of analysis that will allow us to understand the persistence of this work pattern over a person’s working life. This analysis will help decide whether there is a case for making changes to the current arrangements for building State Pension qualifying years.

I hope you find this information useful.

A copy of this letter has been sent to all Peers who spoke during the debate and a copy will be placed in the House Library.

LORD BOURNE OF ABERYSTWYTH