

# State Pension Coverage: Lower Earnings Limit and Multiple jobs

July 2014



Department  
for Work &  
Pensions

# Background

If an individual has earnings in any particular job less than the Lower Earnings Limit (£111 per week in 2014/15) 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 are not 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 2013-14<sup>1</sup> was introduced to Parliament on 9 May 2013 resulting in increased interest in State Pension coverage.

As a consequence this figure was updated in July 2013 to cover the period April 2012-March 2013. The new figure was 50,000 (40,000 women and 10,000 men). The main reason for the increase from the 2007 estimate was a change to the crediting arrangements in 2010-11 meaning starter credits and credits for caring for children aged 12 -15 were no longer available. Therefore, in the years prior to 2010, there were fewer individuals not obtaining a qualifying year: this is relevant in the consideration of the number of qualifying years that individuals may have achieved across the course of their working life. More detail is available in the previous publication

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/209863/ad-hoc-multiple-jobs.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209863/ad-hoc-multiple-jobs.pdf)

Following debates in both Houses of Parliament, the Minister for Pensions committed to updating this analysis and do further analysis on the characteristics of individuals in this group as part of a commitment to building the evidence base on this issue.

This publication updates the analysis for the period April 2013-March 2014 and looks at the characteristics of individuals in this group since April 2010.

# 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

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

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 annex 1 for a description of the LFS.

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

- Combine together the four quarterly LFS datasets relating to the financial year of interest (April 2013 – Mar 2014). For the characteristics analysis we combined four years of data. It is necessary to consider data over a longer time-span to ensure sufficient sample size for breakdowns by different characteristics.
- Identify individuals aged between 16 and State Pension Age working in 2 jobs with total gross weekly earnings above the LEL (£109 in 2013-14), and earnings from *both* individual jobs below the same threshold.
- 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 new State Pension (legislated for in the Pensions Act 2014) 35 qualifying years will be needed to receive the full amount<sup>2</sup>. Additionally, people may still use Voluntary National Insurance 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 the analysis 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.
- As individuals stay in the Labour Force Survey for 5 quarters this means that the number of individuals captured in the characteristics is likely to be smaller than the number of sample cases.

## Results

Our analysis suggests that in 2013/14 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 30,000 women, so 40,000 in total (with a 95% confidence interval of 30,000 – 50,000<sup>3</sup> ).

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). In the Labour Force Survey, we identified that around 15% of this group should receive credits automatically under Universal Credit due to being in a low income family<sup>4</sup> and some of these may already be getting credits.

## Comparison with previous estimate

The previous year's estimate was 50,000 but given the confidence interval of last year's results this is not a significant change in the analysis.

There has been a slight change to the methodology to better reflect when individuals cannot gain a qualifying year: (when they are reaching State Pension age in that tax year) but this has a negligible impact on the analysis.

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<sup>2</sup> In the absence of a deduction for time spent contracted-out.

<sup>3</sup> 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.

<sup>4</sup> 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).

