

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.