

State Pension Coverage: Lower Earnings Limit and Multiple jobs

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Department
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Background

If an individual has earnings in any particular job less than the Lower Earnings Limit (£109 per week in 2013/14) they do not pay any National Insurance (NI), and will not accrue a qualifying year towards the basic State Pension. Those who earn less than the LEL in two or more jobs are not liable to pay NI contributions and similarly do not accrue a qualifying year towards the State Pension even if, when combined, their earnings are above the LEL. In other words, earnings from separate jobs cannot be aggregated for pension purposes.

In 2007 DWP published analysis estimating that 15,000 women and 5,000 men were working in two jobs below the Lower Earnings Limit (LEL) with aggregate earnings above it, and were not accruing any State Pension. This analysis was based on Labour Force Survey data from 2004 – 2006.

The Pensions Bill 2013-14¹ was introduced to Parliament on 9 May 2013 resulting in increased interest in State Pension coverage. This publication addresses said interest in an update of these figures incorporating changes to the National Insurance crediting system that have taken place since 2007. It also briefly considers the changes that the introduction of Universal Credit will have on National Insurance crediting for this group.

Methodology

This analysis is based on data from the Labour Force Survey (LFS). This contains quarterly information from a representative sample of households in the UK. The LFS was chosen for its comparatively large sample size which allows us to analyse with some precision, what is a relatively small section of the population. It also allows a close comparison with previous figures which were also based on the LFS. See annexe 1 for a description of the LFS.

The methodology used to identify those in 2 jobs under the LEL with aggregate earnings over it who are not accruing any qualifying years towards the State Pension is as follows:

- Combine together the four quarterly LFS datasets relating to the financial year of interest (April 2012 – Mar 2013).
- Identify individuals aged between 16 and State Pension Age working in 2 jobs with total gross weekly earnings above the LEL (£107 in 2012-13), and earnings from *both* individual jobs below the same threshold.

¹ Further information is available on this webpage <http://services.parliament.uk/bills/2013-14/pensions.html>

- All parents receiving Child Benefit for a child aged under 12 years are eligible for NI credits for parenting even if they do not receive payments due to their household tax (income) status, so are excluded from the analysis.
- We additionally went on to identify individuals who receive income from any of the following income-related benefits: Income Support, Child Tax Credits, Working Tax Credit, and Housing Benefit. Recipients of these benefits are not currently entitled to NI credits or have to apply to HMRC to receive them. These benefits are scheduled to be replaced by Universal Credit which will automatically give a credit to a member of a claimant household.

Notes and Limitations of the Analysis

- The LFS is based on a 'point in time' snapshot of individuals' reported activity in the week of interview. Therefore, we have no indication of whether respondents subsequently continued with their reported activities for the rest of the year. This means that people who report weekly earnings at or above the LEL could fail to accrue a qualifying year through earnings, whilst those who report weekly earnings below the LEL could go on to accrue a qualifying year through earnings.
- The LFS is not able to identify all sources of NI credits, in particular those related to the receipt of income-related benefits. A number of people who we identify in this analysis may receive credits through this route.
- The analysis does not tell us anything about how long people work in arrangements where they do not build up any basic State Pension (BSP). People can have considerable gaps in their contribution history and still qualify for the full amount of BSP. A person can receive a full BSP if they have 30 qualifying years of NI contributions or credits. For the proposed new Single-Tier Pension (set out in the Pensions Bill 2013) 35 qualifying years will be needed to receive the full amount. Additionally, people may still use Voluntary NI contributions to add qualifying years to their record.
- The LFS only records earnings information for the first 2 jobs for people in multiple jobs. Consequently we may produce a slight underestimation, although evidence from the Family Resources Survey suggests that of those who have multiple jobs, only a very small minority have 3 or more.
- The LFS is a sample survey and therefore any estimates produced from it are subject to some uncertainty. This has been reflected in our presentation of the figures.

Results

Our analysis suggests that in 2012/13 the number of people working in two jobs with combined earnings above the LEL, but not accruing any qualifying years towards the

basic State Pension is approximately 10,000 men and 40,000 women, so 50,000 in total (with a 95% confidence interval of 40,000 – 60,000²).

A proportion of this group may receive National Insurance credits through receipt of income-related benefits which are targeted at low earners (see section on limitations of the analysis). We identified that around 20% of this group should receive credits automatically under Universal Credit due to being in a low income family³ and some of these may already be getting credits.

Comparison with previous estimate

Analysis published in 2007 suggested a total of 20,000 compared to the current estimate of 50,000. The following factors can help to explain this increase:

- In 2010/11 two changes were made to the NI crediting regime which were both reflected in the analysis, and led to fewer people automatically receiving NI credits:
 - Prior to 2010/11 parents receiving Child Benefit for a child aged under 16 years had their NI record protected under the Home Responsibilities Protection scheme. In 2010/11 this scheme was replaced and the upper age limit for the youngest child was reduced to 12.
 - Prior to 2010/11 young people aged 16 – 18 automatically received a “Starting Credit”. From 2010/11 onwards, young people are no longer given this credit.
- We have made a small methodological change to reflect the fact that the survey does not account for people who do not know how much income they get from their second job. In cases where they were unknown, values were imputed from people who had similar earnings in their first job. This increased the latest estimate by a small amount (around 5,000), but also means that the previous estimate was probably underestimated by a similar amount, consequently overstating the scale of the increase.
- Finally, this increase takes place in a context of overall growth of the size of the labour force. This includes a consistent though small increase in the number of people working in two jobs from 1.028 million in the first quarter of 2006 to the current 1.084 million in the second quarter of 2013⁴.

² LFS is a sample survey, and is subject to sampling variation. This is typically quantified with a 95% confidence interval which is the range within which we can be 95% confident the true value lies. In this case we have estimated the confidence interval by assuming the LFS is a simple random sample.

³ Proxied by receipt of one of the following income-related benefits that Universal Credit will replace (Income Support, Working Tax Credit, Child Tax Credit, and Housing Benefit).

⁴ Source: ONS Labour Market Statistics June 2013

Annex 1

The LFS is a representative sample survey of around 60,000 private households in Great Britain and Northern Ireland. As it is a household survey, people in communal establishments (e.g. hostels or medical and care institutions) are not included in results.

Data are self reported, meaning answers may be subject to respondents' bias (some may display a willingness to respond in a way they believe would be viewed favourably by others) and ability to recall information correctly. For more detailed information on the LFS please refer to ONS Labour Force Survey guidance (<http://www.ons.gov.uk/ons/guidemethod/method-quality/specific/labour-market/labour-market-statistics/index.html>)

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