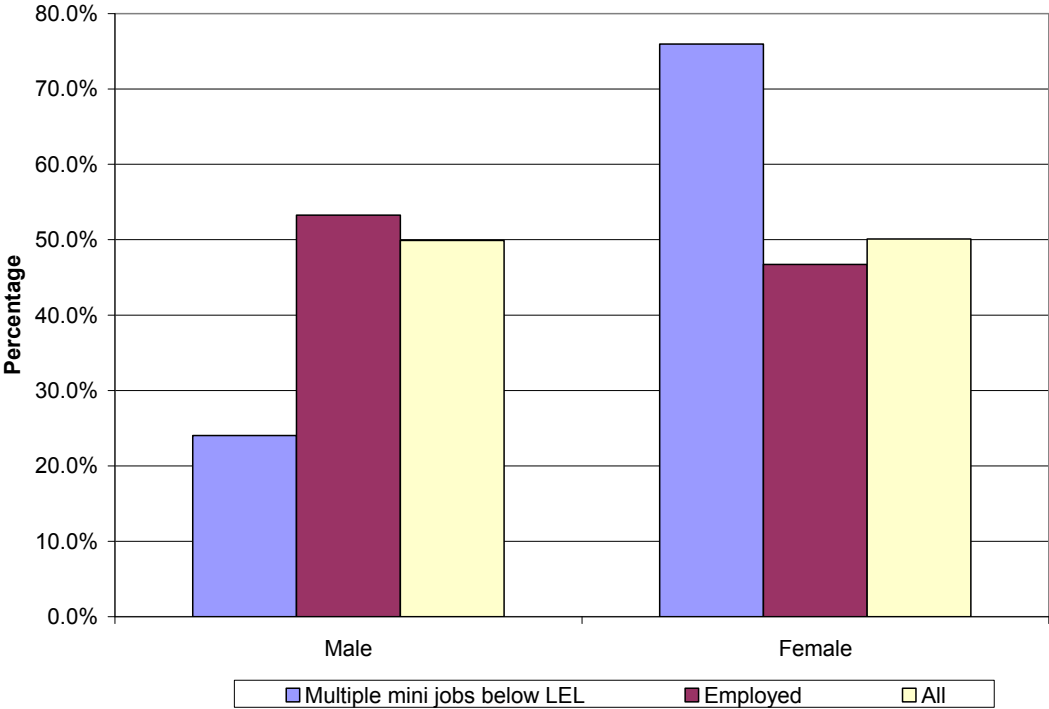
# Characteristics Analysis

In the following analysis we have combined the last 4 years of data on those individuals who have multiple jobs under the LEL – with total earnings above the LEL and have not gained a qualifying year for the State Pension, in order to examine their characteristics. This produces a sample size of around 300 cases.

Comparisons are made to the Labour Market Statistics in the final quarter of 2013/14 for those aged 16-64 (employed and all individuals) in order to provide an indication as to whether the characteristics are atypical of the population as a whole. All analysis includes those currently in full time education or training.

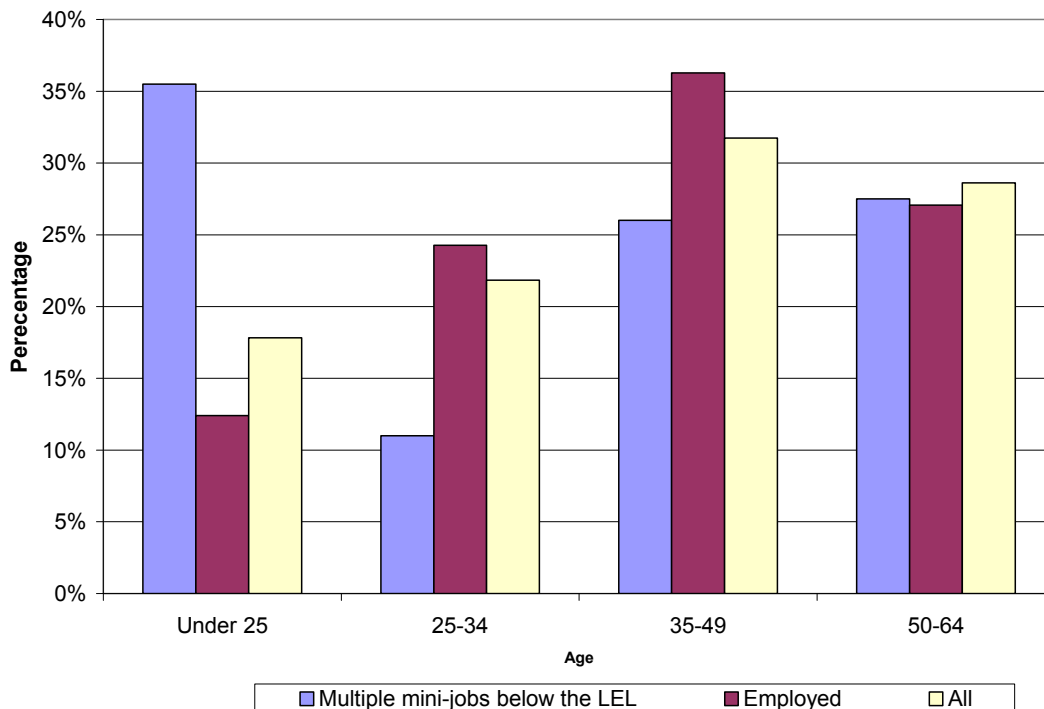
## Gender

The majority of individuals are female (around 75%) compared to approximately (45%) of individuals in employment and 50% of all individuals.



