SOCIAL SECURITY (CONTRIBUTIONS) BILL 1993-94 (Bill 2)

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Research Paper 93/113 8 December 1993

The Social Security (Contributions) Bill 1993-94 was laid on 1 December 1993 and is due to have its Second Reading on 13 December. It is a short Bill, the main provisions of which are contained in Clause 1. This increases by 1% the main Class 1 contribution paid by employees on earnings between the lower and upper earnings limits (£57 per week and £430 per week in 1994-95). This rate will now be 10% rather than 9%. This change forms part of a package, including a corresponding increase for self-employed people on their Class 4 contributions and reductions in contributions paid by employers. These other changes to the contribution rates will not require primary legislation.

The Bill also makes retrospective technical changes to the way in which part of national insurance contributions is allocated to health service funds. It also makes it clear (again retrospectively) that self-employed people do have to pay Class 4 national insurance contributions on payments to personal pensions. In practice, self-employed people have been paying NICs on such payments but the legislation was thought to require clarification.

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PART ONE - BACKGROUND

The Operation of the National Insurance Fund

The National Insurance Scheme is financed on a pay-as-you-go principle with this year's expenditure being funded by this year's contributions. In addition, there is a working balance in the fund to ensure the smooth operation of the scheme and allow for contingencies. The balance is invested (mainly in Government securities) generating further income for the Fund.

Each year, the Government Actuary reports on the draft orders to provide for the annual uprating of benefits and the re-rating of contributions detailing the effect of these upon the Fund. In addition to this annual report, the Government Actuary makes a longer term review of the Fund every five years. The last such Quinquennial Review covering 1980-1985 was published in 1990 (Government Actuary, <u>National Insurance Fund Long Term Financial Estimates,</u> Report by the Government Actuary on the Second Quinquennial Review under Section 137 of the Social Security Act 1975, 25 July 1990, HC 582, Session 1989/90).

Income to the National Insurance Fund is mainly from contributions. However, there is also some investment income, and since 1990 payments have been made from the Consolidated Fund (from general taxation) in respect of statutory sick pay and statutory maternity pay.

The vast majority of the Fund's **outgoings** are on benefits. Those benefits financed by the Fund are as follows:

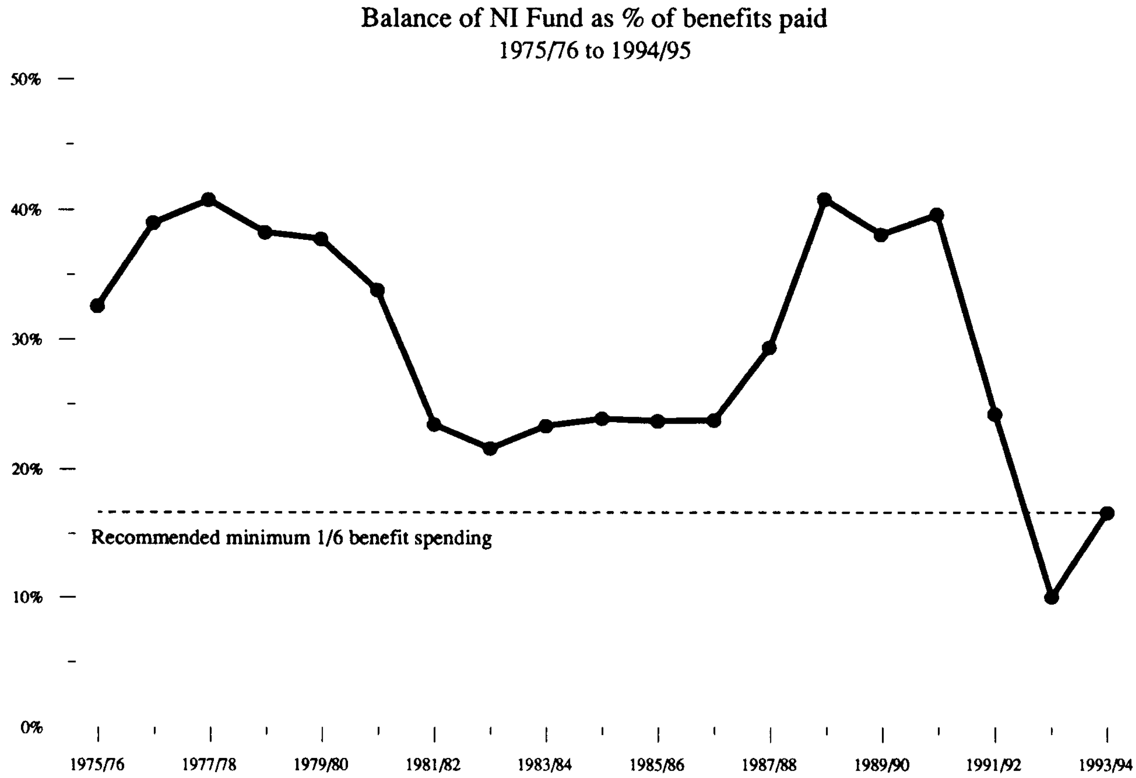
Retirement Pensions*	Maternity Allowance
Widows Benefits	Guardian's Allowance
Unemployment Benefit	Child's Special Allowance
Invalidity Benefits	Christmas Bonus
Redundancy Payments	

