National Insurance Administration in the UK

Operational Context and Challenges

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Operational Context

- **1948 until 1975** - Department for Work & Pensions (DWP) responsible for collection of NICs and management of NICs operations.

- **1975** - NICs collected with tax by Inland Revenue (now HMRC), and both reported on a single document - but NICs management and operations responsibility stayed with DWP.

- **1990** - Separate Contributions Agency set up in DWP to focus on NICs.

- **1999** - Responsibility for NICs management and operations transferred to Inland Revenue.

- HMRC has total responsibility for NICs including records maintenance.

- DWP calculate entitlement and pay benefit.
National Insurance Numbers

- National Insurance Number (NINO) is a unique personal reference number
- 77 Million NINOs registered but 55 million active accounts
- Main reasons for the differences –
  - Records are kept for deceased people indefinitely
  - Records are still kept where the person has emigrated or where a migrant worker has gone home
National Insurance Recording System

- **1948 to 1975** - paper based records for individuals
- **1975** - records computerised at the same time as integration of collection of NICs with tax - but on a separate IT system to tax records
- **June 2009** - National Insurance and PAYE Service (NPS) introduced - one single IT system containing individual customer NI and tax records
With 3,400 staff and an annual budget of £70 million, each year NICO:

- Maintains 70m NI accounts and updates 40m of them;
- Registers 1.4m NI customers;
- Registers 700,000 self employed;
- Processes over 55m end of year returns;
- Deals with 14.1m items of work by post;
- Maintains 5.7m Personal Pension accounts;
- Accounts for £98bn NI Contributions; and
- Handles approx. 4m telephone calls
Management Challenges

- Significant funding challenges from 2004 - without major IT enablers
- Lean methodology introduced late 2005 -
  - Redesigning service delivery processes to eliminate waste and variability and maximise flexibility;
  - Changing management processes to create the appropriate leadership infrastructure to sustain improvements;
  - Changing mindsets and behaviours of leaders and front line staff to support the new systems and deliver continuous improvement
NICO has:

- Reduced staffing by over 500 people (around 15%) in the last 3 years
- Improved performance, with productivity increases averaging between 15% to 30% in the main processes, along with better quality levels and reduced customer waiting times
- Been awarded UK Government Customer Service Excellence Accreditation in July 2009
Operational Challenges

- Moving from paper to automation
- Ensuring the appropriate level of compliance and controls
- Matching NICs paid with the correct individual NI record
- Working with other government departments and with private sector Pensions Providers
- Fully exploiting new NI and PAYE System (NPS)
Moving from paper to automation

- Significant shift over recent years from paper to electronic processing
- Following review in 2003, electronic filing of Employer End of Year Returns was made mandatory for:
  - large employers - 250 or more employees - with effect from 2004/05 Tax Year;
  - medium employers - between 50 and 250 employees - from the 2005/06 Tax Year;
  - small employers - less than 50 employees - by March 2010
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End of Year Return Receipt methods

<table>
<thead>
<tr>
<th>Year</th>
<th>Receipts (million)</th>
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<tbody>
<tr>
<td>2003/2004</td>
<td>Paper</td>
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<tr>
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<td>2007/2008</td>
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<td>2008/2009</td>
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Compliance and Controls

- Compliance approach

- NPS automatic checks at Employer End of Year scheme level:
  - Schemes that fail automatic checks returned to the employer for correction electronically without need for human intervention
  - When scheme accepted checks applied to individual NICs:
    - Category of NICs paid;
    - Latest recorded information about customer’s NIC liability;
    - Customer’s personal details

- Future checks under review – possible risk based approach
Matching NICs paid with the correct individual NI record

- Where not matched, and NICs value is over a specified tolerance level, investigated by NICO
- Over last 4 years the average success rate for tracing non-matched NICs has been between 55% to 60%
- Untraced NICs recorded on a Suspense File
- Analysis of 2007-08 year showed -
  - 58.3 million annual returns for individual employees
  - 1.9 million items (3.3 per cent), with a value of £259 million
Matching NICs paid with the correct individual NI record

- In 2006/07, 872 employers each had more than 250 non-matched items - responsible for 783,811 (45.7%) of non-matched items
- Identity fraud – cost the UK economy £1.2 billion in one year

Future action -

- More in depth analysis of Suspense File to target problem employers
- Exploration of data-matching potential and cost benefits with private sector specialists to increase levels of successful matches
- Working with other government departments to combat identity fraud
Matching NICs paid with the correct individual NI record

Non-match items output for investigation

Year

Amount

2004 2005 2006 2007 2008 2009 (projected)
Working with other government departments and with private sector Pensions Providers

- **Current Issues -**
  - Incapacity credits
  - Home Responsibilities Protection
  - Contracted out NICs - guaranteed minimum pension – double provision

- **Key Learning -**
  - Shared objectives necessary at very senior level
  - Strong governance arrangements necessary
  - Transparency of joint plans necessary
  - Clear escalation routes
Fully exploiting NI and PAYE System

- From June 2009 NICs and tax data on same system
- Potential for single interaction for customers on NICs and tax matters - currently dealt with separately within HMRC, except in Compliance
- First major step towards this is centralisation of tax related employer work in NICO by March 2011
- Potential for improvements for individual customers to be explored, for example citizens approaching pension age
Future Direction of NI Operations

- Build on system with well established and firm foundations -
  - £98 billion collected in 2008/09
  - Over 55 million returns processed annually
- Exploring potential for greater efficiency by bringing Contact Centres and Processing together within HMRC
- Exploring further potential for cross government working - with DWP in particular
- Debate – should individual citizens take greater responsibility for their NICs and pension entitlement relying less on government checking correctness of payments and entitlement? If so how do we help?
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Questions?