

Pension Reform Fact Sheet -

State Pension Coverage: Lower Earnings Limit and multiple jobs

Introduction

Reforms to coverage of the basic State Pension set out in the Pensions Bill are projected to increase the proportion of people reaching State Pension age with a full basic State Pension – to over 90 per cent from 2025.¹ We are nevertheless interested in understanding the groups of people who have gaps in their State Pension record. We have therefore been analysing the group of people who earn below the Lower Earnings Limit (LEL).

In today's State Pension system people who earn less than the LEL, currently £87 per week, do not pay National Insurance contributions and do not accrue State Pension entitlement through earnings. People who earn at or above the LEL in at least one job do accrue entitlement.

Those who earn less than the LEL in two or more jobs are not liable to pay National Insurance contributions and do not accrue State Pension, even if, when combined, their earnings are above the LEL. In other words, earnings from separate jobs cannot be aggregated for pension purposes.

This fact sheet presents analysis of the number of people in this position, and is part of our further work on 'non-accrual' of State Pension.

What analysis is already available?

The DWP report *Women and Pensions: The evidence* (November 2005)² presented analysis of the underlying reasons for non accrual of State Pension at a point in time, including some analysis of women earning below the LEL in multiple jobs. We estimated that there were '**fewer than 50 thousand**' women in multiple jobs, not accruing basic State Pension (*Women and Pensions* report, page 77), based on evidence from the Family Resources Survey (FRS, 2003/04).

More detailed analysis using the FRS dataset is limited by sample size restrictions and therefore it is not possible to reliably break down this group into those who would accrue State Pension if earnings were aggregated for pension purposes (that is, those with combined earnings at or above the LEL). Only high level estimates are reliable.

How can the Labour Force Survey help?

The Labour Force Survey (LFS) is based on a larger sample of people than the FRS and, although some sample size restrictions remain, allows reliable analysis at a finer level of detail. We have therefore turned to the LFS dataset to investigate what it can tell us about the number of people whose total earnings from multiple jobs would at least equal the LEL.

¹ Source: DWP projections using the Government Actuary's Department's Retirement Pension model, Great Britain.

² <http://www.dwp.gov.uk/publications/dwp/2005/wp/women-pensions.pdf>

The LFS is the official source of national labour market statistics. However, it does not provide as much detail about benefit & tax credit receipt as the FRS. This information is needed to identify those who may be accruing State Pension through means other than earnings.

The LFS *does* allow us to identify those who accrue basic State Pension through Home Responsibilities Protection (currently available to those with a child aged under 16) and/or through 'starting credit' receipt (i.e. awarded to people aged 16-18 years old). It *does not* permit identification of those accruing pension entitlements through other means, such as credits associated with Carers Allowance receipt. Consequently we may slightly overestimate the number of people earning below the LEL who do not accrue State Pension through other means. This may lead to a slight *overestimate* of the number of people with multiple jobs below the LEL who could accrue State Pension as a result of earnings aggregation.

Further, the LFS does not record information relating to third or fourth jobs; data is only collected on first and second jobs. This could lead to a slight underestimate of the number of people with combined earnings above the LEL, as combined earnings from an individual's first and second job may be below the LEL, but total earnings including any additional jobs may be above the LEL. Consequently, the number of people who could accrue State Pension as a result of earnings aggregation could be slightly *underestimated*. However, evidence from the FRS suggests that only a small minority of women with multiple jobs have more than two jobs.

Both the FRS and the LFS are survey based and therefore results are subject to sampling variability. They provide a 'point in time' snapshot of individuals' reported activity in the week of interview. Neither survey indicates whether respondents subsequently continued with their reported activities for the rest of the year. For example, people who report weekly earnings at or above the LEL could fail to accrue a qualifying year through earnings, and those who report weekly earnings below the LEL could go on to accrue a qualifying year through earnings.

Estimates from the LFS presented in this fact sheet are based on an average of two years data (2004-06) in an attempt to reduce the effects of sampling variability.

What does the Labour Force Survey analysis show?

Using evidence from the LFS we can build a picture of the number of women whose earnings from multiple jobs exceed the LEL if aggregated, and also how they fit into the broader picture of women in employment.

The data indicates that there are currently around 12.4 million women of working age in employment, out of a working age population of 17.7 million women. Only a small proportion of these have two jobs, approximately 5 per cent or 575 thousand.

