
Contributions and Qualifying Years

1978/79 to 2000/01

Contents

	Page
List of tables	2
Introduction	3
Notes for Editors	4
Main Findings	5-6
Glossary of Terms	7-10
Appendix A Sampling Effects	11
Appendix B National Insurance Earnings limits	12

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List of tables

CQY 1.0	Number of people who paid National Insurance contributions during the tax year by type of contribution
CQY 2.1	Number of people who paid any Class 1 National Insurance contributions during the tax year by annual reckonable earnings
CQY 2.2	Number of men who paid any Class 1 National Insurance contributions during the tax year by annual reckonable earnings
CQY 2.3	Number of women who paid any Class 1 National Insurance contributions during the tax year by annual reckonable earnings
CQY 3.1	Number of people who paid any Class 1 National Insurance contributions at the not contracted out rate, the contracted out rate and the not contracted out and the contracted out rate only during the tax year by annual reckonable earnings
CQY 3.2	Number of men who paid any Class 1 National Insurance contributions at the not contracted out rate, the contracted out rate and the not contracted out and the contracted out rate only during the tax year by annual reckonable earnings
CQY 3.3	Number of women who paid any Class 1 National Insurance contributions at the not contracted out rate, the contracted out rate and the not contracted out and the contracted out rate only during the tax year by annual reckonable earnings
CQY 4.1	Number of people who paid any Class 1 National Insurance contributions during the tax year at the not contracted out rate only by age
CQY 4.2	Number of people who paid any Class 1 National Insurance contributions during the tax year at the contracted out rate only by age
CQY 4.3	Number of people who paid any Class 1 National Insurance contributions during the tax year at the not contracted out rate and the contracted out rate only by age
CQY 5.0	Number of people who paid any Class 2 National Insurance contributions during the tax year by number of weeks paid
CQY 6.0	Number of people who paid any Class 3 National Insurance contributions during the tax year by number of weeks paid
CQY 7.0	Number of people who paid any Class 2 National Insurance contributions during the tax year by age
CQY 8.0	Number of people who paid any Class 3 National Insurance contributions during the tax year by age
CQY 9.0	Number of women who paid any Class 1 National Insurance contributions at the Reduced Rate during the tax year by type of contribution paid

Introduction

This release contains estimates of the number of people who have paid National Insurance contributions between 6th April 1978 and 5th April 2001 in the United Kingdom. It analyses the types of contribution paid and gives a broad indication of the number of people accruing a qualifying year for State Pension through those contributions. Detailed analyses are included on gender, by ages and earnings.

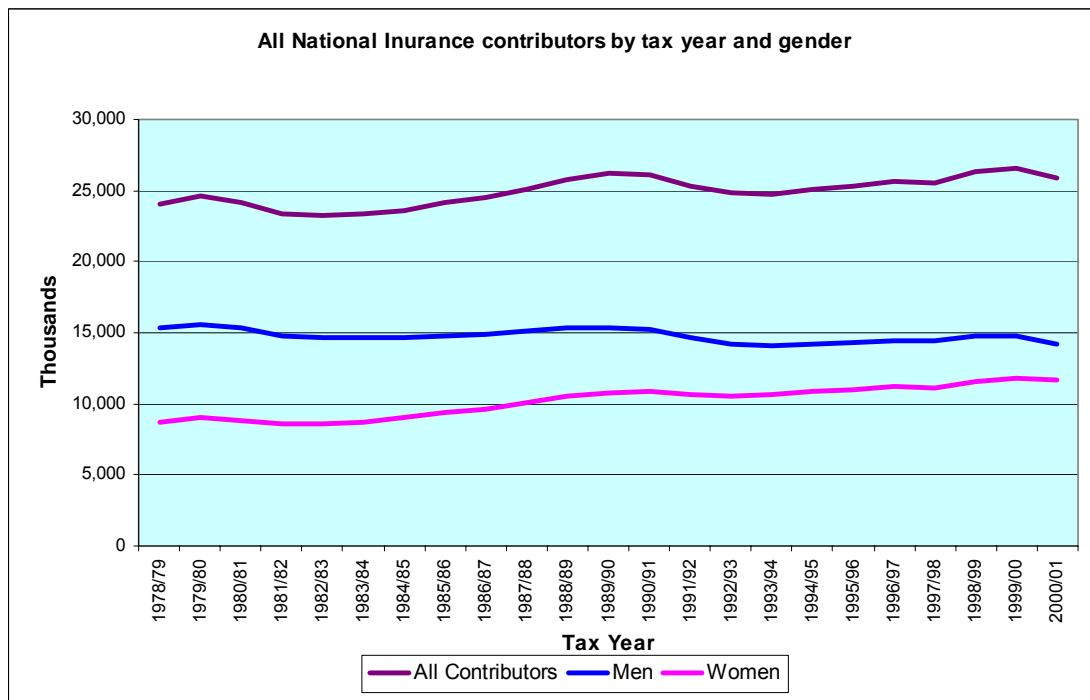
It was not possible to produce this publication for a number of years, as the source of data, the National Insurance Recording System computer, was being replaced. During the transition between old and new systems it was not possible to perform a full and representative analysis of National Insurance contributions, and as such no figures were produced during this period. It also took some time to understand the new data and learn how to interpret the new NIRS system.

