



## Briefing: distributional effects of the health and social care levy

September 2021

### Background:

- HM Government is planning to raise national insurance contributions (NICs) from April 2022 by 1.25 percentage points for employee, employer and self-employed national insurance.<sup>1</sup> The purpose is two-fold: to meet demand for NHS backlogs (created because of covid-19) and for the provision of social care.
- In 2021-22, NICs are forecast to raise £147 billion, an increase of £2 billion from 2020-21.<sup>2</sup> They are set to rise another £6 billion to £153 billion in 2022-23 (before the NICs increase was announced).<sup>3</sup>
- The poorest 10 per cent of households already pay 57 per cent of their gross income in taxes compared to 39 per cent for the richest 10 per cent and 36 per cent for all households.<sup>4</sup>
- With the proposed rise in NICs, non-retired individuals will have a national insurance bill more than 7 times greater than retired individuals (£4,662 against £596).

### National insurance and household incomes:

As a proportion of gross income, the poorest 10 per cent of households pay more in taxes than the richest 10 per cent, though they also receive higher direct benefits. Gross income is made up of original income – such as wages, salaries and investment income – and direct cash benefits.<sup>5</sup> A significant amount of the poorest 10 per cent's income is cash benefits, making up 42 per cent of their gross income in 2019-20.<sup>6</sup>

National insurance is a regressive tax which hits the poor hardest and is not currently paid by those above the state pension age. From 2022-23, the health and social care levy will apply to those above the state pension age.

- As a proportion of gross income, the richest 10 per cent of non-retired households pay lower national insurance than the poorest 10 per cent. This is also true for all households.
- For non-retired households, NICs currently account for 7.22 per cent of gross income for the poorest 10 per cent of households. This compares to 4.72 for the richest decile group.
- This rises to 7.93 per cent with a 1.25 per cent per cent increase in NICs for the poorest households. This compares to the richest households where the proportion rises to 5.21 per cent.

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<sup>1</sup> HM Government, *Build Back Better: Our plan for health and social care*, 7 September 2021, p. 24.

<sup>2</sup> Office for Budget Responsibility, *Public finances databank*, 24 August 2021, <https://obr.uk/download/public-finances-databank-august-2021/>, (accessed 6 September 2021).

<sup>3</sup> Ibid.

<sup>4</sup> TaxPayers' Alliance, *Analysis: Poorest households now lose majority of their income to tax*, 28 May 2021, [www.taxpayersalliance.com/analysis\\_poorest\\_households\\_now\\_lose\\_majority\\_of\\_their\\_income\\_to\\_tax](http://www.taxpayersalliance.com/analysis_poorest_households_now_lose_majority_of_their_income_to_tax), (accessed 6 September 2021).

<sup>5</sup> Office for National Statistics, *Effects of taxes and benefits on household income: table 2a: Average household incomes, taxes and benefits of ALL individuals by decile group, 2019/20*, 28 May 2021, [www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpersonalandhouseholdfinances%2fincomeandwealth%2fdatasets%2ftheeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014%2ffinancialyearending2020/etbttablesrevised1.xlsx](http://www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpersonalandhouseholdfinances%2fincomeandwealth%2fdatasets%2ftheeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014%2ffinancialyearending2020/etbttablesrevised1.xlsx), (accessed 6 September 2021).

<sup>6</sup> Ibid.

**Table 1: NICs as a proportion of gross income and 1.25 per cent increase in NICs, non-retired, 2019-20<sup>7</sup>**

Gross income group	Taxes as a proportion of gross income (%)	NICs as a proportion of gross income (%)	NICs as a proportion of gross income with 1.25% increase (%)
Bottom	53.3	7.22	7.93
Top	39.1	4.72	5.21
All	36.1	6.37	7.01

### National insurance and retirement status:

- The state pension age is now 66 for those born between 6 October 1954 and 5 April 1960.<sup>8</sup> In Great Britain, the employment rate for the 65-69 age group is 24.2 per cent, 9.4 per cent for 70-74 and 2.5 per cent for those aged 75 and above.<sup>9</sup>
- This equates to a workforce of 1,077,435 for those who are 66 and above in Great Britain.<sup>10</sup>
- The proposed changes announced by the prime minister on 7 September 2021 would apply to those over the state pension age who are in employment (from April 2023).<sup>11</sup>
- On average, retired individuals currently pay £95 in employee national insurance and £501 employer national insurance, or £596.<sup>12</sup> In comparison, for non-retired individuals pay £3,483 in employee national insurance and £748 employer national insurance, or £4,231.<sup>13</sup>
- A 1.25 percentage point rise in national insurance contributions would raise the national insurance payments for non-retired individuals to £4,662.

