

The NI fund

The NI fund last year collected £129 bn in NI contributions from employers and employees. More than half came from employers. It paid out £110 bn on pensions and was left with a surplus after its small contribution to other benefits.

The pension itself is paid to people over retirement age based on their contributions. Some people are awarded credits but most earn them by making tax payments from employment or self employment income.

If the government did abolish employee NI there would be a significant shortfall in the NI to pay the pensions. Government would need to set out how it would transfer money to the NI fund to keep it solvent, or would need to abolish it and take payments into its general accounts.

It will also need to set out who qualifies for a pension and how much pension they will be entitled to in a world where no one is making NI contributions. It would be a bad idea to abolish all links with work and taxpaying. There could be some notional identification of Income tax on work income as a replacement qualification, or some calculation based on employer contributions per person.

It would not be fair to pay anyone reaching retirement age a full state pension. That way a work migrant could come here to work the last couple of years, gain citizenship and then claim a full pension.

The residual contributory benefits would presumably go. There will need to be conditionality and qualification criteria for these benefits.

The whole point of the contributory pension was to link working with saving. The idea of the fund was to relate cost of future benefits to contributions over a working life. If the aim is to eliminate all employee contributions the government needs to set out in a reform Green paper how a new system would be better, and how they will graft a new system for employees onto the old system of employer NI contributions. Meanwhile government needs to stress this is not a pledge or commitment to abolish employee NI as they have not identified how that would fit into OBR arithmetic.

Dear Colleague from Robbie Moore regarding the Storm Overflow Action

Plan

Please find enclosed below the Dear Colleague that I have received from Robbie Moore concerning the Storm Overflow Action Plan:

12th March 2024

Dear Colleague,

I am writing to inform you of the publication of a storm overflow action plan dashboard which has been published by industry body WaterUK this morning. As part of our drive to improve transparency, we demanded these storm overflow action plans were created by industry and we will now closely scrutinise them to ensure significant action is taken to reduce harmful and unnecessary discharges.

Profit must never come at the price of pollution, and this Government is taking tough action on water companies not delivering on their civic and legal duties towards the environment and its customers. Yesterday, we confirmed that water companies will invest an additional £180m over the next 12 months to prevent more than 8,000 sewage spills polluting English waterways, following the Secretary of State directing water and sewage companies last December to measurably reduce sewage spills over the next year.

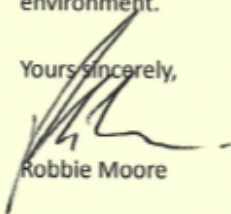
And last month we announced that water bosses are set to be banned from receiving bonuses if a company has committed serious criminal breaches. This is alongside a fourfold increase in water company inspections also announced last month. The new enforcement and inspection regime will see up to 500 additional staff over the next three years and an increase in unannounced inspections to reduce reliance on water company self-monitoring introduced under Labour in 2009.

We have also driven up sewage overflow monitoring from just 7% under Labour in 2010 to 100% by the end of 2023, giving us the tools we need to hold water companies to account. However, it is clear that companies across the country are not going far or fast enough when it comes to addressing the unacceptable volumes of sewerage entering our waterways. The plans published today are a clear demonstration of this, and I want to assure you that the Secretary of State and myself will be making that clear to companies as we evaluate these proposals over the coming weeks.

Attached to this letter is a briefing pack including a template letter which I would encourage you to address to your water company CEO, should you be minded to do so, urging them to go further and faster when it comes to investment in storm overflows and reducing pollution.

In the meantime, I will continue to hold companies accountable for their appalling records on the environment.

Yours sincerely,



Robbie Moore

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.

Why cut National Insurance again?

I do not recall MPs and constituents calling for a further reduction in National Insurance. Readers of this site will remember the list of targeted tax cuts I requested, led by IR 35, VAT Threshold, and energy taxes. Others urged Income tax thresholds, Stamp duty and the tourist tax.

I have been willing to back a further NI cut as it is on offer. It does relieve some pressures on working individuals and families and provides a modest offset to the Bank of England recession inducing money policy. It does make it worthwhile working which is a good thing.

It does not poll very well and has not led to a big Conservative poll bounce.

Many disenchanted Conservative voters are over the age to pay NI but subject to more Income tax if they wander over the tax threshold. There is some bemusement over the longer term aim of abolishing NI, which came out of nowhere. It is clearly not affordable on current policies.

Maybe they mean to abolish just employee NI, leaving in place employer NI which would remain as a tax on jobs. That makes it more affordable. I will look in more detail at the wider impacts were they in due course to abolish employee (and self employed) NI.

Lecture – ‘The Digital and Green Revolutions Compared’

Please find below the audio recording of my lecture delivered at All Souls College, Oxford.

It starts at 00:13.

<http://johnredwoodsdiary.com/wp-content/uploads/2024/03/Sir-John-Redwood-Lecture-08.032024.m4a>