

National Insurance credits changes

Starting Credits and National Insurance credits for specified adults
caring for a child under 12

Equality Impact Assessment

March 2011

Equality impact assessment for National Insurance credits changes: Starting Credits and National Insurance credits for specified adults caring for a child under 12

Introduction

- The Department for Work and Pensions (DWP) has carried out an equality impact assessment on the proposal to introduce National Insurance (NI) credits changes to meet the requirements of the Equality Act 2010.
- This process will help to ensure that:
 - the Department's strategies, policies and services are free from discrimination;
 - due regard is given to equality in decision making and subsequent processes; and
 - opportunities for promoting equality are identified.
- This equality impact assessment considers the potential impact of the proposed policies in terms of disability, gender, gender reassignment and race.

Outline of the policy

Starting Credits

- Since April 1975, NI contributions have been credited to people for the tax year in which they reach age 16 and the following two tax years in order to protect their future basic State Pension entitlement and Bereavement Benefits for a spouse or civil partner ("Starting Credits"). The policy intention behind the credits was to ensure that young people staying on in education beyond the minimum school leaving age did not lose future benefit entitlement as a result. There is no requirement for the individual to be in the UK at the relevant age. This was primarily to ensure that young people being educated outside the UK were not penalised.

- The DWP proposes introducing legislation before the end of the 2010/11 tax year, stopping new awards of Starting Credits for basic State Pension with effect from 6 April 2010. Pension changes introduced in April 2010 mean Starting Credits will be largely irrelevant for State Pension purposes for people who have lived and worked in the UK for most of their lives. Existing awards will remain.
- The reduction in the number of qualifying years needed for a full basic State Pension to 30 from 6 April 2010 means that few people who have spent most of their working lives in the UK will need to have relied on their Starting Credits for this purpose.
- For operational reasons, Starting Credits are awarded whenever a NI number is allocated; there is no requirement to have been in the UK at the relevant time, so people coming to the UK, even for a relatively short time, and who need a NI number for any reason, acquire Starting Credits.
- The removal of the requirement for people reaching State Pension age before 6 April 2010 normally needing qualifying years for at least 25 per cent of the number of years needed for a full basic State Pension in order to get any basic State Pension at all, means that a person can now acquire a basic State Pension of 10 per cent of the full amount based on award of Starting Credits alone. A person with no real connection to the UK can become entitled to UK State Pension in this way.
- The removal of Starting Credits will not impact on State Pension customers until at least 2025. Starting Credits were introduced in 1975, so can only be awarded to people aged 16 and under in 1975, so people born before 1959 and reaching SPA after 2025.
- A small number of young people, currently below age 18, may have been adversely affected by the original proposed changes in respect of Bereavement Benefits. However, in order to protect the position of bereaved people who would be affected by the removal of new awards of Starting Credits, they will continue to be awarded for the purposes of Widowed Parent's Allowance and Bereavement Allowance only.

NI credits for specified adults caring for a child under 12

- Representations have previously been made about the help with childcare given by family members. For example, it is recognised that many grandparents look after their grandchildren to enable the child's parents to work. For some, this may mean sacrificing their own incomes in retirement.
- In the 2009 Budget, it was announced that grandparents looking after children under the age of 12, where the primary carer works, would be credited with NI contributions towards their State Pension. It was also confirmed that this protection would not be restricted to grandparents but would also cover other adult relatives providing the same type of childcare. The Government has progressed this further to provide NI credits for specified adults caring for a child under 12.

- The DWP proposes that weekly Class 3 NI credits will be made available to help protect the eligibility to a basic State Pension and Bereavement Benefits for specified adults caring for a child under 12.
- The new NI credits will not be awarded automatically; they must be applied for. NI credits will be transferred from the primary carer to an eligible applicant. This is as long as the person from who the NI credits are being transferred has a qualifying year and does not need the protection for their State Pension. This avoids any problem that certain adults might be treated more favourably than others.
- The need for supporting evidence and verification arrangements are removed because administrative data already held is used. An application countersigned by the Child Benefit recipient is all that is required.
- Applications will need to be made after the end of the relevant tax year so checks can be made that the Child Benefit recipient has a qualifying year. The need for the Child Benefit recipient to have a qualifying year removes the risk that the person needs the NI credits to satisfy the conditions for entitlement to their own State Pension.
- Where applications are made by more than one person, the applications will be reviewed before any NI credits are awarded. Awarding NI credits for the relevant weeks rather than complete years will reduce the volume of such “rival” applications. So too, will the need for applications after the end of the tax year; it will only be possible to determine whether NI credits may be transferred some time after the relevant tax year has ended. This results from the condition (as with transfers between parents) for the Child Benefit recipient to have a qualifying year by other means (NI credits or NI contributions). This means that patterns of childcare can be recorded and submitted with the application – for instance, a child may spend alternate weeks with their different grandmothers and at the end of the year, each grandmother can apply for the weeks they provided childcare.
- Applications will be accepted from specified adults caring for a child under 12. However, the Child Benefit recipient will need to countersign the application form (although discretion will be applied if the Child Benefit recipient is incapacitated or has died), thereby not only confirming the childcare arrangement, but also authorising the transfer of NI credits from their record (where they cannot count) to another’s.
- There will be no time limits for such applications.

