National Insurance: a fairer settlement for all ages

National Insurance employee contributions (NIC) currently stop when a person reaches State Pension Age (SPA):

- **This effectively gives older workers a pay rise at the expense of the general taxpayer.**
- **£2 billion a year could be raised for the NHS/social care if the 1.2 million older workers over SPA were no longer exempt.[1]**
- **Aligning older workers' NIC rates with younger workers would improve Intergenerational fairness.**
- **Aligning older workers' NIC rates with younger workers could help to fund the NHS which spends twice as much on retired households as on the working population.**
- **Incomes of retired households have overtaken those of working households for the first time.**

NIC exemptions are often justified using the "contributory principle", meaning that workers pay a set amount into the welfare system for a set number of years in order pay for their state pension.

Contrary to popular belief, the State Pension is unfunded.[2] Like the State Pension, NIC payments are based on a pay-as-you-go model with contributions paid out again more or less immediately to fund the payments of existing benefit recipients.

In years when the notional National Insurance Fund is in deficit, the Fund is topped up from general taxation revenues. When the Fund is in surplus, the government invests in gilts. The government simply lends itself money.[3]

There is evidence that three-quarters of both men and women working beyond SPA remain in the same jobs they held before SPA. The removal of NICs simply functions as a pay rise for those exempt at the expense of other workers.[4]

NIC contribution terms have increased with the raising of the State Pension age, but will not keep up with increasing longevity: current life expectancy for women is now 92 years of age, and 89 years for men.[5]

The old age dependency ratio – effectively the number of pensioners dependent on potentially tax-paying members of the working population to support them – continues to rise. Up to 2006 there were 300 pensioners for every 1,000 people of working age. Projections suggest that by 2039 there will be 370 (Without reforms to the State Pension Age this figure would have increased to 487).[6]

The number of UK residents aged 90 and over has almost tripled since the early 1980s.[7]

The median income of retired households was largely unaffected by the economic downturn and rose by 7.7% (£1,500) between 2007/08 and 2014/15. In contrast, non-retired households' median income in 2014/15 remained 3.1% (£900) below its level in 2007/08.[8]

[1] Baldwin, H. MP; Coffey, T. MP; Kwarteng, K. MP; Leadsom, A. MP; Norman, J. MP; Ruffley, D. MP; Skidmore, C. MP; and Truss, E. MP (2012) Policy Bites: Seven Shots in the Arm of Britain, London: Free Enterprise Group
[2] Smith, S. (2001) "UK state pensions" Economic Review Vol. 18, No 3
[3] Adam, S. and Loutzenhiser, G. (2007) "Integrating Income Tax and National Insurance: an Interim Report" IFS Working Papers, London: IFS
[4] Smeaton, D. and McKay, S. (2003) Working after State Pension Age: Quantitative Analysis, London: Department for Work and Pensions
[5] ONS (2016) UK Perspectives 2016: The Changing UK population: http://visual.ons.gov.uk/uk-perspectives-2016-the-changing-uk-population/
[6] ibid.
[7] ibid.
[8] ONS (2016) Household disposable income and inequality: financial year ending 2015: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2015