This is the first published analysis of National Insurance contributions using the Lifetime Labour Market Database (LLMDB2), which is created using a 1% sample taken from the new National Insurance Recording System (NIRS2). The sample is taken 15 months after the end of the latest tax year to be analysed, to allow for late returns by employers.

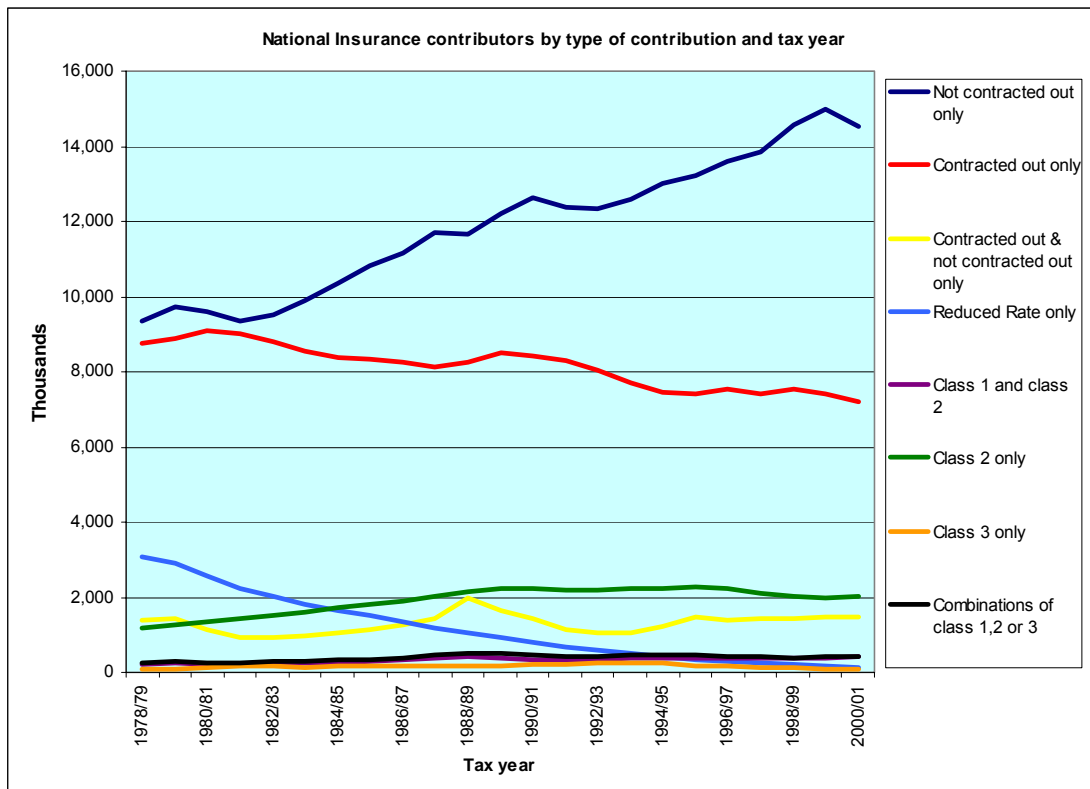
Notes for editors

- This release provides the latest estimates on people who have paid National Insurance contributions since 1978/79. The figures show all the contribution types that a person has paid during the year. Therefore the figures are not mutually exclusive and will include an element of double counting if a person has paid a number of contribution types, for example, self employed and employed earner contributions. A person may pay a number of types of contribution at any one time, particularly if the person has a number of employments in the year, either running consecutively or concurrently.
- Figures in this release will be subject to revision in future years. Although this will have a negligible effect before 1998/99, figures for the latest 2 years will be subject to larger revisions as some employers submit information late. The information for Class 2 contributors is likely to be severely under estimated for the latest years, as the self employed have longer to make their contributions. The figures for Class 2 contributors exclude those people who are self employed but who are exempt from making contributions due to the Small Earnings Exception.
- Figures in this publication replace those previously published in 1997. Comparisons with the previous publication may not be appropriate as this release reflects the most up to date picture of a persons' contribution record.

