A Consultation Document

Proposed Changes to the Manx Social Security and National Insurance Systems

Date of Issue: 23rd March 2015
Closing date: 15th May 2015

Issued by:
The Treasury
Government Offices
Bucks Road
 Douglas
IM1 3PN
Purpose of consultation

The purpose of this consultation exercise is to invite comments on the future of our social security system. It is not a referendum but is an exercise for gathering information, views and evidence to allow Treasury to take an informed decision on this most important subject.

In any consultation exercise the responses made do not guarantee that changes will be made to what has been proposed.

To ensure that the process is open and honest, and in line with the Government's Code of Conduct on Consultation, responses can only be accepted if you provide your name with your response.

Unless specifically requested otherwise, any responses received may be published either in part or in their entirety. Please mark your response clearly if you wish your response and name to be kept confidential.

Confidential responses will be included in any statistical summary of comments received.

When submitting your views please indicate whether you are responding on behalf of an organisation.

Comments should be submitted by Friday 15 May 2015 in writing to:

IoM Treasury
2nd Floor, Markwell House
Market Street
Douglas
Isle of Man
IM1 2RZ

or by email to: NIBen@gov.im. Electronic copies of this document are also available at http://www.gov.im/ni-review.

Queries on the consultation may be directed as follows:

Social Security benefits
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Deputy Director (Policy & Legislation)
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National Insurance contributions
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Following the consultation, the next steps in the process will be as follows:

- the Treasury will review all of the comments received;

- a summary of the comments will then be published within six weeks of the closing date for this consultation, and will be made available on the Government website or by contacting the Treasury; and,

- Treasury will present proposals for the approval of Tynwald.
Introduction

During 2013 and 2014, an extensive review of our social security and National Insurance systems was carried out by the consultancy firm Ci65 Ltd.

The report compiled by Ci65 said that our social security system will not be affordable in the long term unless we make some changes. Their recommendations were to make bold changes, and in many respects the Treasury agrees with them.

The full report can be found on-line at http://www.gov.im/ni-review.

A consultation process started in March with a series of public presentations. The thoughts, challenges and ideas shared by attendees at those sessions were used to check that this consultation was broadly on the right track. However, the people able to attend the presentations represent only a small percentage of those who may be affected by these proposals, and we need to hear from as many people as possible.

This document aims sets out the challenges we face as a country, and some of our options for change. It works through the state pension scheme, National Insurance system, workplace pensions and working age benefits – and asks for your views about them.

As I said in my Budget presentation on 17 February of this year, we are planning for the next generation, and I very much hope that you will share your opinions with us, so that we get that planning right. We will not be rushing anything, and a lot more thought will be needed if Tynwald supports the need for change. I will make sure that the development of a new social security system for the Isle of Man is transparent by issuing bulletins and updates regularly. We may need to carry out further consultations on some issues.

Hon. Eddie Teare MHK
Minister for the Treasury
1. **State pensions**

1.1 In the Isle of Man, when you reach state pension age you may be entitled to:

- a basic state pension;
- additional state pension;
- graduated retirement benefit; and
- Manx pension supplement.

1.2 How much you actually get from the state in retirement depends upon, among other things:

- how many years you worked;
- how much you earned, and when;
- where you worked (in the Isle of Man, in the UK or abroad);
- where you paid your National Insurance (NI) contributions;
- whether you were credited with NI contributions because, for example, you were registered as unemployed, ill or caring for a child or severely disabled relative, and for what period(s); and
- if you are married, have a civil partner, are divorced or your civil partnership has been dissolved.

More details are provided in Appendix 1 of this document.

1.3 The state pension system is extremely complicated. Each of its different elements has its own complex rules; and entitlement to one element may depend, or affect, another. It is almost impossible for the vast majority of people to know how much they are likely to get by way of a state pension until they are in their late 50s: and if they don’t know how much they will get from the state, how can they know how much additional provision – through workplace and private pensions, savings etc. – they will need to have?