## Age

Around 35% of individuals are aged under 25 compared to just over 10% of all employed individuals. Individuals aged between 25-49 are less likely to be in this group.

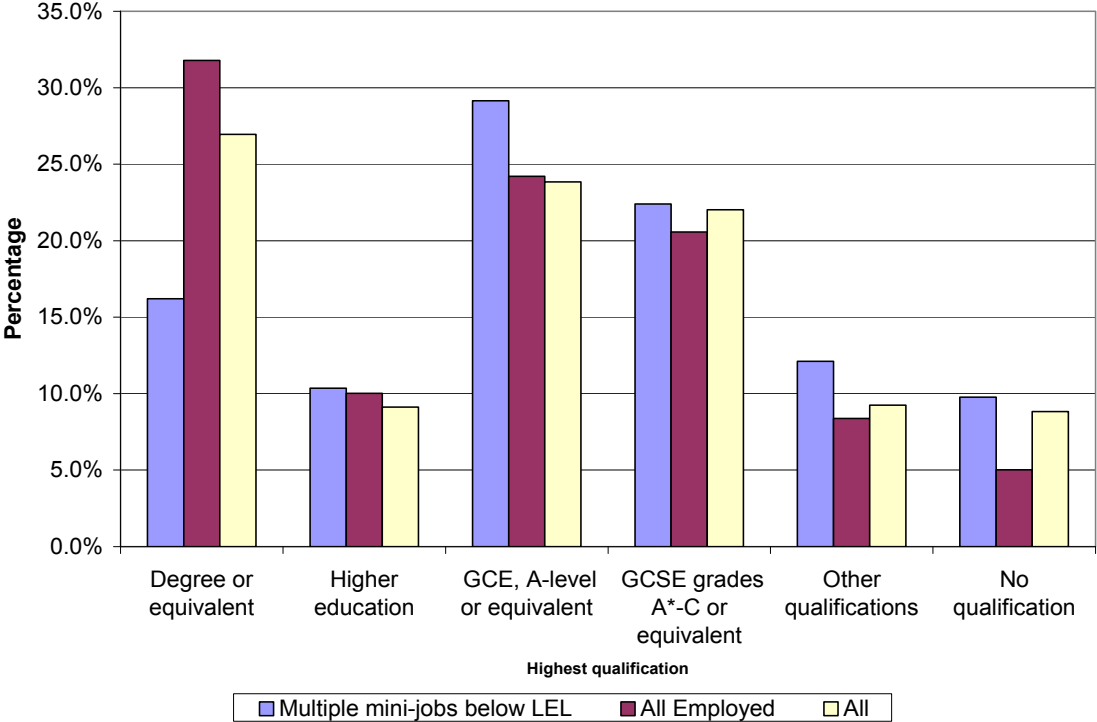


## Children

Around **a third of individuals** in this group in total have a child (aged over 12): which makes up **around half** of those aged 25 or over. This is relevant because it suggests that these individuals are likely to have already gained credits for a significant number of years due to caring for a child; if they had not gained qualifying years through work.

## Qualifications

Just over half (55%) of individuals in this group have qualifications of at least A-level.<sup>5</sup> This compares to around 65% of those in work. This is mainly caused because only around 15% of this group have a degree compared to around a third of all employees. This comparison includes those in full-time education or training.



