



**Isle of Man
Government**

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A Consultation Response Document



Proposed changes to National Insurance for Workers over State Pension Age

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Proposed changes to National Insurance for Workers over State Pension Age

Consultation Response Document

1. Introduction

In his 2015 Budget speech, the Treasury Minister announced his support for the recommendation in the Ci65 consultant's report¹ that both employed and self-employed workers over State Pension Age (SPA) would be required to pay National Insurance contributions. The Minister considered that workers over SPA should not be treated differently to those under SPA. He advised that this measure would be reviewed over the next twelve months.

Following the 2015 Budget, a working party was formed through the Tax Liaison Committee, comprising representatives from the private sector, representing professional bodies, and the Income Tax Division. The remit of the working party was to produce a consultation document providing details on the proposal that both employed and self-employed workers over SPA should be subject to National Insurance contributions and inviting comments and suggestions from the public.

2. Executive Summary

The consultation was open for eight weeks from 19 August 2015 to 14 October 2015 and generated a good deal of public interest. In all, 161 replies were received (141 from the electronic survey and 20 written). Treasury would like to thank all respondents for taking the time to reply to the consultation.

This document provides a summary of the responses made to each question raised in the consultation, together with a sample of the comments and suggestions made by respondents.

Overall, the responses to the proposal that both employed and self-employed workers over SPA should be subject to National Insurance contributions was not very positive.

A clear majority of those who responded indicated that, should those over SPA who work be subject to National Insurance, then they should be entitled to the same level of contributory benefit as those under SPA and should also be able to increase their state retirement pension entitlement.

In addition, a clear majority of respondents were in favour of a substantially lower contribution rate for those over SPA if there was no entitlement to contributory benefits or enhanced state retirement pension.

¹ The Ci65 report was published in 2014 and considered the long-term viability of our benefits system.

3. Summary of Responses

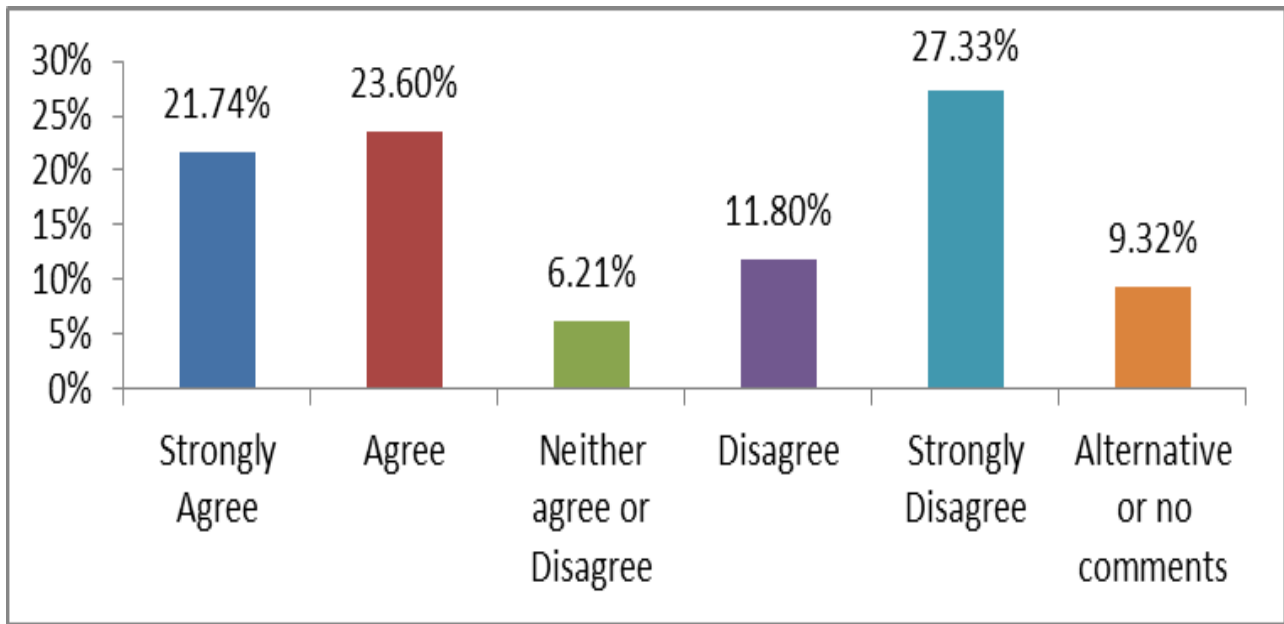
This section provides a statistical overview of the responses to each of the questions raised in the consultation, together with a summary of the additional comments and suggestions made by the respondents.