1.4 As well as being complicated, the pension system is likely to be unaffordable in the longer term. This is largely because in the future there will be proportionately less people in work to support an increasing number of pensioners. It is also because annual increases in the basic state pension are currently guaranteed to be at least 2.5% under the so-called “triple lock”, irrespective of the level of inflation. If the current system continues to operate, the NI Fund will likely run out by around 2050. If that were to happen, then state pensions would have to be significantly reduced, workers would have to pay a lot more in NI contributions or taxes, or a combination of the two would be needed.
The UK Government has had to deal with the same issues. In April 2016 it will change its state pension arrangements for people reaching state pension age on or after 6 April 2016. The new state pension in the UK will be an easy to understand, single-element, flat-rate pension. It will be the same for everyone, regardless of how much they earn. People will need to pay or be credited with enough NI contributions for at least 35 years of their working life to get a full state pension, which will likely be around £155 per week. If a person has paid or been credited with NI contributions for less than 35 years, they will get a proportionately reduced pension. But they will need to have at least 10 “qualifying years” to get any pension at all.

Ci65 made a number of recommendations about state pensions in the Isle of Man. They said that we should also change to a single-element, flat-rate pension, but one which is tailored for the Isle of Man.

They suggested that an affordable amount in the long term would be around £180 per week, in today’s money. To get a full pension, a person will have to pay, or be credited with, enough NI contributions for at least 45 years during their working life. Currently, new pensioners only need to have 30 qualifying years to get a full basic pension. However, it should be noted that before April 2010 a man had to have at least 44 qualifying years, and a woman had to have at least 39 years.

To get any state pension at all a person will need to have at least 10 qualifying years. Currently new pensioners only require one qualifying year.

The additional state pension scheme will be abolished and the pension supplement scheme will be phased out for new pensioners over 20 years. Transitional protection will be given to ensure that no-one is worse off under the new system.

Rather than following the UK, as has been the case to date, the Island will determine its own state pension age. This will be set such that the period spent in retirement will, on average, be no more than one-third of working life in the Isle of Man.

Annual increases in the state pension will be linked to increases in average earnings on the Island. The “triple lock” guarantee for basic state pension would end.

Existing pensioners at the date any new scheme is introduced will continue to get the same amount as they do now, but annual increases in the rate of their pensions will be linked to increases in average earnings on the Island. This “package” of measures will ensure the NI Fund is sustained for at least the next 60 years.
1.13 Treasury agrees with Ci65’s recommendations for a new state pension in the Isle of Man, as described in paragraphs 1.7 to 1.12 above.

1.14 Questions:

(a) Do you think that the Isle of Man should have its own state pension arrangements, separate from the UK’s?

(b) Do you think that £180 per week is a fair amount? Do you think that we should move to a single-element, flat-rate pension?

(c) Do you think it is fair that people will need at least 45 qualifying years for a full state pension?

(d) Do you think it is fair that people will need at least 10 qualifying years for any state pension?

(e) Do you think that the pension supplement should be phased out for new pensioners over 20 years?

(f) Do you think the Isle of Man should determine its own state pension age?

(g) Do you think that the period spent in retirement, on average, being set at no more than one-third of working life in the Isle of Man is fair?

(h) Do you think that annual increases in the state pension should be linked to rises in average earnings on the Island?

Do you have any views which are not covered by these questions?

1.15 The Island’s relationship with the UK

1.16 Since the introduction of the social security and NI scheme in 1948, the Isle of Man and the UK have had a reciprocal agreement which effectively treats the two countries as one. An individual can move between the two countries, and NI contributions paid in one will count towards benefit claimed in the other. Contributory benefits such as jobseeker’s allowance and state retirement pension are paid at the same rates and the qualifying criteria for the benefits are the same in both countries.
1.17 If the Isle of Man had its own state pension arrangements the reciprocal arrangement would need to change. The UK is already aware of these proposals and already has a range of alternative agreements with other countries. Please note that this reciprocal agreement covers social security matters. Other reciprocal agreements, such as for health services, are not affected by this consultation at all.