**Retirement Pensions include the basic pension and the additional pension from SERPS.*

Factors affecting the future adequacy of the fund include the following:

- movements in earnings and prices
- unemployment
- maturing rights under SERPS
- cuts in SERPS benefits from the year 2000
- numbers contracting out of SERPS
- take up of incentive payments
- demographic factors.

The State of the Fund



Recently, estimates on the state of the fund have shown a move from surplus to deficit. This refers to an excess of expenditure over income. It does not mean that there is not enough in the fund to pay benefits. The fund has a working balance to prevent this. However, it does mean that this balance has been eroded. In the 1990 Quinquennial Review the Government Actuary stated that "*it would seem advisable to maintain a minimum balance of about one-sixth of a year's benefit expenditure*"[1]. Estimates in the 1991 report from the Government Actuary on the benefits uprating and contributions re-rating orders showed an excess of expenditure over income for the years 1991-92 and 1992-93[2]. Consequently the Government Actuary predicted that the balance of the fund would fall from 40% of benefit expenditure in 1990-91 to 17% in 1992-93. The estimated levels were therefore just above this recommended minimum and the Government therefore introduced a Treasury Grant from 1992-93 in the Social Security Act 1993 to boost the fund. Further details are in Library

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1 HC 582, Session 1989-90, para 6.8.

2 (Government Actuary, Report on the drafts of the Social Security Benefits Up-rating (No 2) Order 1991 and the Social Security (Contributions) (Re-rating) (No 2) Order 1991, December 1991, Cm 1779).

Research Note 92/103. Subsequent estimates for 1992-93 in a 1992 Government Actuary Report[3] showed a greater deficit of expenditure over income which reduced the size of the balance to just 10% of benefit expenditure. In 1993-94, the balance returned to just over the recommended minimum at 17% because of the introduction of the £7.6bn Treasury Grant. The graph on page 3 shows the balance of the fund as a percentage of benefits paid from 1975-76 to 1994-95.

Table 1 on page 5 shows the summary accounts of the National Insurance Fund from 1975-76 to 1992-93.

The Structure of National Insurance Contributions

National insurance contributions are divided into 4 classes.

Class 1 contributions are those paid by employees and their employers. **Class 2** contributions are flat-rate contributions paid by self-employed people, while **Class 4** contributions are paid by the self-employed on profits between a lower and an upper limit. **Class 3** contributions are flat-rate voluntary contributions for people who wish to make up a deficient record.

Class 1 contributions paid by employees are called "primary" contributions and those paid by employers are called "secondary".

People with earnings below the "lower earnings limit" (the LEL) do not pay contributions, and neither do their employers. The LEL is £56 per week in 1993-94 and will be £57 per week in 1994-95. The rate is set in legislation as being the nearest whole pound to the basic retirement pension rate[4].

For employees, there is also an upper earnings limit (UEL). This must be between 6½ and 7½ the basic state pension[5]. This is £420 per week in 1993-94 and will be £430 per week in 1994-95. This limit does not apply to the contributions paid by employers.

Once an employee earns over the LEL, they will pay 2% on earnings up to the LEL, and a higher rate on earnings over this amount. The rate depends on whether or not they are in the State Earnings Related Pension Scheme. For 1993-94, people who are in SERPS pay 9% on earnings between the LEL and the UEL. Those who are contracted out of SERPS pay 7.2% on earnings between the LEL and the UEL. The Bill will increase these amounts to 10% and 8.2% respectively from 1994-95.

For employers, the rates vary according to the earnings of the employee.

