



BRIEFING:

**POVERTY IMPACT OF
INCREASING THE
NATIONAL INSURANCE
CONTRIBUTIONS
THRESHOLD**

March 2022

CONTEXT

This March 2022 briefing presents original analysis from the Legatum Institute using the Social Metrics Commission's approach to poverty measurement. It considers the increase in the National Insurance Contributions (NICs) threshold announced in the 2022 Spring Statement. This change will be introduced in July 2022, and means individuals must earn £12,570 per year before paying NICs, aligning the NICs threshold with the income tax personal allowance.

This increase in the NICs threshold will save a typical earner over £330 in the year from July 2022, with nearly 30 million people benefitting. The policy will cost the Treasury over £6 billion in the first year.ⁱ

The poverty impact of this policy is evaluated in July 2022, immediately after the introduction of the new threshold, by comparison to a base scenario in which the threshold is updated by the rate of inflation in the previous September.

(BASE) The NICs threshold is updated according to the rate of inflation in the previous September at the beginning of the 2022-23 financial year. This **3.1%** updating increases the annual threshold from £9,568 to **£9,865** in July 2022.

(REFORM) The NICs threshold is increased to **£12,570** in July 2022.

This briefing builds on our previous work,ⁱⁱ which provides detailed methodological notes. These should be regarded as our best assessment of the likely impact of the changes.

SUMMARY OF FINDINGS

The majority (61%) of people in poverty are in a family that will not benefit from the increase in the NICs threshold. By contrast, 72% of those who are not in poverty are in a family in which at least one adult will benefit.

The increase in the National Insurance Contributions threshold will reduce the number of people in poverty by 170,000. This assumes no behavioural response. Should people move into work, increase their hours or enter better-paid work as a result of the increase in work incentives delivered by the change, then the long-term poverty impact can be expected to be slightly more positive.

The projected poverty reduction will affect working families. 200,000 of those affected are in families in which at least one adult works.

There will be little impact on workless households. It is projected that the change will result in a small increase in poverty in retired families and in families that are working-age but workless.

There will be little impact on pensioners. It is projected that the change will increase the number of pensioners in poverty by 10,000.

The projected poverty reduction primarily impacts those living in families that do not include a disabled adult or child. 140,000 of those removed from poverty are in families that do not include a disabled person. Just 30,000 of those affected are in a family that includes a disabled person. Just under half of those in poverty in the UK are in a family that includes a disabled person, suggesting that this policy disproportionately helps those in families without a disability.ⁱⁱⁱ

This analysis shows how difficult tackling poverty can be: a £6 billion tax cut, specifically targeted at low and middle-earners, is projected to have little impact on poverty. In the last 20 years, despite significant efforts from Government to reduce poverty, little progress has been made and millions of families are still living in deep and persistent poverty. Tackling this will take concerted action, including pushing forward with the development of experimental statistics based on the SMC's framework for measuring poverty,^{iv} and then developing consensus around a comprehensive strategy for how, as a society, we can work together to deliver a meaningful reduction in poverty in the UK.

Table 1: Proportion (%) of people (adults and children) who benefit from increase in NICs threshold.

	Family is not in poverty	Family is in poverty ^v
No adults in the family benefit from the increase in the NICs threshold	28	61
At least one adult in the family benefits from the increase in the NICs threshold	72	39
Total	100	100

Source: Legatum Institute, Family Resources Survey and HBAI dataset (1998/99 – 2019/20), IPPR tax and benefit model.

Table 2: Poverty impact of increase in NICs threshold, relative to base scenario (3.1% uprating of threshold).

	Change in number of people in poverty
Overall	-170,000
By age	
Working-age adults	-150,000
Children	-40,000
Pensioners	+10,000
By family work status	
People in working families	-200,000
People in (working age) non-working families	+10,000
People in retired families	+10,000
By disability	
People in families that include a disabled person	-30,000
People in families that do not include a disabled person	-140,000

Source: Legatum Institute, Family Resources Survey and HBAI dataset (1998/99 – 2019/20), IPPR tax and benefit model.

ANNEX 1: THE SOCIAL METRICS COMMISSION'S MEASURE OF POVERTY

This briefing uses the Social Metrics Commission's measure of poverty as the basis of its analysis. The SMC was established in 2016, as a response to the fact that the UK no longer has official poverty measures agreed and used by Government. It is hosted by the Legatum Institute and is dedicated to helping policymakers understand and take action to tackle poverty and build prosperity. Its membership includes people from across the political spectrum as well as poverty and measurement experts. The Commission's primary goals have been to develop new poverty metrics for the UK which both:

- Have long-term political support; and
- Effectively identify both those who are in poverty and their experiences of poverty.

The SMC's landmark report in 2018 outlined a new approach to measuring poverty. As well as looking at incomes, this approach allows us to account for a range of inescapable costs that reduce people's spending power, and the positive impact of people's liquid assets on alleviating immediate poverty. These inescapable costs include rent or mortgage payments, childcare and the extra costs of disability. Liquid assets include savings, stocks and shares. The measure also takes account of overcrowding in accommodation. As well as a more accurate reflection of a family's ability to make ends meet, the SMC's poverty measure tracks:

- The degree to which a family is below the poverty line
- The length of time that a family is below the poverty line
- The experience of living in poverty.

Following the 2018 report, and an update in 2019, the Commission's approach received support from across the political spectrum and from a wide range of experts and people involved in taking action to tackle poverty.

In the summer of 2019, the Government committed to establishing Experimental Statistics for poverty based on the SMC's approach; this is the first step to developing new national statistics on poverty.

Data used in this briefing:

Family Resources Survey: Department for Work and Pensions, Office for National Statistics, NatCen Social Research. (2021). *Family Resources Survey, 2019-2020*. [data collection]. UK Data Service. SN: 8802, DOI: [10.5255/UKDA-SN-8802-1](https://doi.org/10.5255/UKDA-SN-8802-1)

Households Below Average Income: Department for Work and Pensions. (2021). *Households Below Average Income, 1994/95-2019/20*. [data collection]. 15th Edition. UK Data Service. SN: 5828, DOI: [10.5255/UKDA-SN-5828-13](https://doi.org/10.5255/UKDA-SN-5828-13)

SMC methodology

More details of the SMC's approach to poverty measurement can be found here: <http://socialmetricscommission.org.uk>

ⁱ HM Treasury, Spring Statement 2022. See:

<https://www.gov.uk/government/publications/spring-statement-2022-documents>

Accessed 23/03/2022

ⁱⁱ Legatum Institute, (2020). Poverty during the Covid-19 crisis. See:

<https://li.com/reports/poverty-during-the-covid-19-crisis/> Accessed 07/03/2022.

ⁱⁱⁱ Legatum Institute (2022). Measuring Poverty Before the Covid-19 Pandemic. See:

<https://li.com/reports/measuring-poverty-before-the-covid-19-pandemic/> Accessed

24/03/2022

^{iv} Legatum Institute, (2020). Poverty during the Covid-19 crisis. See:

<https://li.com/reports/poverty-during-the-covid-19-crisis/> Accessed 07/03/2022.

^v Family is in poverty in the base scenario in July 2022, i.e. before the impact of the NICs threshold increase.