1.18 Any new agreement with the UK would need to allow greater flexibility for the NI and social security systems in the UK and Isle of Man to diverge and retain as many of the existing protections provided by the current agreement.

1.19 It would also mean that changes made in the UK would not automatically be mirrored in the Isle of Man.

1.20 Question: Do you agree that any replacement for the current reciprocal agreement should as far as possible preserve the features that make it simple to move between the UK and the Isle of Man?

Do you have any views which are not covered by this question?

2. National insurance

2.1 Main findings

2.1.1 NI contributions paid by today's workers and their employers pay for today's state pension payments, as well as some working age benefits. The system is therefore sometimes called a “pay as you go” scheme. NI contributions are paid by employers, employees and the self-employed, and are calculated on an individual's earnings (see Appendix 2 for full details of the system and current rates).

2.1.2 Ci65 considered alternative ways of funding the state retirement pension and benefits and concluded that the NI contribution system and the “pay as you go” approach should continue: but suggested that some changes should be made to make it fairer and easier to understand.

2.1.3 The review concluded that increasing the amount of NI paid by workers and employers could have a negative effect on the economy of the Island by making it more expensive to do business here.
The Treasury, Yn Tashtey

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2.1.4 The review also considered whether NI contributions should be paid on income other than earnings (for example dividends and bank interest), and concluded that this could also have a negative effect on the economy by making it an unattractive place for people to invest.

2.1.5 Finally the review looked at whether NI contributions could be replaced by additional income tax, but concluded that raising the same amount of money this way would not be possible. The main reason for this is the significant amount of NI contributions currently paid by employers.

2.1.6 Treasury believes that it is only by having a strong and competitive economy that the Isle of Man will be able to attract the investment needed to maintain growth.

2.1.7 The Treasury therefore proposes that the existing structure of the NI contribution system should remain for employees, employers and the self-employed.

2.2 Question: Should the Isle of Man retain its current NI contribution system?

Do you have any views which are not covered by this question?

2.3 A fairer system

2.3.1 One of the key points in the Ci65 report, however, was that the current NI scheme was not simple and that it treated certain individuals more favourably than others.

2.3.2 Although not necessary for the introduction of a new Manx pension, the report recommended changes which would improve the existing scheme.

2.4 Single rate of NI

2.4.1 Under the current arrangements, self-employed workers pay different rates of NI contributions compared to employees. However, self-employed people do not earn the same state pension as employees. Should a new Manx pension be introduced, then all workers will build up the same rights to a pension whether they are employed or self-employed.

2.4.2 It is therefore suggested that with the introduction of a new Manx pension, self-employed people should pay the same rate of NI contributions as those who are employed.
2.5 Question: Should self-employed people pay the same rate of contributions as employed workers to get the same state pension and benefits as employed workers?

Do you have any views which are not covered by this question?

2.6 Low income workers

2.6.1 Under the current system, some workers on low incomes build up rights to pensions and other benefits without paying any NI contributions at all. Whilst the original purpose of this was to help support workers in genuinely low-paid work, people can deliberately plan their affairs so as to avoid paying NI contributions. Treasury would welcome views on how best to protect those on low incomes whilst ensuring that everyone makes a fair contribution.

2.7 Should Treasury review the NI system for low paid workers to ensure that it minimises the opportunities for those in not genuinely low-paid work to avoid paying a fair contribution to the NI Scheme?

Do you have any views which are not covered by this question?

2.8 Contracting-out

2.8.1 Employers who operate their own pension schemes can pay a lower rate of NI in respect of their employees (subject to certain rules). Employees who are members of these schemes also pay a lower rate of NI. Because a lower rate of NI is paid, those employees do not earn rights to additional state pension. This is often referred to as the “contracting-out” system.

