**EXPLANATORY MEMORANDUM TO**

**THE SOCIAL SECURITY CLASS 3A CONTRIBUTIONS (UNITS OF ADDITIONAL PENSION) REGULATIONS 2014**

**2014 No. 3240**

**1.** This explanatory memorandum has been prepared by H.M. Revenue and Customs (HMRC), on behalf of HM Treasury and the Department for Work and Pensions and is laid before Parliament by Command of Her Majesty.

## 2. Purpose of the instrument

2.1 The Pensions Act 2014 (c. 19) introduced a new class of voluntary National Insurance contributions (NICs) called Class 3A to give people the opportunity to increase their additional State Pension. These contributions are payable by those who reach State Pension age before 6 April 2016 and who are or will be entitled to a State Pension. This instrument sets out more of the details about Class 3A contributions in particular the pricing of the scheme.

## 3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 Regulation 4, which specifies the amount a person will receive in respect of a unit of additional pension, only applies to Great Britain as the increase in additional pension is a devolved matter and must be legislated for by Northern Ireland. This instrument will not come into force in Northern Ireland until a regulation or statutory rule specifying the amount a person will receive in Northern Ireland comes into force.

## 4. Legislative Context

4.1 The Pensions Act 2014 made provision in the Social Security Contributions and Benefits Act 1992 (c. 4) (SSCBA) and the Social Security Contributions and Benefits (Northern Ireland) Act 1992 (c. 7) (SSCB (NI) A) relating to Class 3A contributions. This instrument uses the affirmative powers in sections 14A(3) and 14A(6) of the SSCBA and SSCB (NI) A to:-

- determine the amount of a Class 3A contribution payable; and
- specify the maximum number of units of additional pension that a person may obtain.

4.2 The instrument also uses the affirmative power at section 45(2A) of the SSCBA to specify the value of a unit of additional pension that can be obtained by paying a Class 3A contribution in Great Britain.

4.3 A separate negative instrument the Social Security Class 3A Contributions Amendment Regulations 2014 (S.I. 2014/xxx):-

- removes the option to pay a Class 3A contribution after 5 April 2017 by amending section 14A(1) SSCBA and SSCB (NI) A; and

- specifies the circumstances in which a Class 3A contribution can be repaid.

## 5. Territorial Extent and Application

5.1 These regulations apply to all of the United Kingdom except for:
- Regulation 4 that only applies to Great Britain.

## 6. European Convention on Human Rights

The Financial Secretary to the Treasury, Mr David Gauke MP has made the following statement regarding Human Rights:

In my view the provisions of the Social Security Class 3A Contributions (Units of Additional Pension) Regulations 2014 are compatible with the Convention rights.

## 7. Policy background

- ***What is being done and why***

7.1 In the Autumn Statement on the 5 December 2013 the Chancellor announced that those reaching State Pension age before 6 April 2016 (the start date of the new State Pension) and entitled to a State Pension would be able to pay a new class of voluntary National Insurance contribution (Class 3A) to boost their additional State Pension.

7.2 The objective of this measure is to give people who do not qualify for the new State Pension, and who may have lost out because of the structure of the legacy State Second pension system, the opportunity to increase their State Pension in retirement.

7.3 The price of a Class 3A contribution is to be set at an actuarially fair rate based on advice from the Government Actuary. Details about the price of a Class 3A contribution; the maximum number that could be made; the increase in additional pension payment it would give; and duration of the scheme were announced by the Minister for Pensions in a Written Ministerial Statement shortly after Budget 2014.

7.4 Regulation 2 sets the amount of a Class 3A contribution payable to obtain one unit of additional pension which depends on the person's age and Regulation 3 sets the maximum number of units of the additional pension at 25. Regulation 4 specifies the value of a unit of additional pension that can be obtained by paying a Class 3A contribution which is £1 in Great Britain.

## 8. Consultation outcome

8.1 Research was undertaken in February 2014 by the Department for Work and Pensions to gauge levels of interest from those eligible to pay Class 3A contributions. It updated an earlier survey conducted in summer 2013 prior to the policy being announced. This second survey provided respondents with more information about the policy and prices for making contributions. The

research indicated that there was a demand for such a scheme. Details of the research are on GOV.UK website on the following link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294036/research-report-class-3a-vnics.pdf

## 9. Guidance

9.1 More information about Class 3A contributions (also referred to as State Pension Top-up) is available on the GOV.UK website. More details about the application process will be published prior to the start in October 2015.

## 10. Impact

10.1 No impact on business, charities and voluntary bodies is foreseen.

10.2 No impact on the public sector is foreseen.

10.3 In line with government commitments, a Tax Information and Impact Note has been prepared for this instrument and is available on the HMRC website.

## 11. Regulating small business

11.1 This legislation does not impact on small businesses.

## 12. Monitoring & review

12.1 Class 3A contributions will be monitored and reviewed against expected take-up levels published in the TIIN.

## 13. Contact

Hasan Mustafa at HMRC, Tel: 03000 586 718 or e-mail: hasan.mustafa@hmrc.gsi.gov.uk can answer any queries regarding the instrument.