Consultation and involvement

- A public consultation was held between 15 October 2010 and 26 November 2010¹. The DWP also flagged the consultation with around 80 key stakeholders who the DWP believed would have an interest in the changes. Stakeholders contacted included: the National Association of Widows; the Bereavement Advice Centre; Grandparents Plus; the TUC; the Low Incomes Tax Reform Group; and the Equality and Human Rights Commission. The DWP received comprehensive comments from the last four groups listed that were considered and acted on when drafting the legislation.
- As part of the Social Security Advisory Committee's remit to consider the effect of new provisions on customers and staff, the proposals were presented to it on 18 November 2010. The draft legislation put before the Committee on 2 March 2011; it confirmed that it did not want formal referral of the legislation.

Impact of the National Insurance credit changes

Starting Credits

Introduction

- People reaching State Pension age from 2025 onwards, with fewer than 30 qualifying years for the basic State Pension, could be affected by the cessation of Starting Credit awards from 6 April 2010.
- As removing Starting Credits won't impact until 2025, it is difficult to assess the impacts on different equality groups in any great detail, as migration patterns, and labour market activity could change over the next 15 years.
- In addition, recent reforms could mitigate any impacts on particular groups, for example, introducing credits for carers and 30 qualifying years for the basic State Pension; also the proposals to accelerate the increase in State Pension age gives people more opportunity to accrue entitlement to the basic State Pension.
- That said, the following three groups could be affected:
 - UK resident 16 to 18 year olds from 2010 onwards (who will no longer be awarded Starting Credits).
 - More generally, people aged under 50 in 2010 (aged under 16 in 2075) registering for a NI number will no longer be retrospectively awarded Starting

¹ The link to the consultation including the consultation document:

<http://www.dwp.gov.uk/consultations/2010/ni-credits-changes-consult.shtml>

Credits for the tax years in which they had their 16th, 17th and 18th birthdays. Inward migrants, registering for a NI number, will be a key group affected by this policy.

- Lastly, people who have a shorter than usual attachment to the UK NI contributions system will be affected by the removal of the opportunity to gain three qualifying years. The most obvious members of this group are outward migrants, such as UK nationals who emigrate. However, this group could also include people who spend significant periods of their working lives in prison, as well as people who spend significant periods outside of the NI system for various reasons. These people will be negatively affected by the policy as they have, by definition, less opportunity to earn 30 qualifying years through other means. However, because of a lack of available data, it is difficult to quantify this group, identify their demographic characteristics, or to assess how at risk they are, on average, of losing State Pension entitlement.
- It is important to note that any losses from the implementation of this policy are not realised until the individual claims their State Pension, whereupon lower entitlement due to Starting Credits not having been awarded could result in a corresponding lower weekly State Pension than under the current system.

Ethnicity

a) Inward migrants

- As noted in the Introduction, some groups of inward migrants registering for a NI number may be affected by the removal of Starting Credits. There were around 570,000 NI number registrations for adult overseas nationals in 2009/10². Nationals from Asia and Middle East, EU Accession states and the European Union together accounted for over 80 per cent of registrations³.
- Inward migrants, who spend most or all of their working lives in the UK, are less likely to be disproportionately affected, as, with other things being equal, they will have essentially the same opportunities as other groups to earn qualifying years for State Pension through other means. Historically, the employment rate for foreign nationals has been lower than for UK nationals, although the gap has reduced recently to just three percentage points⁴. This illustrates that foreign nationals are slightly less likely to obtain a qualifying year through paid work.
- Inward migrants who spend only part of their working lives in the UK are more likely to rely on Starting Credits to boost their State Pension entitlement. Due to a lack of available data, it is difficult to make quantitative statements about the

² National Insurance Recording & Pay As You Earn System, **NINo Registration to Adult Overseas Nationals entering the UK**, data available from the DWP Tabulation tool: <http://research.dwp.gov.uk/asd/index.php?page=tabtool>

³ Ibid.

⁴ The employment rate for foreign nationals was 68.3 per cent in the third quarter of 2010, compared with 71.3 per cent UK nationals, Office for National Statistics, *Labour Market Statistics* January 2011, Table 8(1).

average number of years different cohorts of immigrants are resident in the UK. Therefore, it is difficult to assess what proportion of each cohort of inward migrants will be affected by the policy.

