



First Release

18 April 2012

Coverage: United Kingdom
Frequency: Annual

Theme
People and Places

DWP Department for Work and Pensions

Issued by:
Information Directorate
Department for Work and Pensions

Telephone:
Press Office: 0203 267 5144

Website:
www.dwp.gov.uk

Statistician:
Stuart Grant
Information Directorate
Department for Work and Pensions
Benton Park View
Longbenton
NEWCASTLE UPON TYNE
NE98 1YX

Telephone: 0191 216 6263

Email:
stuart.grant@dwp.gsi.gov.uk

Next publication:
March/ April 2013

NATIONAL INSURANCE CONTRIBUTIONS & QUALIFYING YEARS AND SECOND TIER PENSION PROVISION: 2010/11

Introduction

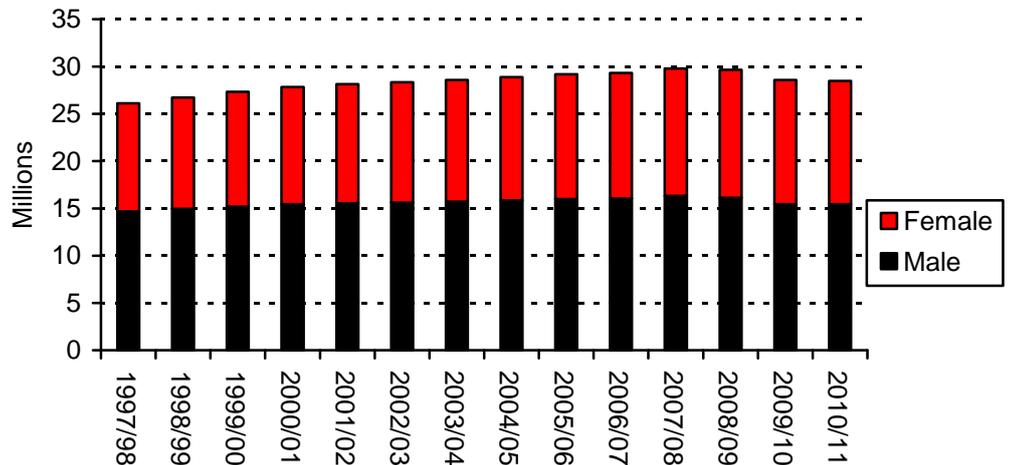
The Second Tier Pension Provision (STPP) and Contributions and Qualifying Years (C&QY) Tabulation Tools will be published at 9.30am on Wednesday 18 April 2012. The Tools can be accessed at: <http://83.244.183.180/NIRS/live/tabtool.html>

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 nine 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 nine 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. See Notes section 2 for more details.

Contributions and Qualifying Years Key Findings

People making National Insurance contributions by gender:
1997/98 - 2010/11

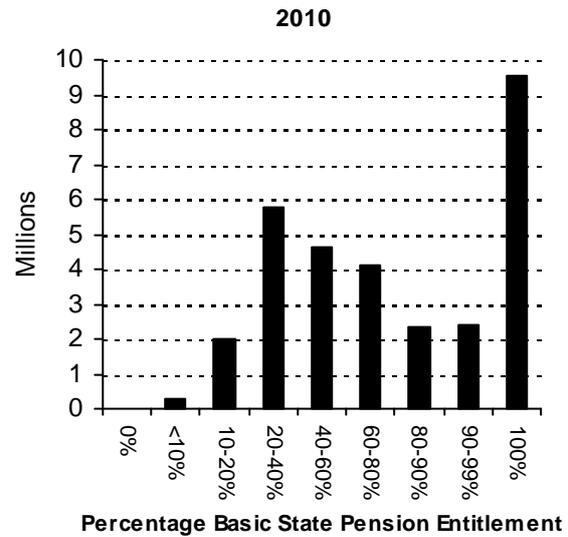
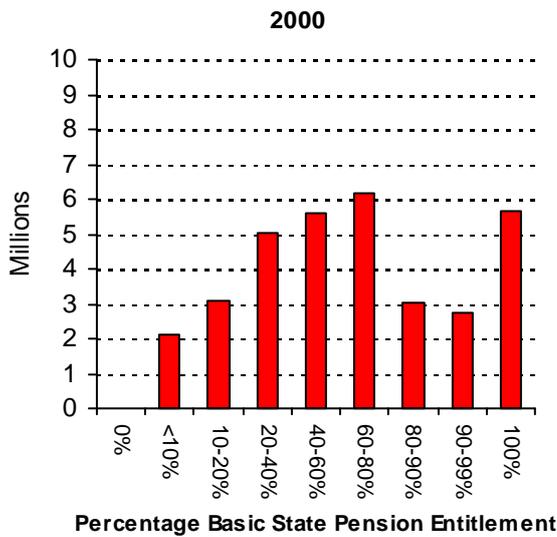