The main rates of Class 1 contributions for 1993-94 are set out in Appendix 1.

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3 Report by the Government Actuary on the drafts of the Social Security Benefits Up-rating Order 1993 and the Social Security (Contributions) (Re-Rating) Order 1993, January 1993, Cm 2136.

4 Section 5(2) Social Security Contributions and Benefits Act 1992.

5 Section 5(3) Social Security Contributions and Benefits Act 1992.

Table 1

Summary Accounts Of The National Insurance Fund 1975/76 To 1992/93

£ million

Financial year	Receipts: Contributions (a)	Receipts: Treasury supplement/ grant	Receipts: Reimbursement for SSP, SMP & IIB payments	Receipts: Investment income (net)	Receipts: Other	Receipts: Total	Payments: Benefits (b)	Payments: Transfer to Northern Ireland	Payments: Incentives to personal pensions, etc	Payments: Administration	Payments: Other (b)	Payments: Total	Surplus/ deficit	Balance on Fund: £ million	Balance on Fund: Percent of benefits
1975/76	6,184	1,133	-	193	0	7,510	6,812	38	-	335	6	7,191	319	2,219	33%
1976/77	7,729	1,387	-	281	0	9,398	8,066	56	-	344	5	8,470	928	3,147	39%
1977/78	8,559	1,537	-	387	0	10,484	9,385	59	-	355	7	9,805	678	3,825	41%
1978/79	8,991	1,976	-	443	0	11,410	10,682	62	-	395	6	11,144	265	4,090	38%
1979/80	10,413	2,343	-	542	0	13,297	12,243	72	-	442	4	12,762	535	4,626	38%
1980/81	12,553	2,848	-	607	0	16,009	14,893	99	-	601	5	15,597	412	5,037	34%
1981/82	14,035	2,433	-	588	0	17,056	17,243	96	-	707	0	18,047	-991	4,046	23%
1982/83	16,303	2,591	-	496	3	19,393	18,611	85	-	720	0	19,416	-23	4,023	22%
1983/84	17,777	2,807	-	490	16	21,090	19,716	77	-	716	0	20,509	580	4,604	23%
1984/85	19,000	2,597	-	520	1	22,119	20,831	95	-	808	11	21,745	374	4,978	24%
1985/86	20,790	2,163	-	541	2	23,496	22,309	60	-	810	2	23,180	316	5,293	24%
1986/87	22,316	2,412	-	610	2	25,340	24,005	175	-	738	8	24,926	414	5,707	24%
1987/88	24,564	2,135	-	596	40 (d)	27,336	24,793	155	-	802	5	25,755	1,581	7,288	29%
1988/89	27,394	1,653	-	778	1	29,825	25,397	185	289	866	8	26,744	3,081	10,369	41%
1989/90	29,405	-	-	1,040	1	30,447	27,000	210	2,434	857	7	30,508	-62	10,307	38%
1990/91	30,864	-	1,705	996	926 (e)	34,490	29,723	225	2,069	980	8	33,005	1,485	11,792	40%
1991/92	32,474	-	1,055	1,109	37	34,675	34,346	125	2,452	1,202	10	38,135	-3,460	8,332	24%
1992/93 (c)	34,072	-	1,071	850	(f)	35,993	36,638	40	2,658	1,316	(f)	40,652	-4,659	3,673	10%
1993/94 (c)	36,552	7,589	1,093	450	(f)	45,684	38,634	140	2,778	1,370	(f)	42,922	2,762	6,435	17%

Notes: (a) Net of employers' recoveries in respect of SSP from 1983/84 and SMP from 1987/88. Includes state scheme premiums. Net of contracted-out rebates for occupational pensions but gross of rebates and incentives for personal pensions.
(b) Includes redundancy benefits from 1990/91.
(c) Forecasts of Government Actuary published November 1992
(d) Reflects transfer of balance of the Maternity Pay Fund.
(e) Reflects transfer of balance of the Redundancy Fund.
(f) Assumed negligible.

