

NATIONAL INSURANCE CONTRIBUTIONS ACT 2008

EXPLANATORY NOTES

BACKGROUND

Bringing forward introduction of the upper accrual point

Changes

16. Following changes to align the upper earnings limit with the higher rate tax threshold as announced in Budget 2007, the Act introduces the upper accrual point from April 2009, before the introduction of the flat rate accrual amount.
17. The effect of the Budget 2007 announcements would have meant that without intervention, the level of the upper accrual point upon introduction in 2012 (as previously planned) would be significantly higher than that forecast in the Regulatory Impact Assessment provided for the Pensions Act 2007. As a consequence state second pension would have accrued on a greater amount of earnings than intended.
18. Bringing forward the introduction of the upper accrual point to April 2009, and fixing it at an amount broadly equivalent to the level that the upper earnings limit was projected to be at in 2012 prior to the Budget announcement, re-aligns with the proposals to achieve flat rate accruals by around 2030, set out in the Government White Paper: *Security in retirement: towards a new pension system*.
19. The upper accrual point will replace the upper earnings limit as the weekly upper cap on earnings when determining entitlement to the state second pension. It is set at £770 per week, the level of the upper earnings limit for 2008-09. It will be frozen in cash terms and together with the flat rate accrual amount provided in the Pensions Act 2007 will remove earnings-related accruals within the original time-span.
20. These changes affect calculations relating to the contracted-out rebate. If a pension scheme member is opted out of state second pension they receive a "rebate", which is based on the amount of state second pension foregone. The rebate is calculated on the same band of earnings on which state second pension accrues, and the Act therefore amends the rebate arrangements so as to reflect the introduction of the upper accrual point.