In 2010/11 there were 28.5 million people making National Insurance contributions. As the 2010/11 tax year figure is provisional it is likely that the final numbers will be higher as additional returns are incorporated.



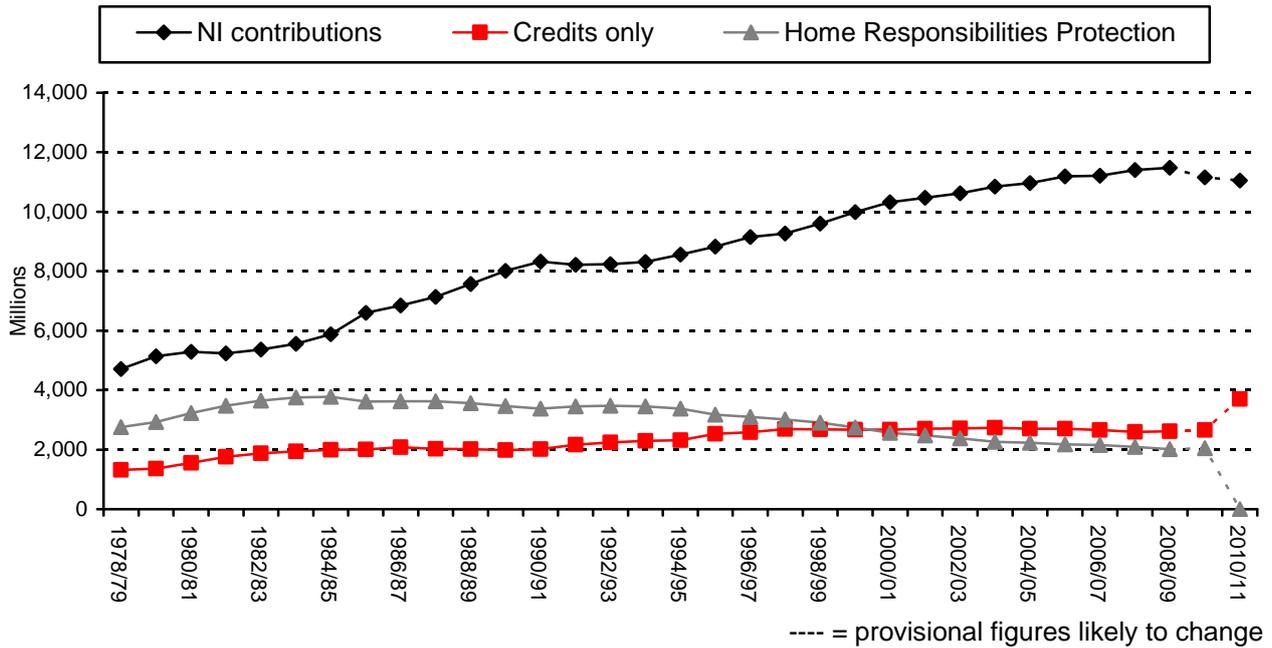
For non-provisional years the number of people accruing qualifying years toward State Pension has been stable and rising slowly throughout the series. The [Pension Reform Act 2007](#) has meant a substantial change in the proportion of basic State Pension people can expect to receive at State Pension age by reducing the number of qualifying years for a full State Pension from 39 for women and 44 for men to 30 for everyone retiring after April 2010. However, the Act also removed, from 2010/11 onwards, automatic credits for those having their 16th, 17th or 18th birthdays in the relevant tax year. This is seen in the numbers receiving a qualifying year in 2010/11 being lower than in previous years. This needs to be offset against the requirement for fewer qualifying years.