Sources: "National Insurance Fund Account 1990/91" HC 33 of 1992/93, HC 614 1993/4 and previous years.
"Report by the Government Actuary on the drafts of the Social Security Benefits Up-rating Order 1993 and the Social Security (Contributions) (Re-rating) Order" 1993 Cm 2136

The 1% Increase in Employees' Contributions

In his Budget Statement in March 1993, the then Chancellor, Norman Lamont, indicated that in the Government's view it would not be right to rely on the Treasury grant in the medium term. Accordingly he announced that he would be raising the Class 1 main rate of national insurance contributions by 1% to 10% in order to "*place the finances of the national insurance fund on a firmer footing*" :

NATIONAL INSURANCE CONTRIBUTIONS

In my autumn statement, I took some tough decisions on current spending to maintain capital programmes, but, to protect the poorest and most vulnerable members of society, we also decided to uprate social security benefits in full. That decision was warmly welcomed on all sides of the House. However, had no further action been taken, the effect of that decision, combined with the rise in unemployment, would have been to push the national insurance fund into deficit. To prevent this, I introduced a new Treasury grant, and legislation to implement this has been taken through the House.

This makes sense at a time when ensuring economic recovery is our priority, but it is clearly not a fair or reasonable basis for financing the national insurance fund over the medium term. A Treasury grant is paid for by the general body of taxpayers, including millions of pensioners who have already made a full contribution to the fund throughout their working lives. Accordingly, my right hon. Friend the Secretary of State for Social Security and I propose to place the finances of the national insurance fund on a firmer footing.

I do not propose to increase national insurance contributions in the coming year. However, from April 1994 my right hon. Friend and I propose to increase the class I main rate of employee national insurance contributions by 1 per cent., to 10 per cent., and the class 4 rate for the self-employed by 1 per cent., to 7.3 per cent. The arrangements for employees earning below the lower earnings limit and the self-employed with profits below the lower profits limit will be unchanged by these measures. The necessary legislation will be brought before the House in the coming year.

Taken together, these increases will raise about £1.8 billion in 1994-95 and £2.2 billion in a full year.

However, that will still leave a deficit in the national insurance fund of £2.8 billion in 1994-95 and a similar sum the following year. National insurance contributions are, of course, paid not just by employees and the self-employed, but also by employers; and when a deficit of this size emerges in the fund, it is natural to look to all contributors to make up the balance. The remaining deficit is roughly equivalent to an increase in the employer national insurance contribution rate of 1.2 per cent. from 10.4 per cent. to 11.6 per cent. However, having reflected carefully, I do not believe that it would be appropriate to increase the burden on employers. I therefore propose to retain a smaller Treasury grant to make up the continuing shortfall in the Fund.

(HC Deb 16.3.93 c179)

In a recent press release[6], the Government explained the increase as follows:

The Bill gives effect to the 1 percent increase in employees' National Insurance contributions from 6 April 1994 which was announced in the Budget last March. The proposed measure will increase income to the National Insurance Fund which finances the contributory benefits - mainly Retirement Pensions. The effect will be to reduce the amount paid out of general taxation which is needed at present to balance the Fund. This will ease the potential burden for many taxpayers who have already made a full contribution to the Fund during their working lives. The Government believe it is right in principle that existing contributions should meet the cost of contributory benefits.

Other Changes to Contributions

The 1% increase to employees Class 1 national insurance contributions is part of a package of changes to contributions which will also come into effect on 6th April 1994. These include:

- **Corresponding 1% increases to the class 4 contributions paid by the self- employed on profits;**

- **Reductions of 0.2% to the standard rate of employers' contributions and of 1% to each of the lower rates of employers' contributions paid for employees on lower earnings.** This is to offset costs to larger employers arising from their new liability under the current Statutory Sick Pay Bill to pay statutory sick pay in full and to improve the incentives to employers to create the kind of jobs at the lower end of the pay scale which are most likely to go to the long-term unemployed[7].

The effects of the changes upon employers and employees is set out by the Government in DSS Press Release 93/209 (30 November 1993).

Where employees are in the State Earnings Related Pension Scheme (SERPS), those earning between £57 and £64 per week will pay slightly less in contributions. Those earning above £64 but not more than £420 will generally pay more contributions ranging from a few pence to £3.56. Those earning above £420 per week will pay a maximum increase of £4.56 per week.

Where employees are contracted out of SERPS, those with earnings of £62 per week or less will pay the same or slightly less. Those with earnings between £63 and £420 will pay more contributions, ranging from a few pence up to £3.58 per week more. Employees with earnings above £420 per week will pay up to £4.40 per week more.

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6 DSS Press Release 93/215, 2.12.93.

7 Chancellor Kenneth Clarke, Budget Statement (HC Deb 30.11.93 c926).

The changes for 1994-95 are set out in more detail in Appendix 1.

