

NI, the pension and the contributory principle

Beveridge nationalised the popular and successful contributory or insurance principle. Working men in the 1940s paid weekly into “the club”, “the social” or “the sick”, charities and societies that paid them assistance if they fell ill or lost their weekly wage. They believed in working to keep their families and thought it right to pay for insurance against worklessness.

Beveridge created a national insurance scheme which provided subsistence payments if someone could no longer get a weekly wage. It also added in the state pension when they retired. State pensions were included in the sickness and redundancy insurance scheme which depended on a single regular payment out of income.

Subsequent changes understandably saw us want more generous sickness, unemployment and pension payments. Gradually more of the non pension payments were made out of general taxation and no longer depended on contribution records. As the triple lock policy drove the real value of pensions up so pensions came to dominate the NI fund.

I do not wish to reproduce arguments over the fact that the NI fund has always been pay as you go, not funded. It receives a favourable audit certificate every year because current payments in exceed payments out. The current working generation pays the pension of the older generation in the knowledge that their children will pay their pensions in due course. I will look at the impact of abolition of employee NI tomorrow. If you wanted to convert to a funded scheme the current generation of workers would need to pay twice.