People under State Pension age with at least one qualifying year for Basic State Pension, by percentage entitlement: April 2000 and April 2010



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 Pension Reform Act 2007 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 2010 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 - 2010/11



The distribution of women accruing qualifying years for basic state pension has changed between 1978/79 and 2010/11. In 1978/79, 31% of females accrued qualifying years through being awarded Home Responsibilities Protection (HRP) for children up to the age of 16 <http://www.hmrc.gov.uk/forms/cf411-notes.pdf>. In the same year, the percentage of women accruing qualifying years through paying National Insurance (NI) contributions was approximately 54%.

From April 2010, HRP was replaced with parenting credits given to those in receipt of child benefit for children up to the age of 12. In 2010/11, 25% of women were awarded credits, compared to 75% of women accruing a qualifying year through paying NI contributions.

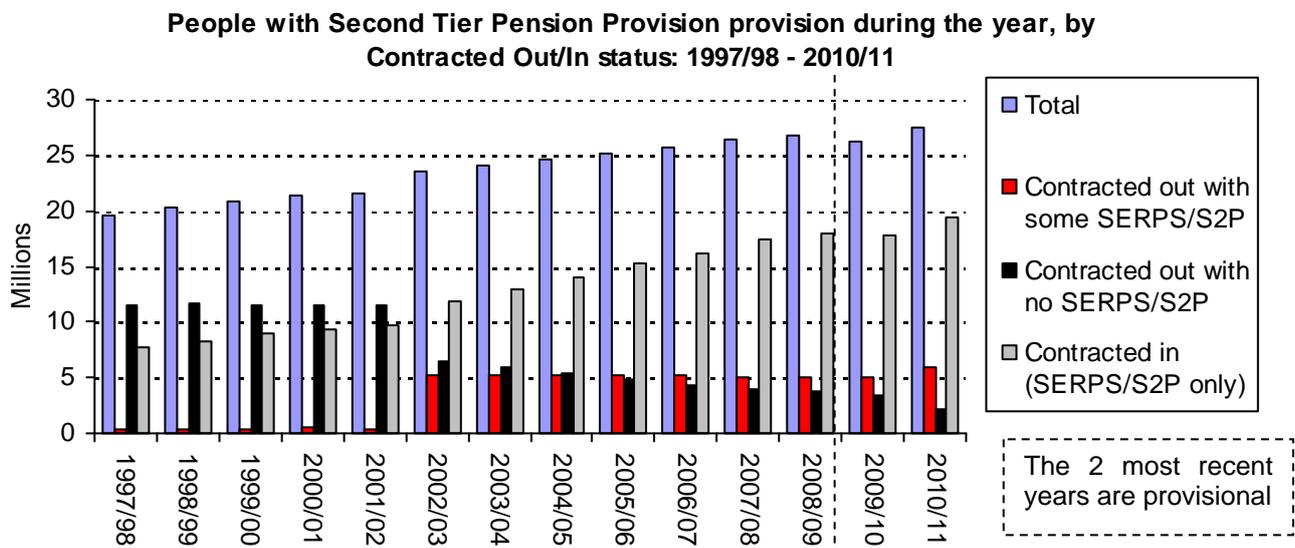
See Notes section 7 for information on how we intend to change how these statistics are presented.

Second Tier Pension Provision key findings

Between 1978/79 and 2010/11, second tier cover rose from 17.7 million to 27.5 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. Details can be found at:

http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/AdditionalStatePension/DG_4017827?CID=PRP&PLA=url_mon&CRE=contracted_out_pensions. This has caused a step jump in second tier membership.

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/SERPS 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 2008/09 (the most recent non-provisional year) there had been a 27% fall in the number of people with some form of contracted out cover, 11.9 million in 1997/98 compared to 8.0 million in 2008/09. This reflects a long term trend of falling contracted out memberships. 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 2008/09 11.8 million women were covered by the State Second Pension (S2P). There were 10.3 million people with some form of contracted out cover in 2010/11.

