These notes refer to the Welfare Reform and Pensions Act 1999 (c.30) which received Royal Assent on 11 November 1999

WELFARE REFORM AND PENSIONS ACT 1999

EXPLANATORY NOTES

GLOSSARY

Administration Act

The Social Security Administration Act 1992: the Act that contains most of the rules and regulation-making powers to specify how social security benefits should be claimed, paid and administered. It consolidated the existing legislation in 1992, and has been amended subsequently. See also **the Contributions and Benefits Act**.

All Work Test

The test of incapacity used for the purposes of assessing entitlement to **Incapacity Benefit** and **Severe Disablement Allowance** (and the premiums for disability with **Income Support** and Council Tax Benefit). It is a functional test which assesses the claimant’s ability to carry out a wide range of activities.

Section 61 replaces the All Work Test with the “Personal Capability Assessment”.

Annuity

An arrangement by which a life insurance company pays someone a regular income, usually for life, in return for a lump-sum premium.

Attendance Allowance (AA)

A non-contributory, tax-free, non-means-tested benefit paid to meet the extra costs arising from the care needs of elderly and disabled people. Paid at two rates: higher rate (needing care day and night) and lower rate (needing care day or night).

Sections 66 and 67 make changes to the rules for AA and **Disability Living Allowance**.

Contributions and Benefits Act

The Social Security Contributions and Benefits Act 1992: contains most of the provisions for setting out the rules for **National Insurance contributions** and entitlement to social security benefits (with the main exception of **Jobseeker’s Allowance**). It consolidated the existing legislation when it was introduced in 1992, and has been amended since then. Several sections of this Act have their effect by amending it. See also **the Administration Act**.

Contracting out

An arrangement under which members of a pension scheme which meets certain requirements, obtain rights in that scheme in place of their **SERPS** entitlement. **National Insurance contributions** for these employees are reduced or, in the case of an Appropriate Personal Pension (see **Personal Pension)**, partly repaid to the scheme.

Disability Living Allowance (DLA)

A non-contributory, tax-free, non-means-tested benefit paid to meet the extra costs of care and mobility needs for people who become disabled before the age of 65. There are two components: a care component (paid at a higher, middle or lower rate) and a mobility component (paid at a higher or lower rate).

Sections 66 and 67 make changes to the rules for DLA and **Attendance Allowance**.

Housing Benefit (HB)

An income-related (means-tested) benefit to provide help with the housing costs of private and public sector tenants.

Section 79 introduces measures for a scheme to reduce the under-occupation of social housing by HB claimants.

Incapacity Benefit (IB)

A weekly benefit paid to people who are unable to work because of illness or disability, and have paid a specified amount of **National Insurance contributions**. Paid at 3 rates:

> a short-term lower rate: payable to those who do not qualify for Statutory Sick Pay, for the first 28 weeks of incapacity;
>
> a short-term higher rate: payable from 28 weeks to 52 weeks of incapacity;
>
> a long-term rate: payable after 52 of incapacity.

"Incapacity for work" is measured:

> during the first 28 weeks (in the case of people with a recent work record) by the "Own Occupation Test", which assesses people's ability to do their usual job;
>
> after 28 weeks (or from the start of the claim for people without a recent work record), through the "All Work Test": a functional test which assesses the claimant's ability to perform a wide range of activities.

Sections 62 and 63 amend the rules for IB; section 61 introduces a modified qualifying test.

Income Support (IS)

An income-related (means-tested) benefit for people who are not in work (or working less than 16 hours a week) and whose income is less than a specified level. It is calculated on the basis of age, family membership and other prescribed circumstances.

Jobseekers Act

The Jobseekers Act 1995: established **Jobseeker's Allowance**. Amended by section 60, and Schedules 7 and 8.

Jobseeker's Allowance (JSA)

Jobseeker's Allowance is the social security benefit for people who are unemployed or who are working for less than 16 hours per week. To qualify for JSA a jobseeker must be capable of work, available for work, actively seeking work, and must enter into a "Jobseeker's Agreement" which sets out the steps he will take in order to find work. Jobseekers who have paid sufficient **National Insurance contributions** can receive contribution-based JSA at a personal rate for up to six months. Those who do not qualify for contribution-based JSA, or whose needs are not met by the contribution-based allowance, can claim income-based JSA for themselves and their dependants subject to a means test. Income-based JSA is paid for as long as needed, provided that the qualifying conditions continue to be met.

Schedules 7 and 8 Part V make particular changes to the rules for JSA.

Lower Earnings Limit (LEL)

The weekly level of earnings below which there is not a liability to pay **National Insurance contributions**. It is also the level at which people secure entitlement to basic contributory benefits. Weekly earnings above this point (and up to the Upper Earnings Limit) accrue entitlement to SERPS or to contracted-out rebates.

Sections 73 and 74 (and Schedules 9 and 10) increase the starting point for paying contributions from the LEL to a new “primary threshold”. Benefit entitlement will continue to build up on earnings at or above the LEL.

