LCP on point

Would you credit it? – making the most of the National Insurance credits that can protect your state pension

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01 Introduction – what is a National Insurance credit?

Entitlement to National Insurance (NI) benefits such as the state pension and bereavement benefits is generally based on a record of paying National Insurance contributions. Each NI benefit has its own rules about what contributions have to be paid and over what period. In most cases, those who earn above a certain amount through employment or self-employment and are under state pension age have a legal duty to pay NI Contributions, and these help to build entitlement to benefit.

However, there are many situations in which people may not pay NI contributions in a given year. This could be because they are engaged in caring for a child or for someone with a disability. It could be because they are unable to work because of unemployment or sickness. It could be because they do not earn enough to reach the threshold for paying contributions. For these and other reasons, people may be contributing to society but not adding to their record of NI contributions.

Someone who has gaps in their NI record can find that they lose out in retirement and on other NI benefits.

Consider the case of the new state pension. Since 6th April 2016, a full new state pension has been payable to those who have 35 years of full rate NI contributions[1]. Someone who only has 34 years on their NI record only gets 34/35 of the full rate and so on. At current rates, missing just one year out of the 35 generates a reduction in pension of around £5 per week. Added up over an illustrative twenty-year retirement, one year short in your NI record relative to the 35 year target, can mean you miss out on over £5,000 in state pension (£5 x 52 weeks x 20 years).

The fact that you only need 35 years of contributions for a full pension over the course of an adult life of nearer 50 years means that it is perfectly possible to have gaps in your NI record and still have a full pension. But if pensions depended purely on NI contributions being paid, many people – and many women in particular – would end up short of the full amount.

To make sure that people who are engaged in valuable activity such as caring for others or actively looking for paid employment do not lose out, a complex system of National Insurance credits has evolved. In essence, those who satisfy the requirements of the particular credit are treated <u>as if</u> they had actually paid NI contributions over the period in question. A year of credits generates a

[1] This description abstracts from complications such as the impact of past periods of 'contracted out' membership of an occupational or personal pension scheme.

'qualifying year' towards their state pension in just the same way as a year of paying NI contributions.

The purpose of this paper is to raise awareness of the different NI credits, and particularly those where there is a problem of entitled people not taking them up. In some cases these credits are awarded automatically without the need for a separate claim. But in others, the individual has to be aware of the existence of the credit and make a claim. And there is evidence that for some of these credits many thousands of people are failing to do so and could lose out in retirement as a result.

For each credit we describe the conditions of entitlement and provide some information, where available, of the numbers of people who may be entitled. We also set out some of the detailed rules as they stand at time of writing, though the 'gov.uk' website should always be regarded as the definitive source for the rules[2].

During the course of the paper we identify some little known facts about NI credits, including:

- Claims for some credits can be backdated for many years; one credit (sometimes nicknamed 'grandparents credits') can be backdated nearly a decade, whilst another (for military spouses) can be claimed all the way back to the mid 1970s;
- Some people can miss out on credits because the 'wrong' person claims the qualifying benefit; there is a particular problem with child benefit where it may be a mistake for the higher earner in a couple to be the main recipient of the benefit;
- Those caring for disabled people do not have to be in receipt of a carers benefit to be entitled to carers credit; those doing 20 hours per week or more of caring can also qualify in certain circumstances.

We believe that the system of NI credits is a valuable feature of the National Insurance system and helps many people to build up a state pension and entitlement to other NI benefits. We hope that this guide will encourage many more people to take up their entitlement[3].

[2] Our focus in this paper is mainly on the state pension and therefore we do not go into detail in the differences between 'class 1' credits and 'class 3' credits which may be of relevance to those interested in entitlement to other National Insurance benefits.
[3] The two main groups who may not be eligible to credits are the small number of married women still paying the 'reduced' rate of NICs, and those self-employed people who have a liability to pay Class 2 NICs.

02 The NI Credits described

a) Parents[4]

As at August 2019, there were just under 7.3 million families receiving Child Benefit. Where the youngest child is aged under 12, the person claiming the Child Benefit would automatically receive credits towards their state pension. We estimate that over 5 million of the 7.3 million families on Child Benefit have a youngest child under 12 and therefore qualify for this credit. Foster carers (and kinship cares in Scotland) are also eligible for credits but they have to make an application for these.

In principle, this should be one of the simplest NI credits. But there are two important risks of people missing out.