## Information about job

### Earnings above NI threshold

**Around 40% of individuals** would have paid some National Insurance had their earnings been aggregated, as their total earnings were above the Primary Threshold.<sup>6</sup> If these people achieve a full state pension then they are financially better off from their earnings not being aggregated.<sup>7</sup>

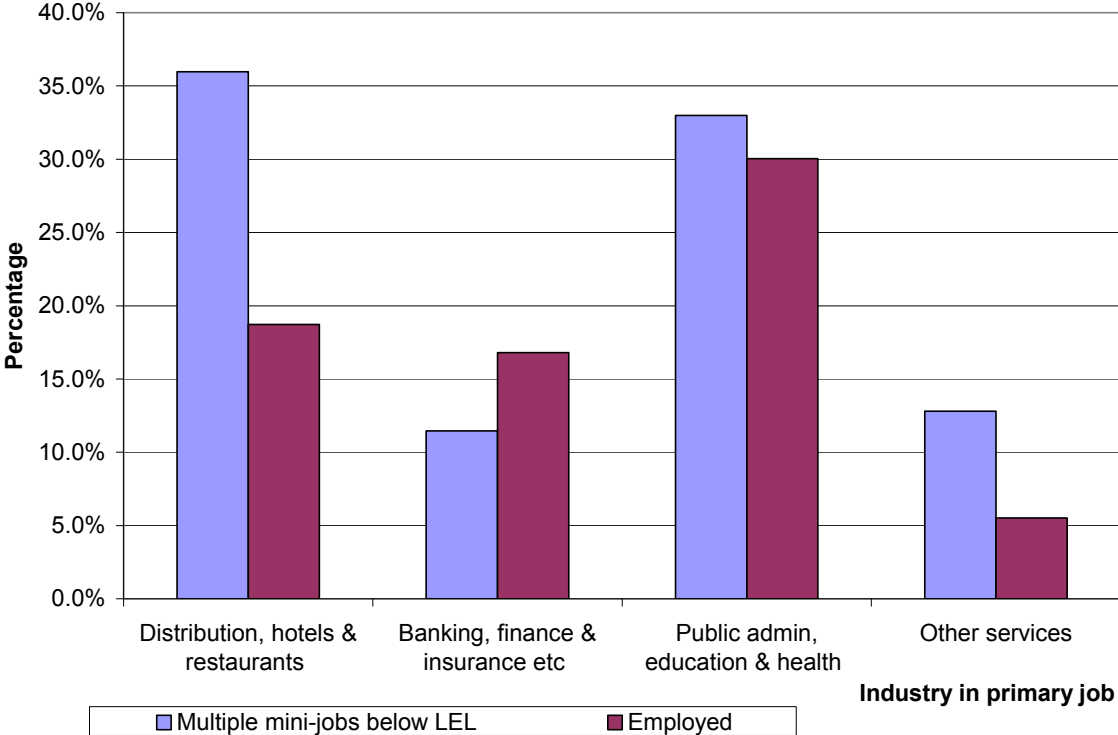
<sup>5</sup> Don't knows have been excluded. The qualifications analysis for those in multiple mini jobs is only for the last 3 years: due to changes in the definitions of variables in the Labour Force Survey. Sample size of around 230 cases.

<sup>6</sup> The Primary Threshold is the level employees start to make NI contributions (£149 a week in 2014/15)

<sup>7</sup> This has only be assessed from 2011 onwards as there was a significant rise in the primary threshold in this year so the results from 2010 are not an accurate reflection of likely future outcomes