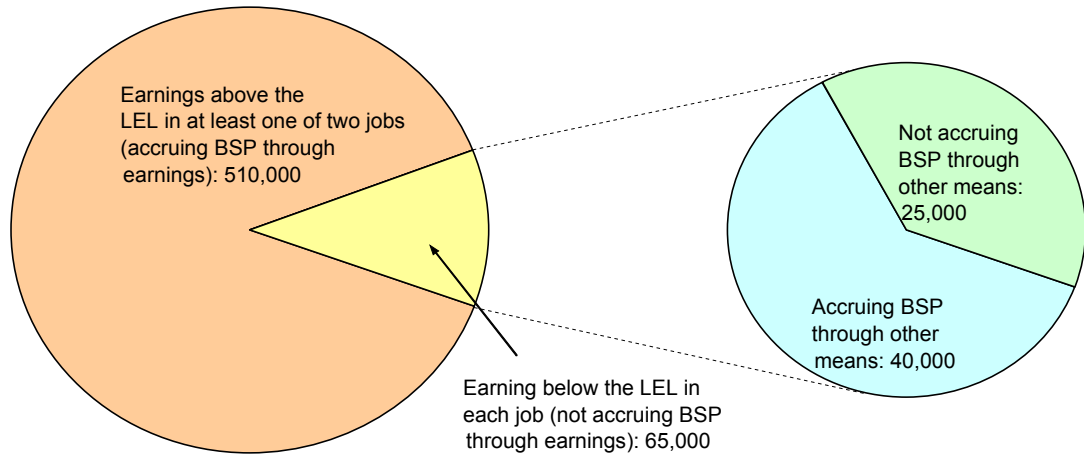
Many women in this position earn at or above the LEL in at least one of their jobs and therefore qualify for basic State Pension through earnings. Only around 65 thousand earn less than the LEL in each of their jobs (i.e. do not accrue basic State Pension through earnings). This group is represented by the yellow segment in [Figure 1](#).

Even though women with two jobs that each pay below the LEL do not accrue basic State Pension through earnings, they could be accruing through other means, such as benefit receipt or caring responsibilities. As noted above, proxies have been used

to identify these people. This analysis suggests around 25,000 women are currently in two jobs that each pay below the LEL and are not accruing basic State Pension through other means (represented by the green segment in [Figure 1](#)).

Those not accruing basic State Pension tend to be older as younger women are more likely to have dependant children or be accruing through 'starting credits'.

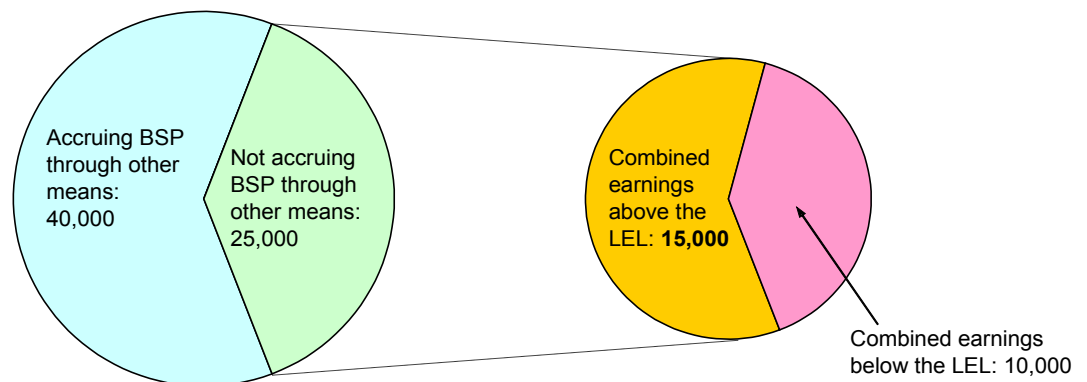
Figure 1: Women of working age in two jobs



Source: Information from the Labour Force Survey (2004-06). Not to scale. Figures have been rounded to the nearest 5,000.

Of the 25,000 women not accruing basic State Pension through other means, only those with combined earnings above the LEL would gain a qualifying year for basic State Pension if earnings were aggregated. [Figure 2](#) shows that **around 15,000** women are currently estimated to be in this position. As the figures noted earlier indicate, this group only accounts for a very small proportion of all working age women (around 0.1 per cent).

Figure 2: Women of working age in two jobs, earning below the LEL in each job (not accruing BSP through earnings)



Source: Information from the Labour Force Survey (2004-06). Not to scale. Figures have been rounded to the nearest 5,000

Using the same method, the data from the Labour Force Survey also indicates that **around 5,000 men** would currently gain a qualifying year for basic State Pension if earnings below the LEL were aggregated. Again, this is an extremely small proportion of the male working age population (less than 0.05 per cent).

Over time, we would expect these figures to grow, as the size of the working age population increases. Estimates taking into account demographic projections suggest that, in 2050, around 35,000 people could gain a qualifying year for basic State Pension if earnings below the LEL were aggregated.³ Again, this figure comprises approximately 0.1 per cent of the female working age population and 0.05 per cent of the male working age population.

Future estimates also capture reforms to credits for caring for children which, subject to Parliamentary approval, will be introduced from 2010.

Conclusion

This fact sheet has presented some further analysis of the people who are earning below the LEL in multiple jobs and not qualifying for State Pension, using the Labour Force Survey.

It broadly confirms earlier indications based on the Family Resources Survey – that the group of people who could accrue State Pension as a result of earnings aggregation is likely to be small.

We welcome any comments on this fact sheet.

We plan to continue investigating the groups of people who may not be entitled to a full basic State Pension after the Pensions Bill reforms. In particular we are conducting primary research to find out more about the gaps in people's accrual histories. Results are expected to be available in summer 2007.

³ Estimates assume that the earnings of the people concerned rise at the same rate as the Lower Earnings Limit.