Forthcoming Changes to National Insurance Benefits

The changes can also be seen in the context of recently announced cuts to national insurance benefits. These include:

- The replacement of unemployment benefit (currently paid for one year) with the new "job seekers allowance", which will be means tested after six months. This will take place in 1996;

- The replacement of sickness benefit and invalidity benefit with "incapacity benefit" for new claimants from April 1995. This new benefit will be taxable (unlike invalidity benefit) and will have a tighter medical test;

- The raising of the female state pension age to 65 to be phased in between 2010 and 2020.

The Government estimates that the first two of these changes, alongside certain other measures (such as the abolition of recovery of statutory sick pay costs for larger employers) will save "some £2½ billion a year by 1996-97"[8]. The raising of the female state pension age will save £5 billion a year by 2025 (at 1993-94 prices)[9].

Why Primary Legislation?

Most of the changes to national insurance contributions can be achieved through secondary legislation. However, under Section 143(4)(a) of the Social Security Administration Act 1992, where an increase to primary or secondary Class 1 contributions is greater than 0.25%, primary legislation is required.

Reactions to the 1% Increase

Recent Opposition comment on the 1% increase has tended to focus on it in the context of cuts to unemployment benefit and what they see as attacks on the contributory principle. The Leader of the Opposition, John Smith, made the following comments in his response to Kenneth Clarke's Budget Statement:

> Above all, today we needed a Budget for jobs and for social justice. But, my goodness, we got neither of those. Instead, as I am afraid we have come to expect from the Conservative party, a party now well out of touch not only with the British people but with its own dwindling band of supporters, we had a Budget which was a blatant betrayal of election promises, a Budget which continues to pile taxes on the British people and to reduce the services available to them.

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8 Ibid, c927.

9 White Paper, Equality in State Pension Age, Department of Social Security, Cm 2420, Appendix 3, Table 2, p34.

I pick just one example. When we complain about national insurance going up, the Government say, "Ah, but national insurance is not like income tax; it is there to pay for a contributory benefit." Well, here we have national insurance going up by 1 per cent. and the major contributory benefit, unemployment, going down. That is no better nor worse than a fraud on the British people. The Government ignore mass unemployment and economic weakness, the legacy of their period in office. This is not the Budget that Britain needs.
(HC Deb 30.11.93 c 943)

Alan Beith, for the Social and Liberal Democrats, made a similar point:

What about unemployment benefit? The sickening message to those who lose their jobs in the future is that they will be denied six months of the unemployment benefit to which they believe that they have contributed, and the Government have told them time and again that they have contributed, under a contributory national insurance system. That contributory system has been blown apart by today's decision. Indeed, it is impossible to justify a 1p national insurance increase-which every national insurance payer, every taxpayer, will have to pay in April-when the contributory system is being destroyed. The Government say that they have to increase national insurance contributions to meet the demands on the fund, but what fund? The Government have made off with it-it is not there. Meanwhile, six months of unemployment benefit is being snatched from people who have worked and contributed on the assumption that they are entitled to it.

(Ibid c 947)

The argument was developed by Labour's Social Security Spokesman, Donald Dewar in his response to the Social Security Uprating Statement the following day:

I ask the Secretary of State to comment specifically on the impact on, and implications for, the contributory principle. He will remember that there have been many fine ministerial defences of that principle over recent months. What we have here is a situation in which people who have built up their entitlement through contributions over many years see it halved at a stroke. They will have not unemployment benefit for 12 months, but a job seeker's allowance for six months.

That seems to me to be a significant shift in Government policy, and it rather underlines what we know from documents that we have seen about-a reconsideration of the Government's approach to the contributory principle. That is a serious and important point, and I hope that the Secretary of State will deal with it.

My worry is that, on the one hand, in some Bonnie and Clyde situation-I shall leave it to the two Ministers to decide who is who-people will have to, pay 1 per cent. more in national insurance contributions. That is £300 million more for the Chancellor than a penny on income tax. At the same time, the unemployed and the people looking for work are being kicked as they leave by that remarkable reduction in their rights.

(HC Deb 1.12.93 c1045)

PART TWO - THE BILL'S PROVISIONS

Clause 1

This clause amends Section 8 of the Social Security Contributions and Benefits Act 1992 with effect from 6 April 1994 so as to increase the employee's Class 1 contributions by 1%.

Clause 2

This clause makes technical changes to the allocation from employed earners' contributions to the National Health Service to confirm retrospectively the legal validity of existing practice.