The written responses have been reviewed, with comments being allocated to the relevant questions; a percentage has also been allocated for agreement or otherwise to enable a statistical overall view of respondents' opinions.

The sample comments highlighted in this section have been included on the basis that they summarised views expressed by several respondents and cover both a positive and negative response.

Question 1

Do you agree that it is fair that all workers aged 16 and over should be subject to National Insurance contributions?



Findings:

While 45% of respondents were in favour of all workers aged 16 and over being subject to National Insurance contributions (NICs), 39% disagreed. Comments mentioned the following themes:

- pensioners continuing to work due to the cost of living and increasing state pension ages;
- doubt that there would be any benefit linked to pensioners paying NICs and it would effectively be a tax on those working past state pension age;
- those who have already paid NICs exceeding the required amount for full basic state pension;
- Government spending in other areas which could have prevented the need for these proposals;
- it being fair that everyone pay NICs regardless of age;
- the Reciprocal Agreement with the UK and becoming less favourable than the UK.

Summary of comments received:

Multiple respondents commented that many older people have to continue to work to supplement their income due to the cost of living and it would be unfair if NICs continued to be payable but no associated benefit entitlement was gained.

There was suggestion that once entitlement to full basic pension is gained a person should not have to pay any more NICs; this, however, does not take account of the other contributory benefits that payment of NICs gives entitlement to e.g. incapacity benefit. A comment supporting this view was "NI contributions should cease, regardless of age, when a minimum number of years contributions have been reached."

Some commented that those who have not yet 'fully paid up' should continue to pay NICs, while others replied that some people receive benefit payments without ever having contributed NICs. There was also a suggestion that those under 16 should pay NICs.

One respondent suggested alignment of NICs for simplification, while others were concerned that, unless there was a reduced rate, those over state pension age could be discouraged from working resulting in a loss of experience from the workforce.

There was also comment that those who work past state pension age may block jobs for young people who would be paying full NIC, therefore all should be liable to pay.

Comments from those who thought the proposal was fair included:

All workers who earn an income should contribute to the NI fund to secure cover for the future.

It is most regrettable that it should be necessary that all workers aged over 16 should be subject to National Insurance contributions. However I believe this is economically unavoidable and therefore that it is fair.

I think that it is a good idea that over 65s pay NIC. They are likely to have lower expenses, for example they are likely to have paid off their mortgage. They are also much more likely to benefit from public spending, for example the NHS. While some older people are poor, OAPs still in work are likely to be on a double income (pension and wage).

Comments from those who thought the proposal was not fair included:

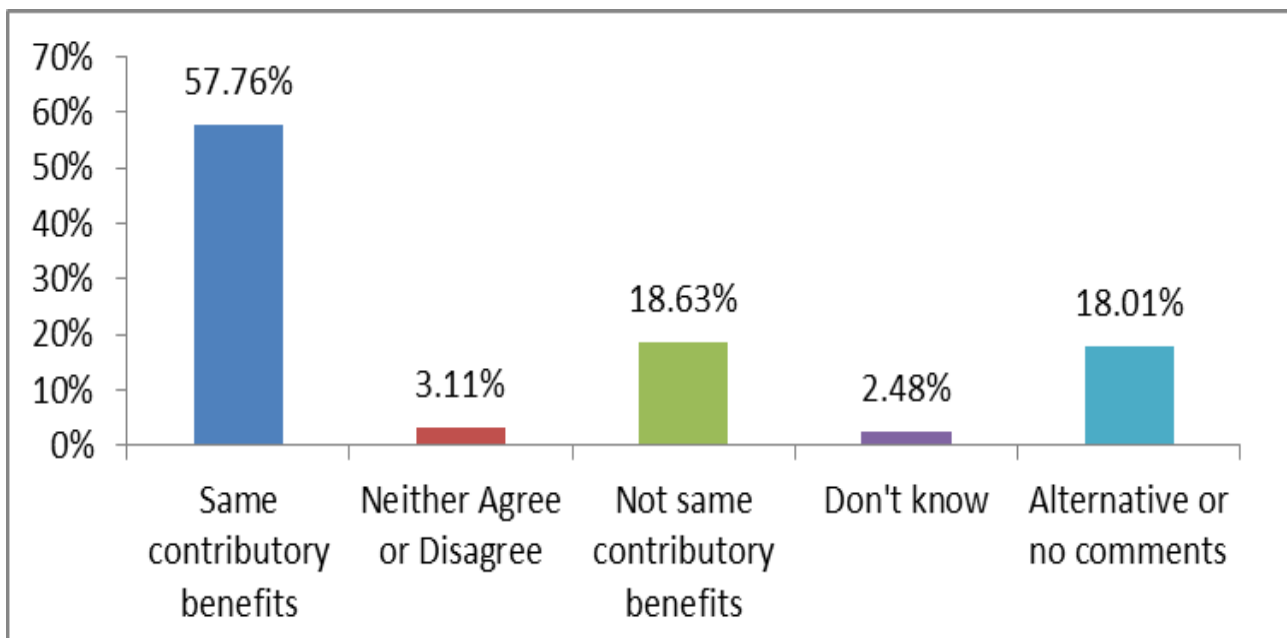
NI was established to provide State Pensions and certain other benefits in return for contributions over a defined period. It is illogical that those who have already paid sufficient contributions to qualify should continue to pay in.

I do not see what benefits it will give me. My employer still contributes for me and by being in part time employment I am helping the economy of the island and still paying my income tax.

This tax is grossly unfair. An employee who started work 50 years ago, knew he could retire at 65 years old, and then would cease to pay NIC.

Question 2

If workers over SPA continue to be subject to National Insurance contributions at the same rate as those under SPA, should workers of all ages be entitled to the same contributory benefits?



Findings:

A clear majority of respondents supported entitlement to contributory benefits if workers over SPA were to be subject to NICs at the same rate as those under SPA. Detailed comments covered the following themes:

- charging the same rates of NICs but not giving entitlement to the same benefits would be discriminatory;
- as those over state pension age would already be in receipt of benefit via the state pension there is no need for entitlement to contributory benefit such as Jobseekers Allowance or incapacity benefit;
- there should be opportunity to improve the state pension entitlement where a person has not yet attained full basic pension.

Summary of comments received:

Comments from those who did not support entitlement to the same contributory benefits included:

Once a worker reaches state retirement age they shouldn't be able to claim benefits such as job seekers allowance or incapacity benefit.

They have an allowance already in the state pension, the other benefits should be for younger people who need them. They should pay a reduced rate as they have paid their fair share but are still obtaining a wage.

Those over SPA are receiving a state pension and therefore benefits like unemployment are not relevant.

Comments from those who supported entitlement to the same contributory benefits included:

Fairness must apply, if those over SPA still pay NI then they accrue credit, if not they don't. Seems logical and fair and would, where not at a 'maximum' SPA years accrued level, increase future pensions accordingly"

If this happens and the benefits do not increase it is just an increase in income tax.

If you pay the same rate of NI as other workers you should be entitled to the same contributory benefits.

Other responses included:

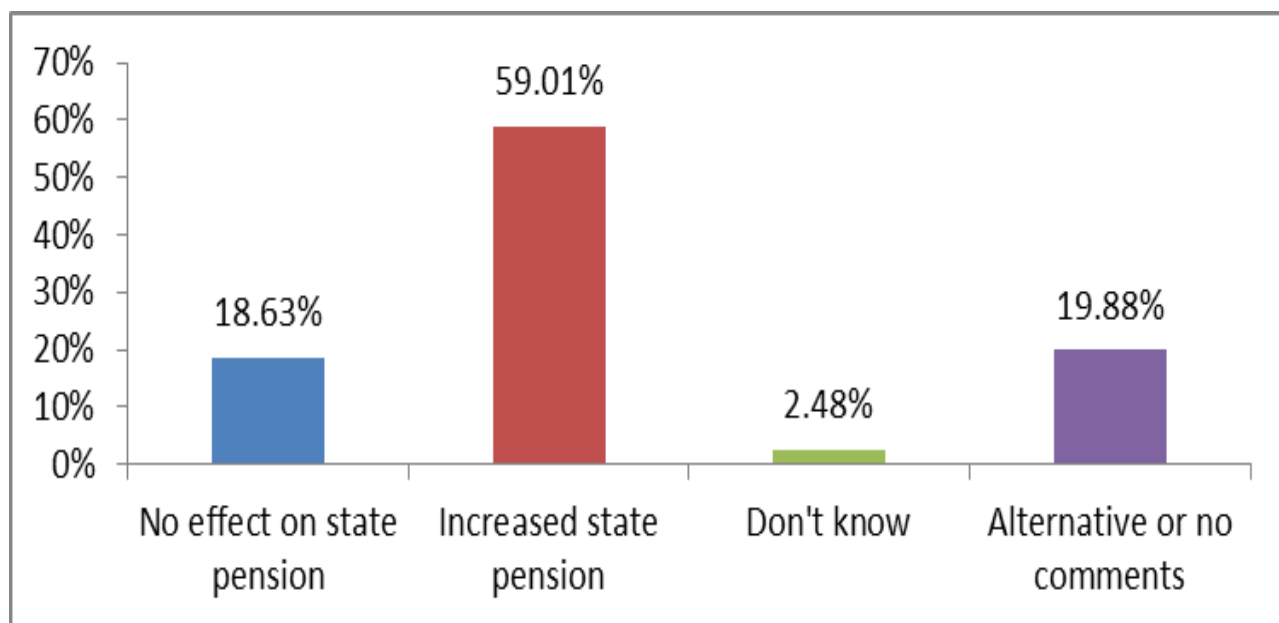
Yes we have contributed into a system – happy for you to make changes gradually but not immediately as older people have limited income to pay all these taxes.

Pensions are a long term plan and people need some certainty. There are too many changes e.g. an increase in SPA to 65/66 and not enough time for people to plan for a reduced income.

There is also the question of whether or not NIC paid after pension age should improve a person's pension entitlement if they have less than 100% entitlement.

Question 3

If workers over SPA continue to be subject to National Insurance contributions at the same rate as those under SPA, what effect should these contributions have on their state pension entitlement?



Findings:

A clear majority of respondents were in favour of NICs paid over SPA increasing state pension entitlement. The comments addressed the following general themes:

- there should be opportunity to improve the state pension entitlement where a person has not yet attained full basic pension;
- people believing they have their own personal 'pension pot' and where more NICs are paid more benefit should be reaped;
- increases if state pension is deferred.

Summary of comments received:

Many commented that there should be opportunity to improve the state pension entitlement where a person has not yet attained full basic pension, for example:

It may be that such workers are not entitled to a full pension, especially if the number of qualifying years increase as suggested, so yes, increased payments of NI should improve their pension entitlement.

It should count towards their state pension but not allow it to go any higher than the standard maximum pension.

Some thought that where more NICs are paid, more benefits should be reaped:

If you pay more in then you should be entitled to more out.

Having completed the statutory number of years to receive a state pension then if you continue to contribute then you should get additional income.