Main Findings



- In 1978/79 there were 24,091 thousand people paying National Insurance contributions including employees, the self employed and people paying voluntary contributions. After dipping slightly during the early 1980s the number of contributors increased steadily reaching 26,177 thousand by 1989/90. The increase during this time was largely due to the increase in the number of women paying contributions, while the profile of male contributors remained reasonably steady.
- From 1990/91 to 1994/95 there was a decline in contributors, particularly in the male population, while the number of women making contributions declined only slightly. In 1994/95 the overall number of contributors started to increase again, largely due to more women making contributions, while male contributors experienced a much smaller increase.
- By 1999/00 there were 26,585 thousand people making National Insurance contributions, the highest level in this series. In 2000/01 the figures had dropped slightly to 25,884 thousand.



- There has been a steady increase in the number of people paying contributions at the not contracted out rate, increasing from 9,334 thousand in 1978/79 to 14,542 thousand by 2000/01. During the same period there has been a drop in the number paying contracted out contributions, dropping from 8,754 thousand in 1978/79 to 7,199 thousand by 2000/01.
- The number of people paying Class 2 self employed contributions has increased, rising from 1,362 thousand in 1978/79 to 2,432 thousand by 2000/01. The proportion of male self employed contributors was 98% in 1978/79 reducing to 77% by 2000/01.
- The contribution profile of women has changed over the period largely due to the number of women ceasing to contribute under the married woman's reduced rate authority. The reduction from 3,068 thousand in 1978/79 to just 131 thousand by 2000/01 is largely due to those women with a reduced rate authority reaching State Pension age or transferring to paying full rate contributions, while no new reduced rate authorities were granted after April 1978. The effect of this shows that there has been an increase in the proportion of female Class 1 contributors over time as the proportion with a reduced rate authority declined.

Glossary

Age

Age has been calculated at the end of each tax year, i.e. 5th April

Class 1 National Insurance Contributions (NICs)

Class 1 NICs are earnings related contributions paid by employed earners who are below State Pension age (65 for men, 60 for women) and their employers. Up to 1999 NICs are only paid by employees when the reckonable earnings are above the Lower Earnings Limit (LEL) and are only paid on reckonable earnings up to the Upper Earnings Limit (UEL). Since 1999, NICs are only payable above the PAYE earnings threshold although they are treated as paid on earnings between the LEL and the threshold. NICs are paid by employers on all earnings at and above the LEL. See Appendix B for LEL and UEL amounts.

NICs are paid at either the contracted-out rate or the not contracted-out rate. The contracted-out rate is payable only where the employee is a member of a contracted-out occupational pension scheme in place of SERPS.

In most cases Class 1 NICs are collected by the Inland Revenue along with Income Tax in the Pay As You Earn (PAYE) scheme.

Class 1A National Insurance Contributions (NICs)

Class 1A NICs are paid only by employers where the company provides a car for the use of an employee or an employee's family. They do not give any benefit rights. This publication does not contain any information concerning Class 1A NICs.

Class 2 National Insurance Contributions (NICs)

Class 2 NICs are paid by people who are self-employed, unless they have applied for and been granted a 'small earnings exception' because their earnings from self employment are expected to be low, although they may still pay if they choose to. Class 2 NICs can be paid up to six years after the tax year in which they are due. They are paid at a flat rate for every week of self employment, including holiday periods. Class 4 NICs may also have to be paid if their profits for the year are over a certain amount.

Class 3 National Insurance Contributions (NICs)

Class 3 NICs are paid voluntarily to help a person qualify for basic State Pension. They can be paid by the following categories of people:

- people who are not working,
- people who are not liable for Class 1 or Class 2 contributions,
- people who have been excepted from paying Class 2 contributions,
- people whose contribution record for that particular year is not good enough for that year to count towards entitlement to basic State Pension,
- people living abroad and wishing to maintain their contribution record.

Class 3 NICs can be paid up to six years after the tax year in which they are due. They are paid at a flat rate and only count for State Pension and Bereavement Benefits. Please note a woman who has retained her right to pay reduced rate NICs will not be able to pay Class 3 NICs in any whole tax year where she held the reduced rate liability.

Class 4 National Insurance Contributions (NICs)

Class 4 NICs are paid by people who are self-employed and whose profit in the tax year is above a certain amount. Class 4 NICs are profit related and do not count for any benefits themselves. This publication does not hold any information on Class 4 NICs.

