HM Revenue & Customs

State Pension Top Up: Class 3A Voluntary National Insurance Contributions

Who is likely to be affected?

Existing pensioners and those who reach State Pension age before 6 April 2016.

General description of the measure

This measure is designed to allow pensioners and those reaching State Pension age before 6 April 2016 the opportunity to increase their additional State Pension by paying Class 3A voluntary National Insurance contributions. Class 3A contributions have been set at an actuarially fair rate that ensures an equitable deal for both individual contributors and taxpayers.

Policy objective

This measure will allow existing pensioners and those reaching State Pension age before 6 April 2016 to acquire additional State Pension by making Class 3A National Insurance contributions. This measure is aimed at women and other groups who have done less favourably under the existing State Pension rules and have not previously been able to top these up their additional State Pension. It will provide an opportunity for pensioners to improve their retirement income by obtaining inflation-proofed extra additional State Pension.

Background to the measure

The State Pension Top Up was announced in the Autumn Statement by the Chancellor of the Exchequer on the 5 December 2013.

Detailed proposal

Operative date

The opportunity to pay Class 3A contributions will be available to those eligible from 12 October 2015 to 5 April 2017.

Current law

Legislation allows for the payment of voluntary Class 3 contributions for basic State Pension and Bereavement Benefit purposes. There is a time limit for paying Class 3 voluntary contributions of six years after the tax year that they relate although this has been extended in certain cases. Married women who paid married women’s reduced rate contributions are not able to pay Class 3 contributions for those periods.

Proposed revisions

The Pensions Act 2014 introduced Class 3A contributions and set two entitlement conditions:

- contributors must have entitlement to a UK State Pension

- must reach State Pension age before 6 April 2016

The Minister for Pensions in a Written Ministerial Statement announced further details of the measure including:

- the amount of a Class 3A contributions (which reduces with age)
- specifying the level of additional State Pension that one unit of Class 3A will result in at £1 per week
- setting a £25 a week maximum additional State Pension that can be obtained through payment of Class 3A contributions
- providing for a cooling off period of 90 days from payment during which a refund can be obtained; applying also to the estate of a person who dies during that period

The measure will apply to the whole of the UK but this is dependent upon the Royal Assent of the Northern Ireland equivalent of the Pensions Act 2014 to allow for the increase in the additional State Pension.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2013-14</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td></tr>
<tr><td>nil</td><td>nil</td><td>+415</td><td>+435</td><td>0</td></tr>
<tr><td colspan="5">These figures were set out in table 2.1 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2014.</td></tr>
<tr><td>Economic impact</td><td colspan="5">The measure is not expected to have any significant economic impacts.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">The measure is entirely voluntary and will affect those over State Pension age before 6 April 2016 who choose to pay Class 3A contributions. The estimated take up is expected to be 265,000.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">It is not expected that the measure would impact adversely or disproportionately on equality groups.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">There is no impact on business (including civil society organisations).</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">There will be IT costs for HMRC/ DWP to introduce Class 3A contributions and administrative costs in publicising Class 3A contributions and handling applications to pay Class 3A contributions. These are estimated to be around £28 million.</td></tr>
<tr><td>Other impacts</td><td colspan="5">Other impacts have been considered and none have been identified.</td></tr>
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Monitoring and evaluation

The measure will be monitored and evaluated using management information collected from applications.

Further advice

If you have any questions about this change, please contact Hasan Mustafa on Telephone: 03000 586718 (email: Hasan Mustafa).

Declaration

David Gauke MP, Exchequer Secretary to the Treasury has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.