# Occupation

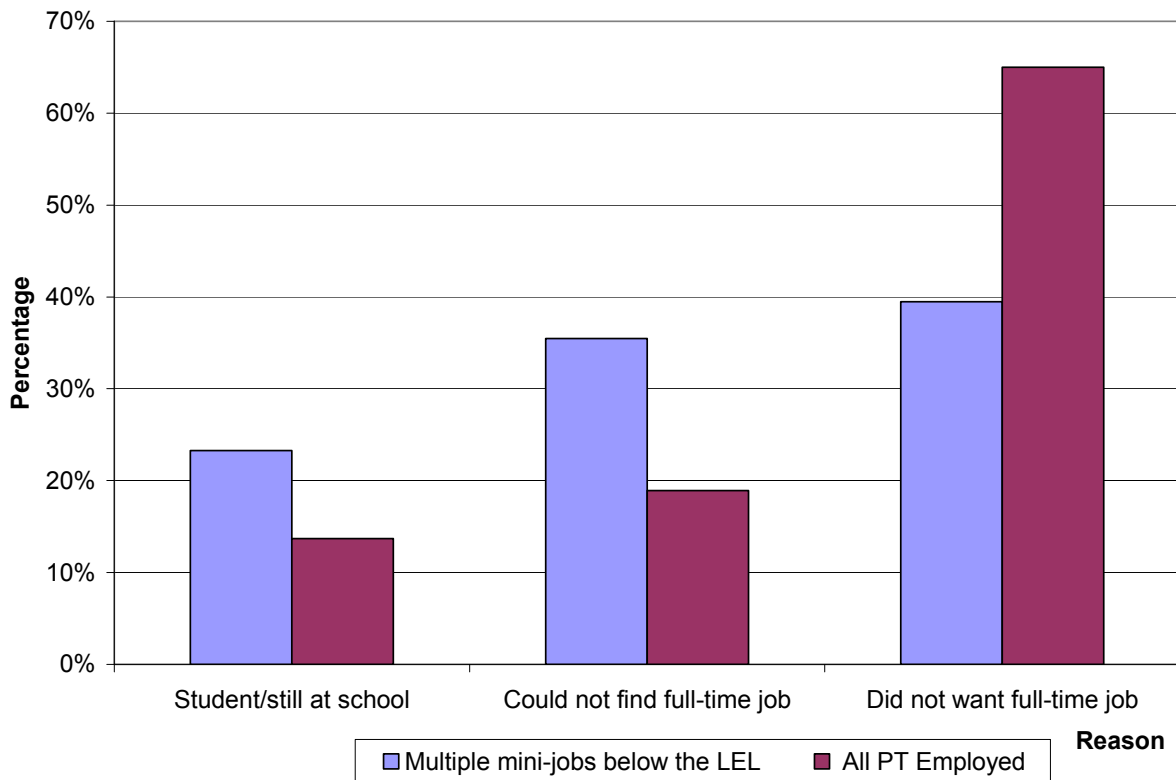
Around **70 per cent of individuals** in this group are employed in either the distribution, hotels and restaurants sector or in public administration, education or health in their main job. This compares to around 50% of all employed individuals.





## Working Pattern

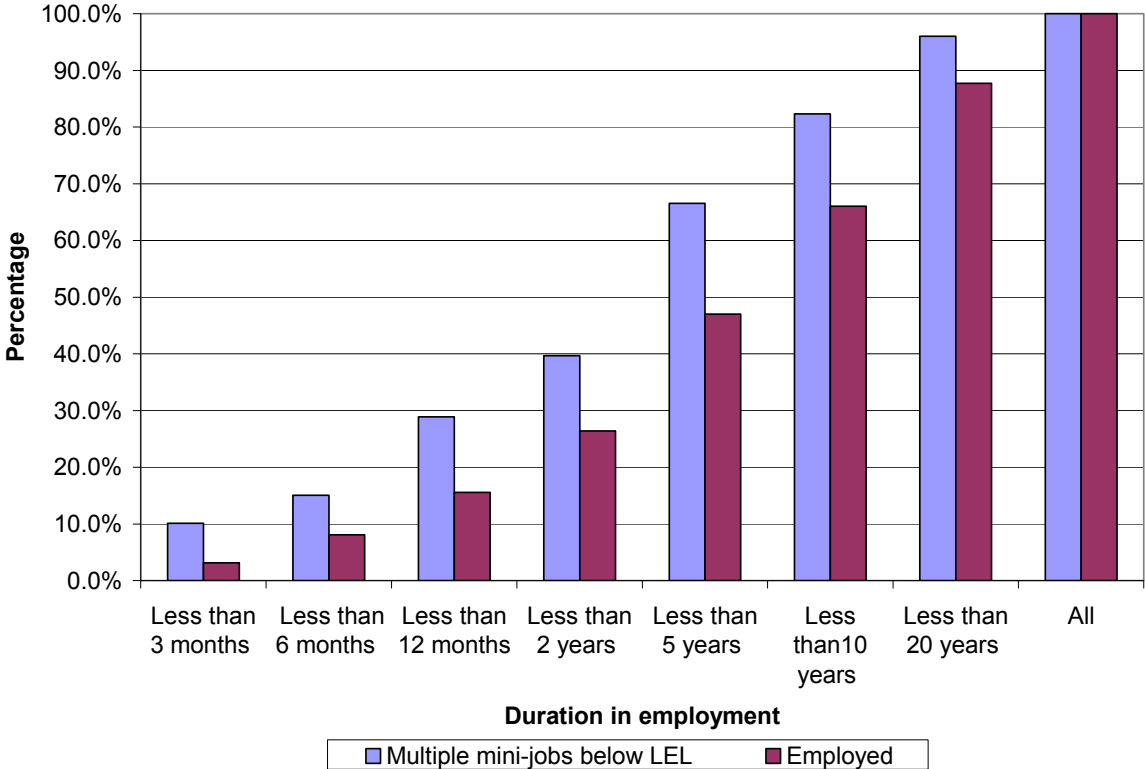
Around 40% of individuals<sup>8</sup> said they were working part-time because they did not want a full time job. This compares to two-thirds of all part-time workers. In contrast 35% of individuals in this group could not find a full time job compared to around 20% of all part time workers.