The number of people moving to the State Second Pension (S2P) has risen over time. 25.3 million people are covered under the S2P in 2010/11, up 10% on the 2009/10 figure of 23 million. 71% of people were covered principally through S2P in 2010/11 compared to 47% of people principally gaining cover through SERPS in 1997/98. At the same time 18% had cover principally through public sector schemes, 5% through private sector schemes and 5% through an APP or Stakeholder scheme



Due to the entitlement conditions for the State Second Pension, in 2010/11 an extra 5.2 million people gained cover from the rules for carers and long term sick or disabled compared to if SERPS arrangements were still in place. This has risen since 2009/10 due to additional cover being granted to those claiming Child Benefit and whose youngest child is 12 or under. More details on this change can be found at:

<http://www.hmrc.gov.uk/childbenefit/start/claiming/protect-pension.htm#4>.

In addition to those having entitlement to S2P during periods when they cannot work, a further 6 million people in 2010/11 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 11.1 million in 2010/11.



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

This publication can be used for:

- Obtaining numbers of people qualifying for state pension and numbers of people with some kind of second tier pension cover.
- Exploring the characteristics of those qualifying for state pension or with second tier pension cover.
- Statistics on the numbers of people paying various classes of National Insurance in each tax year.

This publication should not be used for:

- Statistics on earnings. This series presents “earnings on which class 1 contributions are paid”. This can be a subset of total earnings and is capped at the upper earnings limit set by HM Revenue and Customs. Statistics on earnings can be obtained from: <http://www.ons.gov.uk/ons/guide-method/method-quality/specific/labour-market/annual-survey-of-hours-and-earnings/index.html>
- Statistics on pensions paid to those over State Pension Age. Statistics on State Pension can be found at: http://statistics.dwp.gov.uk/asd/index.php?page=statistical_summaries. Statistics on second tier pensions in payment can be found at: <http://www.ons.gov.uk/ons/guide-method/method-quality/guide-to-pension-statistics/private--non-state--pensions/index.html>

2. Planned revisions due to retrospection

These statistics are produced from a longitudinal database (Lifetime Labour Market Database) which is revised each year. These database revisions completely refresh the contribution history for each person, so that the statistics show the most up-to-date information from the National Insurance Recording System. For example, postings made after the last set of statistics will now be included; corrections made to the database will also be included.

The magnitude of these revisions varies from year to year and for different types of information. For example, employers are required to submit details of class 1 National Insurance within 2 months of the end of the tax year; whilst class 3 contributions can be paid up to 6 years after the end of the tax year. Changes in employer and HMRC administrative practice can also change the number of retrospective changes. The level of changes seen in previous years can serve as a useful guide to the level of increase that might be expected.

For example, using 2008/09 numbers:

When the figures for 2008/09 tax year were first published in 2010 they were marked as provisional as there would be further P14 returns made and amendments to early records. 29,390 people made National Insurance contributions in 2008/09 according to the information we had in 2010.

In 2011 the figures for 2008/09 were still marked as provisional to allow for further P14 returns and amendments. 29,607 people made National Insurance contributions in 2008/09 according to the information we had in 2011, an increase of 0.73% from the original reporting of this data in 2010.



In 2012, we are confident the vast majority of returns and amendments have been made for the 2008/09 tax year and take away the provisional status. However, the figures will continue to be revised each year in accordance with the revision policy. 29,649 people made National Insurance contributions in 2008/09 according to the information we had in 2012, an increase of 0.88% from the original reporting of this statistic in 2010.

However, for class 3 contributions the final figures are likely to be up to twice the value of the original provisional statistic.

A detailed table of these retrospective revisions can be found in the [Quality document](#).

3. Sampling errors

The database from which these statistics are produced is based on a 1% sample from the National Insurance Recording System (NIRS). Numbers derived from this 1% sample are subject to sampling error and are estimates of the true population value. By chance, an estimate of the population value, obtained from the 1% sample data, may be slightly lower or slightly higher than the true population value.

A confidence interval provides a range of values which, it is estimated, includes an unknown value. In the context of these statistics, the confidence intervals summarise the variability in the estimates caused by the calculation from a 1% sample. It is therefore important to look at the confidence intervals as well as the estimate when using these statistics. The range of a confidence interval is expressed in terms of lower and upper limits. If many independent 1% samples were drawn from the HMRC NIRS system and the same value calculated, 95% of those samples would produce estimates which lie within the limits in the table below.