2.8.2 Under the new Manx pension proposal, every employee, regardless of whether they are members of a works pension scheme, will receive the same amount of state pension. Treasury therefore proposes that if a new Manx pension is introduced, contracting-out would cease.

2.9 Question: Do you agree that contracting out should end if the new Manx pension is adopted?

Do you have any views which are not covered by this question?
2.10 Simplicity

2.10.1 The current NI system is complex and has built up over many years. The Ci65 report recognised that there is scope in the current scheme to simplify how NI is calculated and charged. Treasury would welcome any suggestions about how the system could be simplified whilst continuing to raise sufficient revenue.

2.11 Question: Which other aspects of the current NI scheme would you simplify?

Do you have any views which are not covered by this question?

2.12 Encouraging employment

2.12.1 NI is a significant cost to businesses, and the Ci65 review recognised that reducing the NI contributions paid by employers could encourage them to take on more staff. Ci65 suggested targeted schemes to provide an incentive.

2.12.2 In his Budget speech on 17 February 2015, the Treasury Minister announced that from April 2016 workers over state retirement age should have to pay NI contributions; and details will be included in a separate consultation on various income tax and NI measures mentioned in the Budget.

2.12.3 However, at present employers who employ people who are over state pension age must continue to pay employer NI contributions. Treasury would like to know if removing employer NI contributions for those over state pension age would encourage the employment of older people, or whether there are any other categories of people whom employers should be encouraged to take on.

2.13 Questions:

(a) Should employers be encouraged to take on older people?

(b) Are there any other groups of people who would benefit from a similar incentive?

Do you have any views which are not covered by these questions?
3. **New work based pensions**

3.1 Everybody should have adequate income in their retirement: and the state retirement pension, whether in its existing form or the proposed new Manx pension, should only be part of a person's retirement income. Some people have an occupational pension (sometimes referred to as a “works pension”) or a private pension (usually with an insurance company), whilst others may have saved for their retirement in different ways. To help those people without access to these ways of providing an adequate retirement income, Ci65 suggested compulsory enrolment into a retirement savings scheme.

3.2 The key proposals of this proposal are that:

- all employees earning over £9,500 a year must be enrolled into a qualifying retirement saving scheme;
- the employee contribution rate will be 6%, and the employer contribution rate will be 4% on earnings up to £60,000;
- employers and employees share responsibility for choosing a retirement savings scheme;
- Government would assist in the enrolment process, in order to reduce employer administration; and,
- certain types of worker would be excluded, such as those under 21 and those close to retirement.

3.3 If the above scheme was implemented, the contribution rates would be phased in over a period of 10 years.

3.4 If an employer or employee already had a pension scheme which was similar to that outlined above then these proposals would not apply to them.

3.5 Whilst the Treasury agrees that workers must take greater responsibility for saving for their retirement, it recognises that by introducing such a scheme employer costs would rise; and that this could have a negative effect on the Island’s economy.

3.6 This proposal needs careful consideration before it is taken any further. Before any scheme is developed, Treasury wishes to seek views from employees and employers as to the appropriateness of the above proposals.

3.7 **Question: Should the Government introduce a compulsory scheme for people without workplace or personal pensions?**

**Do you have any views which are not covered by this question?**
4. Working age benefits

4.1 Currently there are some 16 different benefits and allowances payable to people of working age relating to: bereavement, disability, sickness, unemployment, maternity, paternity, adoption and parenthood.

4.2 Each benefit and allowance has its own complex rules, making the system very difficult to understand and navigate. It is also complex and expensive to administer.

4.3 A person has to claim each benefit separately, even if they are moving from one benefit to another or are entitled to multiple benefits.

4.4 The Ci65 report recommended moving to a “New Manx Benefit” which will simplify all working age benefits into a single payment and which reflects people’s needs.