- **Problems when the 'wrong person' claims the Child Benefit**

The purpose of a National Insurance credit is to prevent a gap from arising in someone's NI record. Where someone is in paid work and paying NI contributions, their NI record is protected without need of the credit. This means that in some couples – for example, where one parent is in paid work and one parent is not - the credit is of value to one partner but not the other. In general, it makes sense therefore for the child benefit to be in the name of the lower earner (or non earner) in a couple, as they are most likely to benefit from the credit.

In practice however, there are a surprising number of cases where the 'wrong' partner is getting the child benefit. These are cases where the person in whose name the benefit has been claimed does not need the NI credit and where they have a spouse or partner who does need the credit. In 2019[5] HMRC estimated that there could be around 200,000 such couples where the child benefit was not in the name of the person who could benefit from the credit.

Whilst this situation is not ideal, the good news is that it is still possible in principle to put things right after the event. HMRC have a form (CF411a) which allows people to apply to have the NI credit which was awarded to one partner to be transferred to another partner. However, this is a bureaucratic process and it makes far more sense to have the Child Benefit in the name of the 'right' person in the first place.

[4] Foster carers (and kinship cares in Scotland) are also eligible for credits but they have to make an application for these.

[5] See, for example: https://www.pensionsage.com/pa/FOI-confirms-200-000-families-potentially-losing-out-on-NI-credits-Royal-London.php

- **Problems when Child Benefit is not claimed at all**

In January 2013, the Government introduced something called the 'High Income Child Benefit Charge'. This applied to families on Child Benefit where one (or more) parent had an income of £50,000 per year or more. In such cases, a charge was applied to the higher earner on a sliding scale. For each £100 of annual income above £50,000, the charge was 1% of the total amount of child benefit received. For those on £60,000 a year or more, this meant that the charge equalled 100% of the child benefit. In principle, this could result in a situation where one partner received child benefit and the other partner received an annual tax bill for exactly the same amount of money.

For couples who wished to avoid this situation, HMRC allowed people to opt out of the Child Benefit system but still retain their 'underlying' entitlement to NI credits and hundreds of thousands of families have taken up this option. However, a problem has arisen with couples starting new families since the high income charge was introduced who are simply not making an application for Child Benefit at all. As a result, growing numbers of parents at home with young children are missing out on the credits that could be theirs if they were simply to claim them.

Worse still, because new claims for Child Benefit (and/or the associated credits) can only be backdated for three months, it is highly likely that failing to claim will lead to permanent damage to their NI record. For some of these parents – mostly mothers – a lower state pension in retirement will be the result.

The total number of families receiving Child Benefit has declined each year since the High Income Charge was introduced, and this suggests a growing problem as more and more of those who could be benefiting from credits are not in the system at all.

b) Grandparents and other family members looking after children

As described earlier, it is possible to build up a 'qualifying year' towards your state pension either by paying National Insurance Contributions or by qualifying for a credit. And in some cases it is possible to tick both of these boxes at the same time. One example would be where a parent claiming child benefit for a child under 12 (and therefore qualifying for an NI credit) is also in paid work and paying NICs (and therefore building up a qualifying year in any case). In this scenario, the NI credit attached to the Child Benefit claim is in effect 'going spare'.

It is also the case that in some situations, the parent who is going out to work is enabled to do so because another family member is looking after the child under 12. This need not be full time care but could include, for example, dropping off at school, picking up after school and/or cover during school holidays.

In some cases the family member providing this care will not themselves be in paid work or qualifying for NI credits. In this situation, the family member in question will have a gap in their own NI record for the year and could ultimately damage their state pension prospects as a result.

In order to protect the position of such family carers, the government introduced in 2011 something called a 'Specified Adult Childcare Credit'. In essence, this allows the parent getting Child Benefit who has the 'spare' NI credit to sign it over to another family member. In many cases this will be a grandparent (which is why the scheme is often referred to as one of 'grandparent credits') but it could be another family member (eg aunt or uncle) from a long list set out in the rules. Provided that they are on the list of 'specified adults' and are under pension age, then the family member can benefit from this transferred credit. Because the parent is building up a qualifying year in any case through paid work, there is no loss to the parent from transferring this spare credit.

When the scheme was initially launched, take-up was very low, and just over 1,000 families were benefiting. Wider publicity has led to increased take-up and the latest figures suggest that more than 10,000 families are using the scheme. But there is every reason to think that many more are potentially eligible and could be using this scheme if they were aware of it.