- Certain inward migrants approaching State Pension age will be the earliest groups to be impacted by the policy; for younger migrants, it remains a notional loss until they retire.

b) General impacts

- Ethnic minorities would be disproportionately affected by the removal of Starting Credits if such individuals were expected to have a lower propensity to obtain 30 qualifying years from other sources. It is not possible to identify the sources of qualifying years by ethnic minority groups.
- One important, though by no means sole, source of qualifying years for many people to build up entitlement to State Pension is through paid NI contributions. The employment rate for ethnic minorities has been consistently lower than the employment rate for white people, though the gap in employment rates narrowed between 2001 and 2009⁵. Therefore, ethnic minorities could be more likely to rely on the Starting Credits to boost State Pension entitlement, compared to white people.
- The employment rate varies widely between different ethnic groups. In 2009, the lowest percentages of employment were for the Bangladeshi and Pakistani groups, being 44.7 per cent and 46.5 per cent respectively. The main reason for inactivity in these groups was to look after the family or home⁶. The introduction of NI credits for carers will help people continue to accrue qualifying years whilst out of the labour market; thus minimising any adverse effect of removing Starting Credits.

Gender

- The impact of stopping new awards of Starting Credits is likely to be similar for men and women. There is unlikely to be any significant difference in the average extent to which men and women need three qualifying years from Starting Credits to improve their basic State Pension entitlement.
- There is a gap between the employment rates of males and females⁷. However, other means of achieving qualifying years such as NI credits available for parents and carers (and previously Home Responsibilities Protection) are expected to continue to benefit women disproportionately more than men.
- Men's and women's basic State Pension outcomes are projected to become very similar over time, as women's own entitlement improves cohort by cohort as a

⁵ At the end of 2009, the employment rate for ethnic minority groups was 59.6% and for white people has remained fairly constant at 74.0%. ONS, *Economic and labour market review*, vol 4 no 6 (June 2010), Figure 5. See http://www.statistics.gov.uk/elmr/06_10/downloads/ELMR-Jun10-Barrett.pdf

⁶ Ibid.

⁷ ONS, *Labour market statistics*, op. cit.

result of the accumulation of previous policy changes. Perhaps most significant is the reform to the entitlement conditions, so that people who reach State Pension age from 6 April 2010 only need to achieve 30 qualifying years to be entitled to a full basic State Pension.

- Men and women in the cohort of individuals who had their 18th birthday in the 2010/11 tax year – currently scheduled to reach State Pension age aged 68 in 2060/61 – are expected to have broadly equal basic State Pension outcomes.

Disability

- Due to a lack of available data, it is difficult to assess whether people who are disabled, or will become disabled at some point during their working lives, have on average, worse State Pension entitlement now than the general population, or whether they will do so in the future. This means it is difficult to assess quantitatively whether there is any increased risk to disabled people from this policy.
- However, it seems unlikely that disabled people rely on Starting Credits disproportionately more than non-disabled people. Even though disabled people are currently less likely to be in employment than non-disabled people⁸, they can accrue qualifying years for basic State Pension through other State provisions and the receipt of certain disability benefits. A disabled person aged between 16 and 18 may receive NI credits for those tax years because of their disability, in addition to Starting Credits – which would render the Starting Credits unnecessary to achieve a qualifying year.

Age

- The policy can only materially affect people when they reach State Pension age, because this is when the impact, if any, of not having Starting Credits on NI records will translate into lower State Pension entitlement. In this sense, everybody eventually affected will be over State Pension age.
- The latest data show that NI registrants are generally quite young. In recent years, around 80 per cent of registrants have been aged between 18 and 34⁹.
- In a more general sense, the main group of people affected by the policy are those aged between 16 and 18 in any given tax year from April 2010 onwards. The first of these cohorts to reach State Pension age are currently scheduled to do so aged 68 in 2060/61. Older individuals registering for a NI number may also be affected, and are broadly more likely to be at risk than 16 to 18 year old registrants of seeing decreased State Pension receipt, given they are more likely to have spent less time in the UK when of working age.

⁸ See www.officefordisability.gov.uk, “Disability facts and figures”.

⁹ National Insurance Recording & Pay As You Earn System, op. cit.

NI credits for specified adults caring for a child under age 12

Introduction

- Weekly Class 3 NI credits will be made available to help protect the eligibility to a basic State Pension and Bereavement Benefits for specified adults caring for a child under 12. We sought comments on the adults to be specified in legislation to get these credits and have drafted the legislation accordingly to reflect the suggestions made.
- Although the data available are limited, we believe there is limited impact on the following groups.