Contracted out

A person is in contracted-out employment if they are a member of their employer's pension scheme which is contracted-out of the State Earnings Related Pension Scheme (SERPS). A lower rate of Class 1 NICs is paid by both the employee and employer and the employee will receive a pension from the occupational pension scheme and state additional pension entitlement will be reduced accordingly.

Home Responsibilities Protection (HRP)

Home Responsibilities Protection (HRP), introduced in April 1978 as part of the New Pensions Scheme, helps to protect the basic State Pension position of people whose opportunities to work are limited because of caring responsibilities at home. It is available for complete tax years only and works by reducing the number of qualifying years they would otherwise need for a basic State Pension. For a full basic State Pension, HRP cannot reduce the number of qualifying years below 20 (22 years from 2020 when the State Pension age is equalised for men and women at 65).

Lower Earnings Limit (LEL) and Upper Earnings Limit (UEL)

LEL and UEL are weekly, monthly and annual amounts fixed for each tax year. Class 1 NICs are not payable by the employee or the employer if reckonable earnings are below the LEL. Up to 1999 Employees paid Class 1 NICs on reckonable earnings over the LEL up to the UEL. Since 1999, NICs are only payable above the PAYE earnings threshold although they are treated as paid on earnings between the LEL and the threshold. Employer's Class 1 NICs are payable on all earnings above the LEL. The LEL and UEL amounts are shown in Appendix B.

Please note for analysis shown in this publication the annual UEL has been used (this equates to 52 times the weekly UEL). However people who are paid weekly can pay NICs on up to 53 times the weekly UEL in any one tax year. This will effectively increase their annual UEL for that tax year.

Not contracted out

A person is in not contracted-out employment if their employer does not provide a contracted-out pension scheme or the employee chooses not to join the scheme. By paying Class 1 not contracted-out NICs the employee will pay the full rate of NI and will build up entitlement to SERPS for each tax year where their earnings from employment is equal to or greater than the annual LEL.

Qualifying year for State Pension (SP)

Since April 1975, a qualifying year for basic State Pension can be built up by paying sufficient Class 1, Class 2 or Class 3 NICs, or receiving or being treated as receiving, sufficient NI Credits or any combination of contributions. Since April 1978, sufficient means having reckonable earnings at 52 x the weekly LEL, and between April 1975 and April 1978 sufficient means having reckonable earnings at 50 x the weekly LEL. Each week of Class 2, Class 3 or Credited contribution counts as one week of reckonable earnings at the LEL. Since 1999, NICs are only payable above the PAYE earnings threshold although they are treated as paid on earnings between the LEL and the threshold.

Before April 1975, the number of qualifying years for RP was calculated by calculating the total number of weeks of paid and credited NICs and dividing by 50. Some contributions are automatically awarded to individuals whose working life started prior to July 1948.

A woman with a reduced rate authority throughout the year will not be able to use that year as a qualifying year for RP.

When a person reaches State Pension age, the number of qualifying years, the number of years HRP awarded and the length of the individuals working life will determine the amount of basic state RP received. (See ***State Pension*** for further information.)

Reckonable earnings

Reckonable earnings are the earnings on which Class 1 NICs are paid and which determine a person's eligibility for benefits. (See Class 1 National Insurance Contributions for further information.)

Unlike the Income Tax system where total cumulative earnings determine the amount of tax paid in a tax year, a person's liability to pay Class 1 NICs is based on whether or not their earnings exceed the LEL in any given pay period. It is therefore possible for several people to have the same annual income, but, depending on the distribution of earnings throughout the year, pay different amounts of Class 1 NICs.

Note: In 1985/86 NI rates changed, and a new formula for calculating earnings on which NICs are payable became necessary. In order to protect the contributions records of those paying the new lower rates of NI, reckonable earnings were 'boosted', and for this reason reckonable earnings may appear abnormally high.

Reduced Rate National Insurance Contributions (NICs)

Some married women or widows have retained the right since its abolition in April 1978 to pay reduced rate NICs and gain State Pension based on their husband's contribution record. A woman who has retained her right to pay reduced rate NICs is not entitled to Home Responsibilities Protection and will not accrue entitlement to SERPS while the Reduced Rate authority is retained.

State Earnings Related Pension Scheme (SERPS)

This is the earnings related element of the state pension (also known as additional pension). SERPS was introduced in April 1978 and individuals earning over the Lower Earnings Limit in any tax year are likely to accrue some SERPS entitlement for that year. When a person reaches State Pension age the amount of entitlement to the additional State Pension is calculated. The formula used for this calculation means there are people with contracted-out employments, an Appropriate Personal Pension or who only pay Class 2 (self-employed people) or Class 3 (Voluntary) national insurance contributions who may receive a small amount of additional State Pension in respect of earnings during these years.