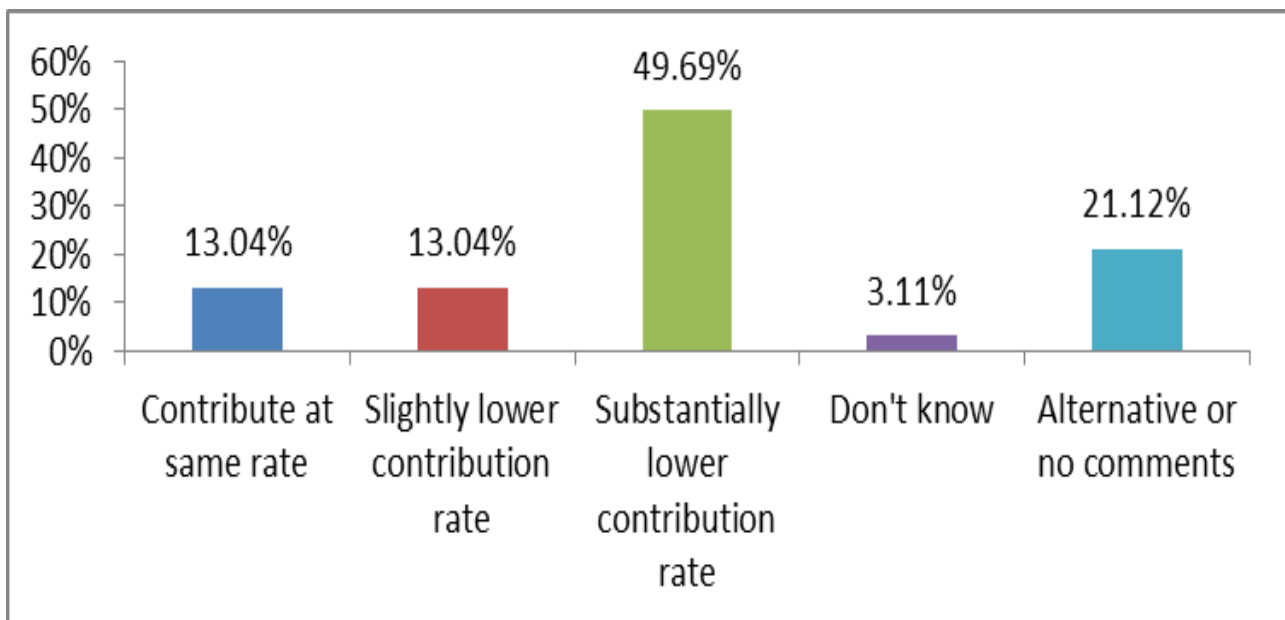
Others considered deferment of pension with the following comments:

This to me is more about when State Pension is taken. I would however not pay anyone more than the maximum accrued entitlement unless drawing SPA was deferred.

The increase should be as long as they defer the state pension whilst working.

Question 4

If it is assumed that the contributions of workers over SPA would not affect their state pension entitlement or create an entitlement to current working age benefits, should workers over SPA pay National Insurance at a lower rate than those workers below SPA?



Findings:

A clear majority of respondents were in favour of a substantially lower contribution rate. Other themes in the comments included:

- those over SPA should not have to pay NICs at all and this option was not presented in the question;
- if benefits are not linked to payments then any NICs should be at a reduced rate;
- if you work, regardless of age, it's only fair you pay the same NICs.

Summary of comments received:

Many respondents expressed the view that those over SPA should not have to pay NICs at all and this option was not presented in the question. Their comments included:

It is illogical to continue to pay for something you are receiving – a bit like continuing to pay for a life assurance policy after maturity!

It would be unfair to ask people to pay but gain no benefit if it could improve their position.

Others had the view that if a person works then they should pay NICs:

To bring in a lower rate is simply going to complicate matters – if you're working, regardless of age, you pay the same rate as everyone else.

If you choose to continue to work after reaching SPA you have to accept you will have to pay contributions.

The majority of the remaining comments supported reduced contributions, including:

It is not fair that they pay the same rate if they don't obtain any benefits from it.

They should contribute at the same rate until they have achieved a minimum of 40 years contributions. It could be slightly lower after this 40 year threshold has been reached.

A number of suggested alternative approaches were provided, including:

- allowing those over state pension age to work a certain number of hours without paying contributions;
- reducing contributions on a sliding scale according to age;
- removing state pension/collecting reduced contributions from all where there is a private pension in place;
- combining National Insurance and Income Tax as "This would be more honest about NI not being a personal fund supported by a lifetime's contributions but, in fact, today's taxes pay for today's benefits".

4. Conclusion

After consideration of the many comments received against this proposal, the current economic climate and current practice regarding neighbouring jurisdictions, Treasury has decided that no immediate change be introduced to NICs for workers over state pension age.



This document can be provided in large print or audio tape on request