Part of the contributions received by the national insurance fund is allocated as a contribution to health service funds. In the case of Class 1 contributions this is a specified percentage applied to the amount of *earnings* above the lower earnings limit - 1.05% for the primary contribution paid by employees and 0.9% for the secondary contribution paid by employers. The amendment made by Clause 2 affects the way in which the allocation is calculated for these Class 1 contributors.

Since 5 October 1989, the rate of Class 1 Contributions has been divided up into an initial rate and a main rate. The initial rate is 2% of earnings up to the Lower Earnings Limit (LEL). This is only paid once earnings exceed the LEL. The main rate is currently 9% of earnings between the lower and upper earnings limit, but would be 10% from April 1994 once the Bill comes into force.

The intention was always that the NHS allocation should not be levied on the initial rate of 2%. A person earning just on the lower earnings limit pays just 2% on these earnings, and still qualifies for benefits from the NI Fund, so to take 1.05% of that contribution for the NHS would be seen as a disproportionate drain on the fund. The problem lay in the way the relevant provision, currently contained in Section 162(5) of the Social Security Administration Act 1992, was drafted. This sets out that the allocation should be calculated by reference to "earnings in respect of which those contributions were paid at the *main primary percentage rate"*. This excludes, as was intended, the initial 2% contributions on earnings up to the lower earnings limit. However, as Appendix 1 shows, many people (including those who are contracted out of SERPS and those married women who still pay the reduced rate contributions) pay less than this "main rate". In practice, the NHS allocation has in fact been paid on their earnings between the LEL and the UEL just as it has for those on the main rate. These payments have amounted to some £4.6 billion between October 1989 and April 1994[10]. Clause 2 makes it clear retrospectively that these payments have legal authority as do the future allocations amounting to some £1bn a year[11].

Clause 2(1) ensures that the allocation is based on earnings between the LEL and the UEL rather than the "main" rate of contribution.

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10 Explanatory and Financial Memorandum to the Bill.

11 Ibid

Clause 2(3) makes this change retrospective to 5 October 1989, when the term "main rate" was incorporated into legislation.

Clause 3

This clause is also of a technical and clarifying nature. It confirms that Class 4 National Insurance Contributions are payable on contributions paid by the self employed to approved personal pension schemes - just as, for example, Class 1 contributions are payable on the premium which an employee pays to a personal pension. In practice, the self-employed have been paying Class 4 contributions on payments to personal pensions up until now, but some doubts have arisen about the way in which the relevant provision[12] was drafted. Clause 3(2) makes the clarification retrospective - in effect to the introduction of personal pensions on 1 July 1988.

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12 Para 2, Schedule 3 of the Social Security Contributions and Benefits Act 1992.

APPENDIX ONE - CURRENT RATES OF NI CONTRIBUTIONS

NOT CONTRACTED-OUT RATE

For employees paying the full rate

Employee's total weekly earnings	On the first £56.00	On earnings over £56.00
under £56.00 £56.00-£420.00 over £420.00	none 2% 2%	- 9% up to and including £420.00

For employees paying the reduced rate (married women paying small stamp)

Employees total weekly earnings	Employee's contri-bution (on all earnings)	
under £56.00 £56.00-£420.00 over £420.00	none 3.85% 3.85% up to and including £420.00	

For employers

Employee's total weekly earnings	Employer's contribution (on all earnings)
under £56.00 £56.00-£94-99 £95.00-£139.99 £140-£194 £195-£420 over £420.00	none 4.6% 6.6% 8.6% 10.4% 10.4%

CONTRACTED-RATE OUT

For employees paying the full rate

Employee's total weekly earnings	On the first £56.00	On earnings over £56.00
under £56.00 £56.00-£420.00 over £420.00	none 2% 2%	- 7.2% 7.2% up to and including £420.00

For employees paying the reduced rate (married women paying small stamp)

Employee's total weekly earnings	Employee's contributions (on all earnings	
under £56.00 £56.00-£420.00 over £420.00	none 3.85% 3.85% up to and including £420.00	

For employers

Employee's total weekly earnings	Employer's contri-bution on the first £56.00	**PLUS** On earnings over £56.00
under £56.00 £56.00-£95.99 £95.00-£139.99 £140.-£194.99 £195-£420.00 over £420.00	none 4.6% 6.6% 8.6% 10.4% 10.4%	- 1.6% 3.6% 5.6% 7.4% 7.4% up to and including £420.00 **PLUS** 10.4% on earnings above £420.00

APPENDIX TWO - CHANGES TO NI CONTRIBUTIONS FOR 1994-95

The full range of changes to National Insurance Contributions for 1994-95 are set out in the following tables (Source: DSS Press Release 93/209, 30 November 1993).