4.5 New Manx Benefit

4.5.1 The New Manx Benefit would be payable to people in or out of work, depending on their circumstances.

4.5.2 It would combine a number of benefits into additional components and these are detailed in Appendix 3.

4.5.3 The key features of the benefit are:

Eligibility – It could be entirely means-tested, or paid for a limited period (say for 6 or 12 months) to people who have paid the required NI contributions on a non-means tested basis, as it is now for jobseeker’s allowance.

Payable to people in and out of work – This will aid the transition from unemployment to supported employment and remove the need for a person to apply for different benefits.

Develop a Manx minimum income standard that represents the cost of living on the Island; we need to decide as a nation what we are prepared to offer.

Dedicated individual support tailored to specific needs. The support will include a contract between the individual and the Treasury setting out clear responsibilities; with responsibilities will come accountability in the form of sanctions.
4.5.4 The New Manx Benefit will be more flexible and will improve the targeting of public money to those who genuinely need it.

4.6 Questions:

(a) Do you agree with the idea of the New Manx Benefit?

(b) Should there be entitlement to the New Manx Benefit for a limited period on a contribution-based, non-means tested basis?

(c) If so, what should that period be - 6 months, 12 months or some other period?

(d) Should the same benefit be used to support people in and out of work?

(e) Do you think that all working age benefit claimants should have to sign up to a clear statement about their obligations?

(f) Do you think it is fair that benefit claimants who fail to meet commitments should have their benefits reduced, or even stopped?

Do you have any views which are not covered by these questions?

4.7 In addition to recommending a New Manx Benefit the Ci65 review also looked at a number of other aspects of the benefit system where it was considered that improvements to the delivery and targeting of benefits could be made.

4.8 Strengthen the gateway to benefits

4.8.1 The initial review of the social security system in July 2013 found that the number of claimants for ‘out-of-work’ benefits in the Isle of Man had risen by 77% since the year 2000. However, in the UK over the same period the number of claimants had fallen by 9%.

4.8.2 Had the Isle of Man followed the same pattern as the UK, our spending on Social Security would be £17 million less per year.

4.8.3 The review recommended a number of separate proposals, designed to increase the monitoring of benefit recipients to ensure that the number of people claiming benefits incorrectly is reduced. These proposals include support aimed at helping them leave benefit and enter work.
4.8.4 The proposals cover four main areas: the gateway, activation, financial incentives and employment support. Two proposals of note are:

- the ‘better off in work guarantee’ which would require balancing benefit levels and support for those on the lowest incomes to ensure that full-time work always pays more than benefits
- An ‘Isle of Man offer’ which provides a job, training or work experience for the very longest unemployed. Those that do not take up one of these options may lose their entitlement to benefit.

### 4.9 Questions:

(a) Do you agree that our reforms should strengthen checking of those claiming benefits to ensure they follow the rules?

(b) Do you agree that we should introduce regular checks/tests for those receiving benefits?

(c) Are there any benefits which should be exempted from increased checking?

(d) Should there be a ‘better off in work’ guarantee?

(e) Should there be an ‘Isle of Man offer’ with loss of benefit for long-term unemployed who decline to take up work?

Do you have any views which are not covered by these questions?

### 4.10 “Passported” benefits

4.10.1 Passported benefits are services which are given free (or at reduced cost) to claimants of means-tested benefits: for example free school meals and bus travel to school for their children, free prescriptions and free dental care for all members of their family and the lump-sum winter bonus payment.

4.10.2 Passported benefits are usually provided by other departments (Education, Health) who rely on the benefit system to tell them who is vulnerable. A person receiving means-tested social security benefits has already been means-tested by one part of Government and it is sensible that this work is not repeated by another part of Government.
4.10.3 Treasury is concerned that the provision of passported benefits makes it more difficult for some people to move off benefits and into work. A claimant loses all entitlement to passported services when they leave benefit. This ‘cliff-edge’ effect can mean that getting a job means a loss of income.