A more detailed table can be found in the [Quality document](#).

Estimated value	95% Confidence Interval	Confidence interval as a % of the estimate
1,000	+/-650	+/-65%
5,000	+/-1,350	+/-27%
10,000	+/-1,950	+/-20%
50,000	+/-4,350	+/-9%
1,000,000	+/-19,500	+/-2%
5,000,000	+/-43,650	+/-1%
10,000,000	+/-61,650	+/-1%

4. 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](#)

These statistics have been recently assessed by the UK Statistics Authority. The resulting report can be found at:

<http://www.statisticsauthority.gov.uk/assessment/assessment/assessment-reports/index.html>, number 183.

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@dwpgsi.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@dwpgsi.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

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

Stuart Grant
Information, Governance and Security Directorate
Department for Work and Pensions
Room BP5201
Benton Park Road
Longbenton
Newcastle Upon Tyne
NE98 1YX

5. 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>

Details of the changes following the 2007 Pension Reform Act can be found at:
<http://www.dwp.gov.uk/policy/pensions-reform/the-pensions-act-2007/>

Details of the changes following the 2011 Pension Reform Act can be found at:
<http://www.dwp.gov.uk/policy/pensions-reform/pensions-bill-2011/>

Details of additional State Pension (State Earnings Related Pension Scheme (SERPS) and State Second Pension (S2P)) can be found at:
http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/AdditionalStatePension/DG_4017827?CID=PRP&PLA=url_mon&CRE=contracted_out_pensions

6. 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:

- 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

However, users should note that earnings are shown as “earnings on which National Insurance contributions have been paid”. Hence, earnings over the Upper Earnings Limit for the relevant year are not available.

- The Pre-2010 rules and Post-2010 rules Tabulation Tools have been adjusted as follows:
 - All qualifying years: Contains all people with a qualifying year regardless of retirement date. In this Tool, the variables like "number of years of entitlement to Basic State Pension" and "Percentage entitlement to Basic State Pension" are calculated according to the correct rules (i.e. using pre-2010 rules for people retiring pre-April 2010; and using post-2010 rules for those retiring post-April 2010).



- Retiring under pre-2010 rules: Contains people retiring before April 2010 and retiring under pre-2010 rules. Using only the pre-2010 calculation rules. Whilst tables relating to April 2010 will be selectable, they will contain no numbers. All such people will be after State Pension age by April 2010 and therefore not able to earn new qualifying years.
- Retiring under post-2010 rules: Contains people retiring after April 2010 and retiring under post-2010 rules. Using only the post-2010 calculation rules.
- There have been three changes to the way National Insurance and S2P credits are awarded in 2010/11. These are shown in the tables:
 - From April 2010, 16-18 year olds no longer receive automatic class 3 National Insurance credits. In the tables this can be seen as a marked fall in the number of people aged under 20 receiving a National Insurance credit.
 - Home Responsibilities Protection has been replaced with a National Insurance credit for those with childcare or caring responsibilities.
 - From April 2010, credits towards additional State Pension (S2P) are awarded to people claiming Child Benefit for a child up to the age of 12.

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

As the next publication is a year away, DWP will post details of any further changes on the Landing Page (http://research.dwp.gov.uk/asd/index.php?page=stpp_cq) at least one month before the release. However, at the time of writing, DWP expect that the next release will include:

- Some additional changes to commentary and background information as a result of the recent UK Statistics Authority review of these statistics. The report can be found at: <http://www.statisticsauthority.gov.uk/assessment/assessment/assessment-reports/index.html> and is report number 183
- Following the introduction of National Insurance credits for those previously awarded HRP we intend to show separately those awarded credits for childcare and caring responsibilities.
- As of April 2012 contracting out of State Second Pension from a Defined Contribution scheme will no longer be possible. This may impact on future publications, for more details please read the following: http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/@over50/documents/digitalasset/dg_186333.pdf

Comments from users are welcome on these planned changes using the contact details in Notes section 4 above or via email to stats-consultation@dwp.gsi.gov.uk