- In 1985/86 National Insurance rates changed, and a new formula for calculating earnings on which contributions are payable became necessary. In order to protect the contributions records of those paying the new lower rates, earnings were 'boosted', and for this reason there was a notable increase in the number of people belonging to SERPS in that year.
- SERPS was reformed in 2002 by the introduction of State Second Pension.

State Pension (SP)

SP is paid to individuals over State Pension age providing certain conditions are met. The amount of SP awarded is based on either a person's own NI record, or in the case of married women, their husbands NI record if this provides a higher State Pension. This publication only provides analyses on an individual's NI record and it is not possible to identify married women who may receive a higher pension based on their husbands NI record.

The amount of SP awarded is calculated using the number of qualifying years gained through NI contributions as a proportion of the working life of the individual, where the working life is reduced by the number of relevant Home Responsibilities Protection years.

To qualify for the minimum amount of SP an individual requires qualifying years for SP in at least 25% of their working life. To qualify for the maximum amount of SP an individual requires qualifying years for SP in at least 90% of their working life. (Please note that in order to qualify for SP an individual must have at least one qualifying year due to paid NICs.)

State Pension Age

The age at which a claim for State Pension can be made, age 60 for women and age 65 for men. State Pension age will be equalised at age 65 for men and women between 2010 and 2020.

Tax year

Tax year starting on 6 April of one year and ending on 5 April of the following year.

Working Life

The working life of an individual is the number of years from the start of the tax year in which they enter the NI system (usually the year in which they reach 16 years old) to the end of the tax year before the one in which they reach pensionable age. The working life of men is usually 49 years and for women 44 years. The working life of an individual is reduced by the number of years of relevant HRP up to a maximum of 20 years reduction.

Appendix A

Sampling Effects

These tables are derived from a 1% sample of NI records consisting of around 600,000 cases. Because the figures shown in the tables are estimates they are subject to sampling variability. The likely boundaries of accuracy of each estimate are generally expressed in terms of the 95% confidence interval. In the case of a 1% sample, for all but very small values, this interval is the estimate plus or minus 19.5 times the square root of the estimate.

For example if the estimate value was 25,000 the confidence interval would be

$$25,000 \pm (19.5 \times \sqrt{25,000}) = 25,000 \pm 3,083 = 21,917 \text{ to } 28,083$$

A fuller explanation of sampling effects is given in Work and Pension Statistics 2003 (Appendix 2: p237).

Appendix B National Insurance Earnings Limits

Tax year	Lower earnings limit			Upper earnings limit		
	£ pw	£ pm	£ pa*	£ pw	£ pm	£ pa*
2001/02	72.00	312.00	3,744	575	2,491.67	29,900
2000/01	67.00	290.33	3,484	535	2,318.33	27,820
1999/00	66.00	286.00	3,432	500	2,166.67	26,000
1998/99	64.00	277.33	3,328	485	2,101.67	25,220
1997/98	62.00	268.67	3,224	465	2,015.00	24,180
1996/97	61.00	264.33	3,172	455	1,971.67	23,660
1995/96	58.00	251.33	3,016	440	1,906.67	22,880
1994/95	57.00	247.00	2,964	430	1,864.00	22,360
1993/94	56.00	243.00	2,912	420	1,820.00	21,840
1992/93	54.00	234.00	2,808	405	1,755.00	21,060
1991/92	52.00	226.00	2,704	390	1,690.00	20,280
1990/91	46.00	200.00	2,392	350	1,517.00	18,200
1989/90	43.00	187.00	2,236	325	1,409.00	16,900
1988/89	41.00	178.00	2,132	305	1,322.00	15,860
1987/88	39.00	169.00	2,028	295	1,279.00	15,340
1986/87	38.00	165.00	1,976	285	1,235.00	14,820
1985/86	35.50	154.00	1,846	265	1,148.00	13,780
1984/85	34.00	147.00	1,768	250	1,083.00	13,000
1983/84	32.50	141.00	1,690	235	1,018.00	12,220
1982/83	29.50	128.00	1,534	220	953.00	11,440
1981/82	27.00	117.00	1,404	200	867.00	10,400
1980/81	23.00	100.00	1,196	165	715.00	8,580
1979/80	19.50	85.00	1,014	135	585.00	7,020
1978/79	17.50	76.00	910	120	520.00	6,240