CHANGES IN CONTRIBUTION RATES AND LIMITS FOR 1994/95 TABLE A1

	1993/94	CHANGE	1994/95
CLASS 1 (EMPLOYED EARNERS)			
STANDARD RATE (for details of reduced rates for lower bands of earnings see table A2)	2% + 9% for employees 10.4% for employers	Employees up by 1 % Employers down by 0.2%	2% + 10% for employees 10.2% for employers
LIMITS Lower Earnings Limit (LEL) *Upper Earnings Limit (UEL)	 £56.00 a week £420.00 a week	 £1.00 £10.00	 £57.00 a week £430.00 a week
CLASS 2 (SELF EMPLOYED RATE)	£5.55 a week	£0.10	£5.65
SMALL EARNINGS EXCEPTION			
Limit of net earnings for exception from Class 2 liability	£3,140 a year	£60	£3,200 a year
CLASS 3 (VOLUNTARY CONTRIBUTIONS) RATE	£5.45 a week	£0.10	£5.55 a week
CLASS 4 (SELF-EMPLOYED) RATE	6.3%	1% increase	7.3%
LIMITS (CLASS 4) Lower limit of profits or gains Upper limit of profits or gains	 £6,340 £21,840	 £150 £520	 £6,490 £22,360

* Applies to Employees' contributions only

PROPOSED RATES OF CLASS 1 CONTRIBUTIONS FOR 1994/95 TABLE A2

	PRIMARY CONTRIBUTION (EMPLOYEE)			SECONDARY CONTRIBUTION (EMPLOYER)	
	STANDARD RATE				
PROPOSED BANDS OF WEEKLY EARNINGS	NOT CONTRACTED OUT RATE %	CONTRACTED OUT RATE %	REDUCED RATE FOR MARRIED WOMEN AND WIDOW OPTANTS %	NOT CONTRACTED OUT RATE %	CONTRACTED OUT RATE %
£57.00 - £99.99	2% of £57 PLUS 10% of that part of earnings which exceeds £57 but does not exceed £430	2% of £57 PLUS 8.2% of that part of earnings which exceeds £57 but does not exceed £430	3.85	3.6	0.6
£100.00 - £144.99			3.85	5.6	2.6
£145.00 - £199.99			3.85	7.6	4.6
£200.00 - £430.00			3.85	10.2	7.2
OVER £430	(NO ADDITIONAL CONTRIBUTIONS PAYABLE)			10.2	10.2

* Note: The contracted-out rate applies only to that portion of earnings between the Lower and Upper Earnings limits (£57 and £430 respectively). Employers' contributions on earnings below the Lower Limit and above the Upper Limit, are assessed at the <u>not contracted-out rate</u>.

EFFECTS OF PROPOSED CHANGES ON INDIVIDUAL LIABILITY TABLE B1

Employed Earners - Not contracted-out

	Employee			Employer		
Weekly Earnings (a)	1993-94 (b)	1994-95 (c)	Change at 6.4.94 ((b) - (c)) (d)	1993-94 (e)	1994-95 (f)	Change ((e) - (f)) (g)
£56	£1.12	NIL	-£1.12	£2.57	NIL	-£2.57
£57	£1.21	£1.14	-£0.07	£2.62	£2.05	-£0.57
£95	£4.63	£4.94	+£0.31	£6.27	£3.42	-£2.85
£100	£5.08	£5.44	+£0.36	£6.60	£5.60	-£1.00
£140	£8.68	£9.44	+£0.76	£12.04	£7.84	-£4.20
£145	£9.13	£9.94	+£0.81	£12.47	£11.02	-£1.45
£195	£13.63	£14.94	+£1.31	£20.28	£14.82	-£5.46
£200	£14.08	£15.44	+£1.36	£20.80	£20.40	-£0.40
£250	£18.58	£20.44	+£1.86	£26.00	£25.50	-£0.50
£420	£33.88	£37.44	+£3.56	£43.68	£42.84	-£0.84
£430	£33.88	£38.44	+£4.56	£44.72	£43.86	-£0.86