4.11 Questions:

(a) Do you agree that passported benefits are properly targeted?

(b) If not, why not?

(c) Should passported benefits continue?

Do you have any views which are not covered by these questions?

4.12 Benefit cap

4.12.1 In the UK, there is a cap on the total amount of benefits which a person can receive. For couples with children and lone parents the cap is currently £500 per week (£26,000 per year). For single claimants who do not have children it is £350 a week (£18,200 per year). Child benefit and help towards housing costs (such as rent) is included in the cap.

4.12.2 The cap does not apply to pensioners, the disabled or people who work for at least 16 hours a week.

4.12.3 However, the benefit cap does not take account of the value of “passported benefits”.

4.12.4 The UK has also placed a ‘cap’ on the total amount of money that will be available to fund social security benefits. This will have the effect of limiting annual benefits increases or even reducing benefits if the number of claimants goes up significantly. This cap does not apply to state pensions or to jobseeker’s allowance.

4.12.5 The Ci65 review recommended that a benefit cap should be introduced in the Island similar to that in the UK.

4.12.6 The median earnings on the Island are currently around £26,000 a year for full-time workers. For a worker to take home £26,000 he or she would need to be earning just over £30,000 a year before tax and NI deductions.
4.13 Questions:

(a) Should there be a benefit cap for individuals?

(b) Do you think that pensioners, the disabled and people who work for at least 16 hours a week should be exempt from the cap?

(c) Do you think any other groups should be exempt from the cap?

(d) Do you think that an Isle of Man benefit cap should be at the same level as in the UK?

(e) Do you think that child benefit should be included in the cap?

(f) Should the monetary value of passported benefits be included in the cap?

(g) Do you think that there should be an overall cap on welfare expenditure?

(h) Should state pensions and jobseeker’s allowance be excluded from the overall cap?

(i) Should any other benefits be excluded from the overall cap or the individual cap?

Do you have any views which are not covered by these questions?
Appendix 1: State pension

The state pension is paid to people once they have reached state pension age.

State pension age for men is currently 65. For women, it is being gradually increased from 60: and will be 65 by November 2018. It will then be increased for both men and women to 66 by October 2020 and will be further increased in stages to 68 by 2046.

To get a state pension you must have paid, or been credited with NI contributions during your working life. Your working life for pension purposes begins with the tax year in which you reached the age of 16 and will end (or ended) with the tax year before the year in which you reach (or reached) state pension age. Each year in which you have paid or been credited with enough NI contributions is known as a “qualifying year”. Reduced rate contributions paid by certain married women and widows do not count.

To get a full state pension you now need to have at least 30 qualifying years (different rules apply if you attained state pension age prior to 6 April 2010).

If you have less than 30 qualifying years, then for each qualifying year you have you will get one thirtieth of the full rate of the state pension.

However, if you have less than 18 qualifying years but your husband, wife or civil partner has 18 or more qualifying years and has already reached state pension age, you will get a pension as if you had 18 qualifying years (which is worth 60% of the full pension).

Special rules apply if you are divorced or if your civil partnership has been dissolved.

A person who is getting a reduced pension because they have less than 18 qualifying years, may receive an increase in their pension when they reach age 80 as if they had the equivalent of 18 qualifying years (worth 60% of the full pension).

Similarly, a person who is aged 80 or over who is not entitled to a state pension based on their NI record may be awarded a pension as if they had the equivalent of 18 qualifying years (worth 60% of the full pension).