Maternity Allowance

Weekly benefit paid by the Benefits Agency to mothers-to-be who do not qualify for Statutory Maternity Pay, or who are self-employed. Section 53 extends entitlement to women earning below the **Lower Earnings Limit** but at least £30 a week.

National Insurance contributions

Contributions payable by those in work and their employer into the National Insurance fund, which are used to pay contributory social security benefits to qualifying individuals. Self-employed people pay a lower rate but have more limited rights to benefits. Contributions are divided into four main classes which bring access to different benefit entitlements:

> Class 1: Payable by employed earners on all earnings between the **Lower Earnings Limit** and **Upper Earnings Limit**, and by employers on all earnings above the **Lower Earnings Limit**. Class 1 contributions give access to all National Insurance benefits, both at a flat rate and with earnings-related increases where relevant (provided that the individual meets the specific conditions of entitlement for each benefit). Sections 73-76 make changes to the rules for Class 1 contributions.
>
> Class 1A : contributions paid by employers in respect of employees’ car and fuel benefits. The charge is based on the cash equivalent of the car benefit and the car fuel benefit provided for private use of the employee.
>
> Class 1B: contributions paid on settlements (PAYE Settlement Agreements) made with the Inland Revenue by an employer. This class of contributions is being introduced in April 1999.
>
> Class 2: Flat-rate contribution paid by self-employed earners. Benefits are payable at the basic rate only, and there is no entitlement to certain benefits.
>
> Class 3: Flat-rate voluntary contributions payable for any period when people were not liable to pay Class 1 or 2 contributions because they were not employed or were outside the country.
>
> Class 4: Profit-related additional contributions payable by self-employed earners with profits above an annual threshold, up to an upper threshold equivalent to the **Upper Earnings Limit** for Class 1 contributors. These contributions do not give entitlement to any additional benefits (they are intended to ensure that those who can, contribute an amount which more accurately reflects the levels paid by employed earners and their employers).

National Insurance number

A unique number given to every individual of working age to keep track of their **National Insurance contributions**. Benefit claimants are expected to produce a national insurance number (or sufficient evidence for one to be allocated) as a condition of a claim. Section 69 extends this requirement to Child Benefit.

Occupational pension scheme

A scheme organised by an employer or on behalf of a group of employers to provide pensions and/or other benefits for, or in respect of, one or more employees on leaving service or on death or retirement.

Usually there are two types of occupational pension schemes:

> final salary schemes (also referred to as a salary-related scheme or defined benefit scheme). The benefits are calculated by reference to the employee's salary at or near the time of retirement or on leaving service, and the length of pensionable service.
>
> money purchase schemes (also known as defined contribution schemes). Contributions are invested to produce a capital sum on retirement. The capital sum (less any tax-free lump sum) is used to purchase an **annuity** to provide a pension.

Occasionally there are hybrid schemes. Both types of occupational pension scheme commonly provide, in addition to other benefits, a lump sum life assurance benefit based on a multiple of the member's salary.

Occupational Pensions Regulatory Authority (OPRA)

A statutory body, created by the Pensions Act 1995, responsible for ensuring that occupational pension schemes comply with the requirements of the relevant legislation. It has powers of investigation and can impose penalties ranging from prohibition from acting as a trustee, imposition of fines to criminal prosecution.

Pension Schemes Act 1993 ("the 1993 Act")

Consolidates most of the rules for **occupational** and **personal** pensions. Includes provisions for protecting scheme members and for contracting out of **SERPS**.

Pensions Act 1995 ("the 1995 Act")

This Act provides a framework of statutory obligations on employers, trustees, scheme professionals and others connected with pension schemes in order to provide greater security for scheme members.

Personal pension

An arrangement between an individual who is self-employed, in non-pensionable employment or who is not a member of an employer's scheme, and a pension provider (such as an insurance company) which enables the individual to make provision for a pension on a money purchase basis. See also **occupational pension scheme**.

An Appropriate Personal Pension (APP) is a personal pension scheme that has been certified as suitable for **contracting out** of **SERPS**.

Severe Disablement Allowance (SDA)

A non-contributory, non means-tested benefit, paid to people who cannot work because of illness or disability, and who have been unable to pay sufficient **National Insurance contributions** to qualify for Incapacity Benefit (IB). For people who become incapable of work before the age of 20, the qualifying test of "incapacity" is the same for SDA as for IB—but those aged 20 and over must additionally be assessed by a doctor as "80% disabled".

Section 65 abolishes SDA for new claimants, while providing the power to protect the benefit for existing claimants. Section 64 allows 16-19 year olds (and other specified people below the age of 25) who would currently receive SDA to receive Incapacity Benefit instead.

State Earnings Related Pension Scheme (SERPS)

A scheme introduced in 1978 which provides an additional state pension component, calculated by reference to the employee's earnings, on top of the basic state pension (the flat-rate pension paid to people who have met the minimum **National Insurance contribution** requirements).

Upper Earnings Limit (UEL)

The level of weekly earnings above which there is no liability for employee **National Insurance contributions**. It sets the upper limit for the weekly earnings on which **SERPS** accrue and which qualify for contracted-out rebates. See also **Lower Earnings Limit**.