The good news for those who may have missed out is that claims to the Specified Adult Childcare Credit can be backdated right back to the start of the scheme in 2011, provided that the necessary conditions were met at the time.

Some other points worth stressing about this scheme are:

- There is one NI credit per child benefit claim; so even if there are multiple children cared for by multiple family members, only one of them can benefit from the transferred credit;

- There is no minimum hours requirement for hours of care by the family member; provided that the parent is willing to sign the credit over to a specified adult who is helping with childcare, that is sufficient; during the Covid pandemic and in response to various forms of 'lockdown', HMRC relaxed the rules still further so that even childcare via video link could count towards the credit;

- The credit is awarded on a weekly basis; this means that a family member can benefit for each week in which they are providing childcare; even if this ends up being less than a full year, this gives them a partial NI record for the year and this can then be topped up relatively cheaply with voluntary contributions for the missing weeks;

c) Those caring for a disabled person

One reason why someone of working age might be unable to be in paid work and building a qualifying year of NI contributions through that route is if they have extensive caring responsibilities. However, there are two main ways in which carers can become entitled to credits during such periods.

Recipients of carers allowance

For those who make a successful claim for Carers Allowance, National Insurance credits are awarded automatically. Those who qualify for Carers Allowance will be those doing at least 35 hours per week of caring and who have earnings below a certain threshold. No further claim is required beyond the claim for Carers Allowance in order to secure NI credits.

Other carers

Those who are not in receipt of Carers Allowance but who are caring for a disabled person for at least 20 hours a week may also qualify for 'carers credits', though they have to make a separate claim for these. The main requirements for entitlement to such credits are:

- You are aged between 16 and state pension age
- You are providing care for at least 20 hours per week
- The person you are caring for is in receipt of a specific disability benefit such as:
- DLA (middle / higher rate)
- Attendance Allowance
- Constant Attendance Allowance
- PIP (daily living component at standard or higher rate)

If the person cared for is not on one of these benefits it may still be possible to qualify for the credit. In this case the applicant has to get a GP, health visitor or other healthcare professional to sign a form confirming that the person being cared for needs at least the 20 hours per week of care which is being provided by the applicant.

When the scheme for those caring for 20 hours or more was introduced in 2010, Ministers suggested that up to 160,000 people might benefit. However, DWP has admitted that in October 2017 just 13,700 were benefiting, suggesting a major problem of non take-up of this credit.

d) During maternity / paternity / parental leave

For those receiving pay during periods of maternity / paternity / parental leave, National Insurance is due in the usual way and this will often mean that the NI record of the person concerned is protected. However, for those who do not receive maternity pay etc., or whose rate of pay is so low that they do not come under the National Insurance system, there are still ways in which their NI record can be protected. These are:

- Receipt of Maternity Allowance

Those in receipt of Maternity Allowance receive NI credits automatically, without the need for any further claim.

- Receipt of Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay etc.

Those receiving one of these forms of payment but at a level below the lower earnings limit for National Insurance Contributions can still receive credits for this period. However, they need to apply to HMRC to claim their entitlement.

Over the course of a typical year around 260,000 mothers will receive Statutory Maternity Pay and a further 60,00 will receive Maternity Allowance and qualify for NI credits as a result.

e) During sickness / unemployment or low income

One obvious reason why someone may not be building up a record of NI contributions is because they are out of paid work due to unemployment or sickness. In general, such situations are covered by the system of NI credits but only for those who 'sign on' to the relevant benefit, and there will usually be conditions attached to receipt of those benefits. For example, unemployed people who sign on for Jobseekers Allowance or Universal Credit are generally only entitled if they are available for work, actively seeking work etc. Only if they meet these requirements do they get the benefit and the NI credit which goes with it. Credits may also be available to those who are actively looking for work (etc) but do not meet the specific requirements (eg contribution tests) for eligibility to the benefit in question.