The state pension is made up of six elements:

• Basic pension – is based on the number of qualifying years you have, or are treated as having, as explained above. The full basic pension is currently worth £113.10 per week. Each qualifying year is worth 1/30th of this amount, i.e. £3.77. It is uprated annually in April under the so-called “triple-lock guarantee”, i.e. by the higher of: UK CPI, UK average earnings and 2.5%.
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- **Additional pension** – if you have worked for an employer at any time since 1978 and have not been “contracted out” of the state additional pension scheme, you might be entitled to extra pension on top of your basic pension. How much you get will depend on how much you were earning and the periods during which you worked. It is made up of state second pension (S2P), and its predecessor the state earnings-related pension (SERPS). It includes a complex earnings-related accrual process. Members of qualifying occupational and personal pension schemes are able to “contract out” of the additional state pension scheme and pay reduced rate NI contributions. The maximum payable is currently £167.40 per week, although the average award is much less than this. It is uprated annually in April in line with UK inflation.

- **Graduated retirement benefit** – if you worked for an employer between 6 April 1961 and 5 April 1975 you might be entitled to some graduated retirement benefit in addition to your basic pension and any additional pension you are entitled to. How much you get will depend on how many units you accumulated and how much these units are valued at when you reach state retirement age. The maximum payable is £328 per year for a woman and £392 per year for a man. It is uprated annually in April in line with UK inflation.

- **Age addition** – £2.00 per week is added to a person’s state pension for life once they reach the age of 80 (in the UK the addition is only 25p).

- **Pension supplement** - in addition to the state pension, you may also get a pension supplement if you live in the Isle of Man and you have paid NI contributions here for at least 10 years. For a year to count as one of the 10 years, it must be a qualifying year for state pension purposes. Reduced rate contributions paid by certain married women and widows do not count. The amount you get is worth just under half (about 47%) of the amount of basic state pension you are entitled to. Currently, the maximum payable is £53.75 per week.

- **Retirement pension premium** - if you are aged 75 or over you may also get the retirement pension premium in addition your state pension and any pension supplement you may be entitled to. To qualify you must live in the Isle of Man, be entitled to a state pension and have paid NI contributions here for at least 10 years. Reduced rate contributions paid by certain married women and widows do not count. The maximum amount of the retirement pension premium is currently £15.95 per week. However, you will get less than this, or perhaps no premium at all, if you:
  - are entitled to less than the full amount of the state pension;
  - are aged 80 or over and get the £2 per week extra with your state pension; or
  - are entitled to any additional pension.
Note: the above explanations have been simplified and should not be taken to be a complete and accurate representation of the legislative provisions.
Appendix 2: Current NI scheme

The current system of National Insurance (NI) has been in place since 6 April 1975 and is based around the categorisation of individuals as employed, self-employed or non-employed. The type of NI that a person is liable to pay will depend on which category they fall into. It is possible for someone to be both employed and self-employed at the same time.

NI is paid by people who are employed or self-employed and who are aged 16 or over but under state pension age. If someone is non-employed they may either be in receipt of NI credits as a result of claiming certain benefits or they can pay voluntary NI contributions to maintain their NI record for state pension purposes.

In the 2013/14 tax year, a total of £169.3 million was paid in NI contributions.

Employed workers

Employed workers pay Class 1 NI on their earnings from employment. NI is calculated on earnings paid in an earnings period (usually a week or month), with a primary threshold in each below which no NI is due. For the 2014/15 tax year that threshold is £120 per week. An employee will pay NI at 11% on all earnings over this threshold up to the upper threshold of £784 per week, and 1% on all earnings thereafter. Employed workers do not currently pay NI after they reach state retirement age.

Unlike income tax, NI contributions are not paid on all types of income: for example pension income, interest from savings and benefits in kind are not counted for NI.

Although an employee does not pay NI contributions until they have earnings that exceed £120 per week, they are able to build up rights to benefits once their earnings exceed the ‘lower earnings limit’ of £111 per week; and it is therefore possible to have a “qualifying year” for state pension and benefit purposes without paying any NI contributions.

Employers

Employers have a separate liability for NI contributions. This is calculated in the same way as employee NI contributions but is charged at a single rate of 12.8% on all earnings above the secondary threshold of £117 per week. Unlike employees,
employers continue to be liable to NI even when their employees are over the state pension age.

