

10 February 2011

## Technical bulletin (occupational pensions)

### National Insurance: contracting-out rebates 2012 to 2017

A draft order has been published which sets out the contracted-out rebates for the period 6 April 2012 to 5 April 2017<sup>1</sup>.

#### Effect on contracted-out defined benefit schemes

Members of contracted-out defined benefit pension schemes pay reduced rates of National Insurance contributions. In the period 2007 to 2012 the reduction was 1.6% for members and 3.7% for employers (a total of 5.3%). For the five years from 6 April 2012 the reduction will be 1.4% for members and 3.4% for employers (a total of 4.8%).

This means that in April 2012 members' National Insurance contributions will rise by 0.2% and employers' National Insurance contributions will rise by 0.3% (on earnings between the Lower Earnings Limit and Upper Accrual Point).

#### Effect on defined contribution schemes

The order also specifies contracted-out rebates for defined contribution schemes, for the tax year 2012/13 only. However, these rates are not expected to come into force, since contracting out on a defined contribution basis is to be abolished from 6 April 2012.

#### Action points

No immediate action is required. Payroll departments will need to deduct the correct National Insurance contributions at the appropriate time in the usual way. Employers and schemes may consider that this change makes the decision to continue contracting out less attractive.

#### Further information

The draft order follows a report to parliament by the Secretary of State for Work and Pensions which is informed by reports produced by the Government Actuary. These documents<sup>2</sup> contain further background information on the system for contracting out of the state second pension.

Please get in touch with your usual GAD contact if you would like to discuss this further. If you are not a client of GAD, but would like to learn more about our services, please contact Bill Rayner on 020 7211 2975 or by email at [bill.rayner@gad.gov.uk](mailto:bill.rayner@gad.gov.uk).

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<sup>1</sup> The text of the order be found at: <http://www.legislation.gov.uk/ukdsi/2011/9780111506257/contents>.

<sup>2</sup> The reports can be found at: [http://www.gad.gov.uk/Documents/Pensions%20Policy%20&%20Regulation/Contracting%20Out/Report\\_to\\_parliament\\_on\\_the\\_2011\\_review\\_of\\_contracting-out\\_terms.pdf](http://www.gad.gov.uk/Documents/Pensions%20Policy%20&%20Regulation/Contracting%20Out/Report_to_parliament_on_the_2011_review_of_contracting-out_terms.pdf)