

Increase in National Insurance following the introduction of the New State Pension – April 2016

Background

You may have seen in the media that the new State Pension is being introduced on 6 April 2016 for those reaching State Pension age after that date. This reform means that the current, complicated, multi layered system of basic and additional State Pensions will ultimately be replaced with a clearer, single pension amount. In the long run, the new State Pension will mean that people will be clearer from a younger age about what they are likely to get from the state towards their overall pension income helping them to plan how best to save for their retirement.

As a consequence of the reforms, contracting-out of the additional State Pension for Defined Benefit schemes will come to an end. Contracting-out meant that employees and employers paid a lower National Insurance (NI) rate and gave up entitlement to additional State Pension in return for a broadly similar amount as part of their occupational pension. Currently most public sector defined benefit pension schemes are contracted-out. The main implication of this reform for scheme members is that from 6th April they will no longer receive the NI rebate. This will mean an increase in employee NI contributions of around 1.4% of earnings between the relevant NI thresholds, set each year by HM Treasury.

The reforms are being introduced on 6th April 2016 and employees will see the change in NI Contribution payments after that date.

Action

As a public service employer, who currently offers a contracted-out defined benefit pension scheme, your employees will be affected by this NI change. To assist you in communicating these changes to your employees we have produced a number of products.

We have worked with departmental colleagues who lead on the main public sector pension schemes to ensure they are aware of these changes and the legal requirements relating to occupational pension schemes. Scheme administrators are required by law to notify members that their scheme is no longer contracted-out, but the requirement does not extend to include notifying them of the implication of this, i.e. the increase in NI contributions following the removal of the NI rebate.

It is worth confirming that this change will not impact upon an individual's occupational pension.

Indeed, the individual's occupational pension will in most cases include an amount that is equivalent to the additional State Pension they would have received if they had paid the higher standard rate of NI.

We suggest that you co-ordinate the communications you plan for your employees with your scheme administrators to ensure a joined up message is delivered to scheme members.

The materials attached include the things you need to know, plus some practical materials for you to use – or if you want to know more details then this pack will point you in the right direction. We've created emails, articles, posters, videos and images – and you're free to use them in whichever way suits you. We have included a factsheet specifically for public sector employees that you could use as a standalone product or you can use the messages in your own communication products to individuals. The key products are available on GOV.UK as part of the new State Pension toolkit at www.gov.uk/government/collections/state-pension-toolkit.

The recommendation from the Cabinet Office is that you begin communications to staff after the Autumn Statement, once NI bandings for 2016/2017 are announced.

If you have any feedback on the products please let us know by contacting state.pensioncomms@dwp.gsi.gov.uk.