<sup>7</sup> Office for National Statistics, *Effects of taxes and benefits on household income: table 3a: Average household incomes, taxes and benefits of NON-RETIRED individuals by decile group, 2019/20*, 28 May 2021, [www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpersonalandhouseholdfinances%2fincomeandwealth%2fdatasets%2ftheeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014%2ffinancialyearending2020/etbttablesrevised1.xlsx](http://www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpersonalandhouseholdfinances%2fincomeandwealth%2fdatasets%2ftheeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014%2ffinancialyearending2020/etbttablesrevised1.xlsx), (accessed 6 September 2021).

<sup>8</sup> Department for Work and Pensions, *State Pension age timetable*, 15 May 2014.

<sup>9</sup> Department for Work and Pensions, *Data tables: Economic labour market status of individuals aged 50 and over, trends over time: September 2020, 19 November 2020*, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/936631/data-tables-economic-labour-market-status-of-individuals-aged-50-and-over-sept-2020-revised.ods](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/936631/data-tables-economic-labour-market-status-of-individuals-aged-50-and-over-sept-2020-revised.ods), (accessed 7 September 2021).

<sup>10</sup> Office for National Statistics, *Estimates of the population for the UK, England and Wales, Scotland and Northern Ireland: Mid-Year Population Estimates, UK, June 2020: MYE2 – Persons*, 25 June 2021, [www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpopulationandmigration%2fpopulationestimates%2fdatasets%2fpopulationestimatesforukenglandandwalesscotlandandnorthernireland%2fmid2020/ukpopestimatesmid2020on2021geography.xls](http://www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpopulationandmigration%2fpopulationestimates%2fdatasets%2fpopulationestimatesforukenglandandwalesscotlandandnorthernireland%2fmid2020/ukpopestimatesmid2020on2021geography.xls), (accessed 7 September 2021).

<sup>11</sup> HM Government, *Build Back Better: Our plan for health and social care*, 7 September 2021, p. 24.

<sup>12</sup> Office for National Statistics, *Effects of taxes and benefits on household income: table 4a: Average household incomes, taxes and benefits of RETIRED individuals by decile group, 2019/20*, 28 May 2021, [www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpersonalandhouseholdfinances%2fincomeandwealth%2fdatasets%2ftheeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014%2ffinancialyearending2020/etbttablesrevised1.xlsx](http://www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpersonalandhouseholdfinances%2fincomeandwealth%2fdatasets%2ftheeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014%2ffinancialyearending2020/etbttablesrevised1.xlsx), (accessed 7 September 2021).

<sup>13</sup> Office for National Statistics, *Effects of taxes and benefits on household income: table 3a: Average household incomes, taxes and benefits of NON-RETIRED individuals by decile group, 2019/20*, 28 May 2021, [www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpersonalandhouseholdfinances%2fincomeandwealth%2fdatasets%2ftheeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014%2ffinancialyearending2020/etbttablesrevised1.xlsx](http://www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpersonalandhouseholdfinances%2fincomeandwealth%2fdatasets%2ftheeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014%2ffinancialyearending2020/etbttablesrevised1.xlsx), (accessed 7 September 2021).

**Table 2: NICs from retired and non-retired households, 2019-20<sup>14,15</sup>**

Gross income group	Employee national insurance (£)	Employer national insurance (£)	Total
Retired	95	501	596
Non-retired	3,483	748	4,231

**Table 3: NICs from retired and non-retired households after 1.25 percentage point NIC rise**

Gross income group	Employee national insurance (£)	Employer national insurance (£)	Total
Retired	95	501	596
Non-retired	3,846	816	4,662

<sup>14</sup> Ibid.

<sup>15</sup> Office for National Statistics, *Effects of taxes and benefits on household income: table 4a: Average household incomes, taxes and benefits of RETIRED individuals by decile group, 2019/20*, 28 May 2021, [www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpersonalandhouseholdfinances%2fincomeandwealth%2fdatasets%2ftheeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014%2ffinancialyearending2020/etbtablesrevised1.xlsx](https://www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpersonalandhouseholdfinances%2fincomeandwealth%2fdatasets%2ftheeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014%2ffinancialyearending2020/etbtablesrevised1.xlsx), (accessed 7 September 2021).