The main relevant benefits are:

- **Jobseekers Allowance (JSA) –** those who successfully claim JSA automatically receive National Insurance credits; those who are unemployed and are actively seeking work can still get credits even if they do not qualify for JSA (perhaps because of a poor NI record), but they have to make an application for credits via their local Jobcentre;

- **Employment Support Allowance (ESA) –** those off work sick who successfully claim ESA also automatically get NI credits; as with JSA, those who satisfy the other requirements of ESA (eg being unfit to work) but do not qualify for the benefit can get credits but have to make a separate application;

- **Statutory Sick Pay (SSP) –** those receiving SSP from their employer at a level below the lower earnings limit for National Insurance can still get NI credits but they have to apply to HMRC for these;

- **Universal Credit (UC) –** Universal Credit is steadily replacing the main income-related benefits such as income-based JSA, income-based ESA, Housing Benefit etc.; those who qualify for Universal Credit receive National Insurance credits automatically.

Unemployed people who are on short-term (less than one year) government-approved training course can get NI credits. Where they were sent on the course by Jobcentre Plus, the award of credits should be automatic. For other government-approved courses it is necessary to make an application to HMRC for the award of credits.

f) Whilst in low paid employment

The liability to pay National Insurance Contributions arises for an employee at earnings above the 'primary threshold'. In 2020/21 this is £183 per week. However, lower paid employees who earn between the 'lower earnings limit' (£120 per week in 2020/21) and the primary threshold are automatically credited with contributions even though they do not have to be paid.

Other low paid workers who may qualify for NI credits are those in receipt of Working Tax Credit. Employees on Working Tax Credit who are earning below the lower earnings limit (or self-employed people with profits under £6,475 per year) should automatically get NI credits. However, in cases where a couple is in receipt of Working Tax Credit, only one of the partners can get a credit through this route.

g) Military spouses[6]

Armed forces personnel who are stationed outside the UK may still receive a UK salary on which NI contributions are levied. They will therefore protect their NI record despite working outside the UK. However, it is the nature of armed service that sometimes it is necessary for a spouse or civil partner to accompany the member of the armed forces and this can make it difficult for that person to protect their own National Insurance record.

In response to this, the Government introduced (as part of the reforms to the state pension system) a new system of credits for those who reach state pension age from 6th April 2016 onwards. The spouse or civil partner of someone who served in the military outside the UK and who went with them on an overseas posting can qualify for an NI credit for any such period all the way back to 6th April 1975. Note that this provision only applies to husbands/wives and civil partners and does not apply to unmarried partners. Provided that the applicant was married to the member of the armed forces at the time, entitlement to the credit is not affected by any subsequent divorce.

It is expected[7] that around 20,000 individuals will eventually benefit from these provisions though as many of the people eligible have not yet reached pension age, the actual numbers currently benefiting are thought to be relatively small.

More information on how to claim this credit can be found here.

[6] For those stationed outside the UK since 6th April 2010, the crediting regime is more generous in that it can help with entitlement to short-term NI benefits such as JSA and ESA on the return to the UK. This is because the credits are in the form of 'Class 1' credits rather than 'Class 3' credits.
[7] See: https://www.legislation.gov.uk/uksi/2016/240/pdfs/uksiem_20160240_en.pdf

h) Miscellaneous other categories

So far in this report we have covered the main circumstances in which an individual can be credited with a year of NI contributions even in a situation in which they have not actually paid enough contributions for the year in question. For completeness, we list here some additional situations in which NI credits can be awarded:

- Jury Service

Those who attend court for jury service and who are not self-employed can apply to HMRC for NI credits for the period of their jury service

- Wrongful imprisonment

Those who are convicted of an offence and imprisoned, but whose conviction is later quashed by the Court of Appeal can apply to HMRC for National Insurance credits for the period of their wrongful imprisonment.

03 Conclusions

One year of National Insurance contributions can easily turn into £5,000 or more in state pension over the course of a typical retirement. For those who would otherwise be short of a full state pension, it is therefore vital that they claim any NI credits to which they may be entitled. Whilst some credits are awarded automatically (for example, to those claiming child benefit for a child under 12), in many other cases it is necessary to make an active claim. As this paper has demonstrated, there is a wide range of situations in which someone can qualify for a National Insurance credit and people may simply be unaware of their entitlement. In some cases this can be put right 'after the event' in the form of a backdated claim, but in others there are deadlines which mean that the opportunity to benefit from credits can be lost for good if a prompt claim is not made.

We hope that this simple guide will help to encourage greater take-up of these important credits. But we would also encourage the Government to do more to publicise these credits and to do more to raise awareness of them, including using its own records where appropriate to notify people of their potential entitlement. Many of these schemes of credits were designed to protect people making a valuable contribution to society, for example through caring for a disabled person, and it would be regrettable if such people did not get the intended benefit through a lack of awareness.

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