

National Insurance (NI) and State Pension changes from 6 April 2016

Why is the State Pension changing and who will receive it?

The Government's aim is to introduce a simpler, fairer system where people have a clearer idea about what pension the state will provide, making it easier to plan their retirement savings.

Individuals will be able to claim the new State Pension if they are:

- a man born on or after 6 April 1951
- a woman born on or after 6 April 1953 and,
- have at least 10 years' 'qualifying years' on their NI record. (35 years NI contributions are required to receive the full flat rate State Pension.)

Individuals reaching State Pension age before 6 April 2016 will get their State Pension under the current system.

How can an employee find out what their State Pension Age is?

The Government State Pension age calculator can be used to find out an individual's state pension age. It can be found at

www.gov.uk/calculate-state-pension.

Who will qualify for the full amount of the new flat rate State Pension?

The new flat rate State Pension will be based on the employee's NI contributions record and a new minimum qualifying period will be introduced. People with no NI contributions record before 6 April 2016 will need 35 qualifying years to get the full amount of new State Pension. When an individual has paid into a contracted-out pension scheme between 6 April 1978 and 5 April 2016 and attain State Pension age on or after 6 April 2016, the amount of new flat rate State Pension they receive will be reduced, in respect of any period in which they have been contracted-out to reflect the fact that they and their employer have paid a lower rate of NI. In this case the employee is less likely to receive the full amount of the new State Pension, however, this will depend on their individual NI record and how many qualifying years they have after April 2016. They would be able to build up further qualifying years towards the full flat rate State Pension if they continue working and paying NI after April 2016. The Government has confirmed in the Autumn Statement that the full amount of new State Pension will be £155.65 a week. This will be increased under the "triple lock" guarantee.

For further information about the calculation of the new State Pension please refer to

www.gov.uk/new-state-pension/overview

Will the new State Pension provide sufficient income in retirement?

The State Pension is intended to be only a part of an individual's retirement income and will provide a very basic standard of living in retirement. Most people aim for between half and two thirds of their pre-retirement salary as income when they retire. The State Pension is currently only around £7,000 per year for a single person (£12,000 for a couple). For many people this will not be enough to maintain their standard of living in retirement.

It is important that employees plan for their retirement, taking into account that:

- people are generally living longer so are likely to spend more time in retirement,
- employees may want to retire before their State Pension age,
- members of contracted-out pension schemes prior to 6 April 2016 may not qualify for the full amount of the new State Pension.

Did you know that many pension schemes offer other valuable benefits such as life cover, spouse, child or dependants' pensions and ill health pensions? These are costly benefits to provide outside of an occupational pension scheme. Some of the pension schemes have issued factsheets to explain this to members:

For **USS** go to

<http://www.uss.co.uk/~media/document-libraries/uss/member/member-guides/your-guide-to-universities-superannuation-scheme.pdf?la=en>

For **UGPS** go to

http://www.gla.ac.uk/media/media_115927_en.pdf

Meanwhile the **Which?** website provides general comments on pension saving issues

<http://www.which.co.uk/money/retirement/guides/company-pensions-explained/should-i-join-my-company-pension-scheme/>

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But what does all this have to do with NI?

The current State Pension is made up of two parts: the Basic State Pension and the Additional State Pension (sometimes called State Second Pension or SERPS). Most defined benefit schemes offered in the HE sector are contracted-out of the Additional State Pension. This includes the following schemes offered to employees at the University of Glasgow: USS, UGPS, NHS, STSS, MRC and LGPS. Being contracted-out means that employees have been paying lower NI contributions while they have been in membership of the pension scheme (through the application of an NI rebate) and therefore have not been building up any Additional State Pension. Instead employees have been building up benefits in the pension schemes listed above which satisfy the contracting-out reference scheme test. The University has also been paying lower NI in respect of members of the pension scheme, though of course making substantial employer contributions to the occupational schemes we offer.

From 6 April 2016 the Basic and Additional State Pensions will be replaced with a flat rate State Pension. This change will end contracting-out of the Additional State Pension and so the rebate on scheme members' and employers' NI contributions will cease and their NI contributions will increase. From 6 April 2016 all employees will pay the standard rate of NI, regardless of whether they are in a defined benefit pension scheme or not.