**Self-employed**

Self-employed people are liable to pay two different Classes of NI, depending on the level of profits of their business.

For each week an individual is self-employed they are liable to pay a flat-rate weekly Class 2 contribution: currently £2.70 per week. This contribution provides access to certain contributory benefits. If an individual is self-employed throughout an entire tax year, they will need to pay 52 weekly Class 2 contributions to have a “qualifying year” for state pension and benefits purposes.

In addition to Class 2 NI, an individual is also liable to an annual Class 4 contribution which is collected as part of their income tax return. Class 4 NI is charged at 8% on all profits from their business over the lower profit limit of £6,136 (2014/15) and up to the upper profits limit of £40,768: any profits over this upper threshold are charged at 1%.

**Non-employed**

Unless an individual is employed or self-employed there is no liability to pay NI of any kind. The current scheme recognises that individuals in this category should still be covered and this is achieved in one of two ways.

Firstly, those individuals who are not in employment due to either unemployment or incapacity are awarded credits which protect their NI record. Individuals such as carers or parents with children under 12 will also receive credits.

Secondly, if an individual is not working and is not able to claim credits, they may if they wish pay voluntary Class 3 contributions to protect their NI record for the purposes of claiming the basic state pension and the Manx pension supplement.

**Health Service allocation**

A certain amount of NI income goes directly to the Department of Health and Social Care each year, and is referred to as the “NHS allocation”. The amount allocated from each Class of NI is different; but overall the total amount is approximately 21%
of the total NI contributions collected in the tax year. For 2013/14 the NHS allocation was £36.3 million.

**The Island’s relationship with the UK**

Since the introduction of the social security and NI scheme in 1948, the Isle of Man and the UK have had a reciprocal agreement which effectively treats the two countries as one. An individual can move between the two countries, and NI contributions paid in one will count towards benefit claimed in the other. Contributory benefits such as jobseeker’s allowance and state retirement pension are paid at the same rates and the qualifying criteria for the benefits are the same in both countries.
## Appendix 3: New Manx Benefit

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<tr>
<th>New Manx Benefit</th>
<th>Existing Working Age Benefit</th>
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<td>Basic NMB</td>
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<td>Income Support</td>
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<td></td>
<td>Employed Person’s Allowance</td>
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<td>NMB addition – housing</td>
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<td>NMB addition – children</td>
<td>Child Benefit</td>
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<td>NMB addition – health / disability</td>
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<td>Severe Disablement Allowance</td>
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<td>NMB addition – miscellaneous</td>
<td>Widowed Mothers Allowance</td>
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<td>Separate benefits</td>
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</table>
Glossary of terms

Qualifying year

A tax year during an individual’s working life in which they paid, were treated as having paid or were credited with NI contributions on earnings of at least 52 times the weekly “lower earnings limit”

Lower earnings limit

The amount of earnings an employed worker must earn in a period, normally a week or month, for that period to count towards a “qualifying year”. For the 2014/15 tax year it is £111 per week.

Primary threshold

The point at which an employed worker starts to pay NI contributions. During the 2014/15 tax year this threshold is £120 per week.

Secondary threshold

This is the point at which an employer starts to pay NI contributions. During the 2014/15 tax year this threshold is £117 per week.

Upper earnings limit

This is the point at which an employed worker stops paying NI at the main rate of 11%. The worker pays NI at the rate of 1% on any earnings over this limit.

National Insurance record

This is an individual’s history of NI contributions and credits used to work out entitlement to their state retirement pension, Manx pension supplement and certain other working-age “contribution-based” benefits.

National Insurance contributions

These are paid or credited contributions to the Manx NI Fund. Class 1 NI contributions are compulsory for employees and employers. Class 2 and 4 NI contributions are compulsory for self-employed workers. Class 3 NI contributions for
non-employed persons are voluntary. NI contributions provide entitlement to the state retirement pension, Manx pension supplement and certain other working-age “contribution-based” benefits.
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