Ethnicity

- We are not aware of any evidence detailed enough to suggest disproportionate impacts on carers from any particular ethnic groups.
- Survey data from the Department of Education indicate that children in White and Asian and White British ethnic groups were more likely to receive informal childcare than children of other ethnic groups¹⁰. According to the 2007 Families and Children Study, a greater proportion of children of white mothers received informal childcare than of other ethnic groups, regardless of whether the mother was working or not¹¹.
- However, the extent that this information can be used to assess whether there would be disproportionate gains for carers of any particular ethnic group is limited. For instance, the policy only affects those carers who are not achieving a qualifying year through any other source, and who are caring for a child under age 12. The group of carers affected by this policy is therefore more specific than those groups reflected in the above mentioned surveys.

Gender

- The Equalities and Human Rights Commission provided information in its response to the consultation exercise. It is working-age, working-class women who are more likely to provide childcare for grandchildren, and to have reduced their hours or left work to do so. Therefore, the introduction of these new NI credits is likely to help to address the gap in pension income that exists between women and men, contributing to the equalisation of income in retirement. The Commission said its recent Triennial Review shows 17 per cent of women pensioners live in households with a low income compared to 14 per cent of men¹².

¹⁰ Department for Education, *Childcare and early years' survey of parents 2009*, Table 2.4. See <http://publications.education.gov.uk/eOrderingDownload/DFE-RR054.pdf>

¹¹ DWP, *Families with children in Britain: findings from the 2007 Families and Children Study (FACS)*, Tables 16.5 and 16.6. See <http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep578.pdf>

¹² http://www.equalityhumanrights.com/uploaded_files/triennial_review/how_fair_is_britain_-_complete_report.pdf

Disability

- Lack of data availability means it is difficult to assess whether disabled people are more likely than non-disabled people to benefit from this policy.

Age

- As discussed in the section on the Starting Credits policy, it is important to note that any gains in basic State Pension receipt resulting from this policy will only be realised on or after reaching State Pension age.
- More broadly, evidence suggests that the majority of people who benefit by getting more State Pension at State Pension age in terms of being awarded these new NI credits, will be from older age groups – although it must be noted that, in order to be awarded these NI credits, the carer must be under State Pension age. The *Childcare and early years survey of parents 2009* suggests that grandparents provide childcare for over half those families with informal childcare arrangements¹³. Approximately 7million grandparents, half of the grandparent population, are aged under 65, 4.8million under 60 and 1.5million under 50¹⁴.
- Grandparents Plus analysis of British Social Attitudes Survey data suggested that working age grandparents provided most grandparental childcare in 1998¹⁵.
- The Equalities and Human Rights Commission say that over half (approximately 7million) of the grandparent population are under 65 and so their caring responsibilities may have implications for their employment (and hence their income in retirement). Grandmothers on lower incomes are more likely to be young grandmothers (under 50) than middle class women (22 per cent compared to 5 per cent).

Groups for which insufficient data are available

- Insufficient data were available to analyse the impact of the changes on some of the additional protected characteristics soon to be brought in by the Equality Act 2010.
- In advance of the new public sector duty taking effect from 6 April 2011, the Department has not routinely collected certain data – for example on customers' religion or beliefs or sexuality. The Department is currently exploring what information it can collect on the additional protected characteristics of age, gender reassignment, sexual orientation, religion or belief, marriage and civil partnership and pregnancy and maternity. Where these data have not been recorded by the Department, policy makers will look at using alternative sources of data as well as

¹³ Department for Education, op. cit., Table 2.1.

¹⁴ Griggs, *The Poor Relation?* See http://www.grandparentsplus.org.uk/publications_files/PoorRelation.pdf

¹⁵ Idem.

consultation and involvement to examine the potential and real impacts of its policies.

Monitoring and evaluation

- The DWP has no plans to undertake a formal evaluation of these changes. It will continue to monitor feedback from stakeholders and others and consider whether to take any action.
- Through analysis of administrative data, surveys and other sources, the DWP will continue to monitor:
 - State Pension and contributory benefit awards and accrual;
 - the level and distribution of pensioners' and benefit recipients' total incomes; and
 - the level of understanding of the State Pension and contributory benefits systems.
- The DWP will also continue to report on progress against its performance in its annual and Departmental reports.

Next steps

- The DWP is introducing regulations to enable these changes. The legislation will be non-affirmative and has been presented to the SSAC. The legislation will come into force in April 2011.
- Guidance will be made available to raise awareness of these new NI credits for specified adults caring for a child under 12.
- Information, including the application form for these new NI credits, will be made available online via the DWPs' and HMRCs' websites.

Contact details

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