Why are National Insurance (NI) contributions going up?

This is because increases in NI contributions are linked to changes in the State Pension from April 2016.

Further information on State Pension reforms can be found at www.gov.uk/new-state-pension/overview while individuals over age 55 can request an estimate of the State Pension they will receive under the new system, here www.gov.uk/state-pension-statement.

In addition to this a video explaining the new State Pension can be viewed here www.youtube.com/user/PensionTube

How much more in NI contributions will employees have to pay?

Employee contributions will increase by 1.4% of band earnings (earnings between the [Lower Earnings Limit and the Upper Accrual Point](#) - in 2015/16 this is earnings between £112 and £770 per week).

Below are some examples showing how much extra NI contributions will be payable from 6 April 2016* by defined benefit contributors.

Member's gross earnings	NI payable currently	NI payable from 6 April 2016	Difference
£15,000 per year (£1,250 per month)	£58.66 per month	£69.36 per month	£10.70 per month
£27,000 per year (£2,250 per month)	£164.66 per month	£189.36 per month	£24.70 per month
£45,000 per year (£3,750 per month)	£307.65 per month	£347.56 per month	£39.91 per month

The examples assume the individual is over 21 years, are based on the current NI thresholds (2015/16) and have been calculated using the HMRC NI contributions calculator nicecalculator.hmrc.gov.uk (you need to type or copy and paste this link into your browser)

Employees who are members of a contracted-out defined benefit scheme receive the NI rebate and are usually NI category D. Employees who are not members of a contracted-out defined benefit scheme pay standard rate NI are usually category A. By switching the calculation between these two categories anyone can estimate what the impact will be on their take home pay using the HMRC online calculator.

What if paying this higher NI contribution means that I feel that I cannot afford to continue contributing to a pension scheme?

The new State Pension will only provide a very basic level of income in retirement meaning that occupational pension schemes, such as those offered in the HE sector will remain a very important part of retirement planning. Members who continue to pay into a pension scheme currently receive tax relief on their pension contributions, as contributions are deducted from pay before tax is calculated. Additionally, *members of USS and UGPS are also able to pay their scheme contributions through salary sacrifice which will limit the impact of the NI increases on their take home pay. If the member stops paying pension contributions they will still pay the higher NI rate and their take home pay will reflect only their pension contribution after tax is deducted so the saving may not be as much as they might think.*

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How much more NI will employers pay?

For each member of the relevant pension scheme employer contributions will increase by 3.4% of band earnings. In 2015/16 the earnings between the Lower Earnings Limit and the Upper Accrual Point is earnings between £112 and £770 per week. This will mean that employers will pay 13.8% on earnings above the Secondary Threshold (in 2015/16 the Secondary Threshold is £144 per week).

Based on 2015/16 tax bands, this could be more than £1,000 per employee, per year. We estimate that this will cost the University approximately £4 million per year.

Will HE pension scheme benefits change to take into account changes in NI contributions?

The Government has introduced powers for employers to make amendments to their pension scheme rules to recoup the increased employer NI contributions cost without having to gain the consent of trustees. This is known as the statutory override. However, the legislation specifically prevents changes to the benefits provided by any of the public sector pension scheme (TPS, NHSPS, or LGPS).

USS and UGPS have considered the changes in NI as part of their benefit reforms but the increased NI applies in addition to the increases to employer and (in USS) employee scheme contributions. No further changes to these scheme benefits are planned as a result of the introduction of the new State Pension at this time.

Is there an option for employees to pay lower pension contributions?

Usually in a defined benefit scheme the Trustee (or the Government in the case of the public sector schemes) set the contribution rates for members and employers and these cannot be changed. However members paying Additional Voluntary Contributions (AVCs) could choose to stop or reduce their additional contributions. *In the LGPS members have flexibility to pay less in pension contributions, with the option to pay half their normal contributions in return for building up half their normal pension (although they still retain full life cover and ill health cover). This is known as the 50/50 section of the scheme and is designed to help members stay in the scheme, building up valuable pension benefits, during times of financial hardship. The 50/50 section is designed to be a short-term option and the employer is required to re-enrol members back into the main section of the scheme every three years. This will be carried out in line with this University's automatic re-enrolment date. Further information about the 50/50 section is available at www.lgps2014.org.*