<sup>8</sup> Excluding those who did not respond to this question (less than 5% of sample cases in multiple mini-jobs below the LEL group )

## Duration in Work

The majority of individuals in this group have been employed for more than 2+ years: though their earnings or jobs may have changed over this period; with around a third being employed for more than 5 years and around 20% for more than 10 years. This compares to around 55% of all employees being employed for more than 5 years and around a third for more than 10 years.



## Table of Statistics for All Charts

Characteristic		Multiple mini-jobs below LEL	All employed aged 16-64	All aged 16-64
Gender	Male	24%	53%	50%
	Female	76%	47%	50%
Age	Under 25	35%	12%	18%
	25-34	11%	24%	22%
	35-49	26%	36%	32%
	50-64	27%	27%	29%
Qualifications	Degree or equivalent	16%	32%	27%
	Higher education	10%	10%	9%
	GCE, A-level or equivalent	29%	24%	24%
	GCSE grades A*-C or equivalent	22%	21%	22%
	Other qualifications	12%	8%	9%
	No qualification	10%	5%	9%
Occupation	Distribution, hotels & restaurants	36%	19%	n/a
	Banking, finance & insurance etc	11%	17%	n/a
	Public admin, education & health	33%	30%	n/a
	Other services	13%	6%	n/a
Reason for Part time job	Student/still at school	23%	14%	n/a
	Could not find full-time job	35%	19%	n/a
	Did not want full-time job	39%	65%	n/a
Length of employment	Less than 3 months	10%	3%	n/a
	Less than 6 months	15%	8%	n/a
	Less than 12 months	29%	16%	n/a
	Less than 2 years	40%	26%	n/a
	Less than 5 years	67%	47%	n/a
	Less than 10 years	82%	66%	n/a
	Less than 20 years	96%	88%	n/a
	All	100%	100%	n/a

### Notes

**Multiple mini-jobs below the LEL** - refers to the individuals who have 2 jobs both of which earn below the Lower Earnings Limit, who have total earnings above the LEL and are not gaining a qualifying year for State Pension purposes. Data is from the Labour Force Survey April 2010 – March 2014 (sample size of around 300 cases), except for the qualifications question where the data is for the period April 2011 – March 2014 (sample size of around 230 cases)

**All employed aged 16-64** – refers to all those employed, except for the question about reason for working part time when it refers only to part-time employees. Data is from the Labour Force Survey (Jan 2014-March 2014)

**All aged 16-64** – Data is taken from the Labour Force Survey

All percentages rounded to nearest 1%

# 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 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>)

**Chris Sutton**

**Department for Work and Pensions**

**18th July 2014**