Department for Work & Pensions

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7 March 2023

Sir Stephen Timms MP
House of Commons
London
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Dear Sir Stephen,

Thank you for letter of Tuesday 14 February. I am pleased to hear that the Committee welcomes our work on the definition of the gender pensions gap. Your letter asks various questions concerning voluntary National Insurance Contributions.

You first asked about the comparative benefits of improving an individual's State Pension compared with other ways to save money. We have not done an assessment of this. It is not possible to answer this question as every individual's circumstance varies considerably. Comparative returns depend on many factors such as an individual's age, characteristics, circumstances and taxation position.

In relation to the State Pension, Qualifying Years can be built in a number of ways: through National Insurance (NI) contributions whilst working or self-employed; by being credited with NI credits; and through making voluntary NI contributions. Younger people should consider how they will build years in the future as they may not need to fill current gaps.

Each additional Post-2016 NI Qualifying Year is worth 1/35th of the full rate of the new State Pension to someone's State Pension entitlement (around £5.29 per week, £275.08 per year at 2022/23 rates). If people choose to make voluntary contributions to add a qualifying year, the cost of Class 3 Contributions (approximately £824.20 for a year in 2022/23) is usually recouped in around three years. The average life expectancy at 66 is more than 20 years, so most people would receive a far greater amount in pension than the cost of the voluntary contribution. However, individuals should weigh this up.

The rates at which Class 2 and Class 3 are payable is set out on gov.uk: Voluntary National Insurance: Rates - GOV.UK (www.gov.uk)

People should first check whether they could be entitled to any National Insurance credits before considering making voluntary National Insurance contributions. Information about the full range of National Insurance credits available, eligibility requirements, contact information, and guidance on how to apply can be found here: National Insurance credits: Eligibility - GOV.UK (www.gov.uk).

You next asked for estimates of people who will have less than the full rate of the new State Pension when they reach State Pension age. Figure 5 (page 16) in the 'Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Terms Effect of nSP' (*Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP (publishing.service.gov.uk)* shows the proportion of men and women expected to receive the full rate of the new State Pension in the early years of its operation. In the early years of the new State Pension the main reason for people receiving less than the full rate is due to transitional rules where periods of contracting out are accounted for in their Starting Amount. In these cases, people will usually have built up some occupational pension entitlement as part of the contracting-out arrangements.

Under the transitional arrangements for the new State Pension, if someone's Starting Amount is less than the full rate, they can increase their State Pension by adding further Qualifying Years until they reach the full rate or their State Pension age, whichever comes first. Everyone who qualifies for the new State Pension will receive at least as much as they would have under the previous system, based on their NI record to 6 April 2016. People who continue to work, are self-employed, or in receipt of qualifying benefits, will continue to receive post-2016 qualifying years automatically.

You next asked what has been done to inform individuals of the deadline for the end of the Voluntary National Insurance extension. Voluntary Class 3 National Insurance contributions are paid by people who want to fill gaps in their National Insurance record in order to qualify for State Pension. People can normally go back a maximum of six years to make up gaps in their National Insurance (NI) record. However, as part of the transitional arrangements introduced alongside the new State Pension from 6 April 2016, people have until 5 April 2023 to pay voluntary NICs to make up gaps in their NI record between tax years April 2006 and April 2016.

The deadline and arrangements for the extension back to 2006 are the responsibility of His Majesty's Revenue and Customs. I am responding in respect of DWP's responsibilities in relation to the new State Pension. Since 2014, DWP has carried out a communications campaign on State Pension reform, with advertisements in newspapers, online and on radio stations across the country as well as working through stakeholders to raise public awareness of the changes. There is also a significant package of on-line information about the State Pension at www.gov.uk. Details of this extension have been available in these materials throughout.

In addition, we have provided the personalised digital Check your State Pension forecast service. This gives the customer their expected State Pension entitlement based on their National Insurance (NI) record, and a forecast entitlement if they fill all the Qualifying Years available to them until they reach State Pension age. If people are below State Pension age, they can contact the Future Pension Centre to find out if they will benefit from voluntary contributions. If they have reached State Pension age, they should contact the Pensions Service.

We also write to customers to invite them to claim their State pension. These letters advise customers of what steps they can take if they have gaps in their National Insurance record. This is reiterated by the State Pension award letter once they claim their State Pension.

Lastly, you asked us whether we are considering an extension to the deadline. I am pleased to confirm that a Written Ministerial Statement (Written statements - Written questions, answers and statements - UK Parliament) has been made today by the Financial Secretary to the Treasury confirming that the deadline for contributions has been extended to 31 July. This is to ensure customers do not miss out on the opportunity to make voluntary NIC payments for the period between 5 April 2006 to the end of the 2016/17 tax year. All voluntary NICs payments for this period will now be accepted at the existing 2022/23 rates until the 31 July. This extension allows HMRC and DWP the time to process enquiries and payments to ensure people’s State Penson eligibility can be maximised.

Yours sincerely,

Laura Trott MBE MP
Minister for Pensions

Work and Pensions
Committee

Tuesday, 14 February 2023

Laura Trott MP
Minister for Pensions
Department for Work and Pensions

Dear Laura,

Saving for later life - closure of the window for paying voluntary Class 3 NICs in April 2023

Thank you for your recent letter following on from the Committee's report on Saving for Later Life. As I mentioned in the debate on 7 February, we very much welcome your aim to find a suitable definition of the gender pensions gap and the fact that you are looking at the possibility of regular reporting on it.

The Committee noted in its report the importance of the State Pension as source of retirement income for many people (para 59). This is particularly the case for women, due to the large gender pensions gap in private pension wealth resulting labour market inequalities (para 95).

Relevant to that, there is currently an option to pay voluntary class 3 contributions outside of the usual six-year time limit. The Coalition Government temporarily extended this when it was introducing the new State Pension in April 2016. This was to prevent individuals reaching State Pension age on or after 6 April 2016 from being disadvantaged by the fact that extensive changes to the IT system, meant DWP was unable to provide State Pension statements for a period.

Whether payment of class 3 NICs is the right thing for an individual will depend on their circumstances. Before paying, individuals should always check with the Government whether it will in fact boost their State Pension - there is information to help people make a decision on Gov.UK. However, Lane, Clark & Peacock estimate that in some cases, it can be advantageous.

We would be grateful if you could explain:

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- What estimates do you have regarding the relative benefit of improving state pension compared with other ways to save money (for example, in a workplace pension)?
- What estimate have you made of the numbers of a) men and b) women who will reach State Pension age in each of the next ten years with less than a full State Pension due to gaps in their NI record;
- What you have done to inform individuals that the extended time limit for payment of voluntary class 3 NI contributions is due to close in April 2023
- Whether you are considering, or have considered, extending the deadline beyond April.

It would be helpful to have a response by 3 March 2023.

Yours sincerely,

Rt Hon Sir Stephen Timms MP
Chair
Work and Pensions Committee

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