Government Actuary's Department

Report by the Government Actuary on: The draft Social Security Benefits Up-rating Order 2022; and The draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2022

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Presented to Parliament pursuant to section 142(1) of the Social Security Administration Act 1992, as amended by the Social Security Contributions (Transfer of Functions, etc.) Act 1999 and sections 150(8), 150A(5) and 151A(6) of the Social Security Administration Act 1992.

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To:

The Right Hon. Thérèse Coffey MP, Secretary of State for Work and Pensions

The Right Hon. Lucy Frazer QC MP, Financial Secretary to the Treasury

I am pleased to present my report on the potential effects on the National Insurance Fund of the draft Social Security Benefits Up-rating Order 2022 and the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2022.

This report is made in accordance with section 142(1) of the Social Security Administration Act 1992, as amended by the Social Security Contributions (Transfer of Functions, etc.) Act 1999 and sections 150(8), 150A(5) and 151A(6) of the Social Security Administration Act 1992.

Martin Clarke
Government Actuary
January 2022

Contents

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1 Executive summary

1.1 This report sets out my opinion of the effect on the Great Britain National Insurance Fund ("the Fund") of the:

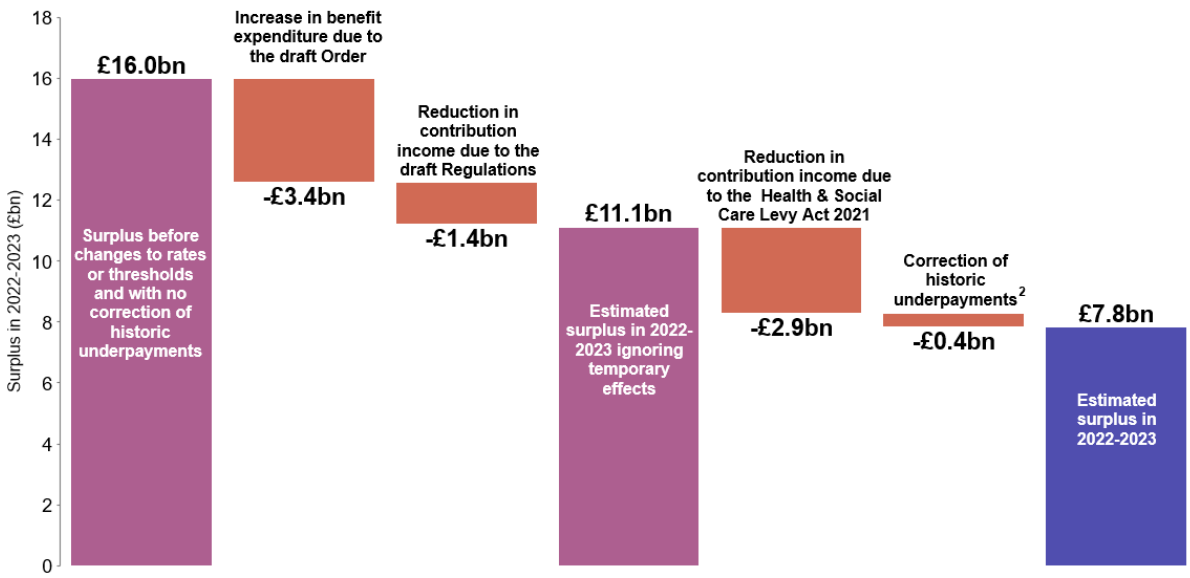
- proposed up-rating of contributory benefits (announced in a written ministerial statement on 25 November 2021), as set out in the draft Social Security Benefits Up-rating Order 2022 ("the draft Order")
- changes to the National Insurance Contributions (NICs) rates, limits and thresholds as set out in the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2022 ("the draft Regulations").

1.2 This report also includes the expected effect on the Fund of the Health and Social Care Levy Act 2021 ("the Act").

Impact of the draft Order, the draft Regulations and the Act on the Fund in 2022-2023

1.3 The draft Order is estimated to increase[1] benefit expenditure by £3.4 billion. The draft Regulations are estimated to reduce[1] contribution income by £1.4 billion.

Chart 1.1 – Impact of the draft Order, the draft Regulations and the Act on Fund surplus in 2022-2023



[1] Effect relative to no changes in benefit rates or contribution rates, limits or thresholds in 2022-2023.
[2] I have assumed the total estimated cost is spread over the expected repayment period; further detail is provided in F.86.

1.4 NICs are split between the Fund and the NHS. For 2022-2023, the Act sets out a temporary increase in NIC rates and a corresponding increase in the rates used for the NHS allocation. Due to differences in how NICs and the NHS allocation are calculated, the Act leads to a larger increase in the NHS allocation than the increase in NIC receipts. The Fund is projected to receive £2.9 billion less than if NIC rates remained unchanged[1]. From 2023-2024 onwards, a separate tax will apply which is not expected to impact the Fund, thus the effect of the Act on the Fund is temporary.

1.5 Total Fund income is estimated at £126.6 billion and total Fund expenditure at £118.7 billion. Receipts to the Fund in 2022-2023 are estimated to exceed payments made by £7.8 billion (figures do not sum due to rounding), increasing the balance in the Fund during financial year 2022-2023. The estimated Fund balance at 31 March 2023 is £60.5 billion.

Projected financial position of the Fund to 2026-2027

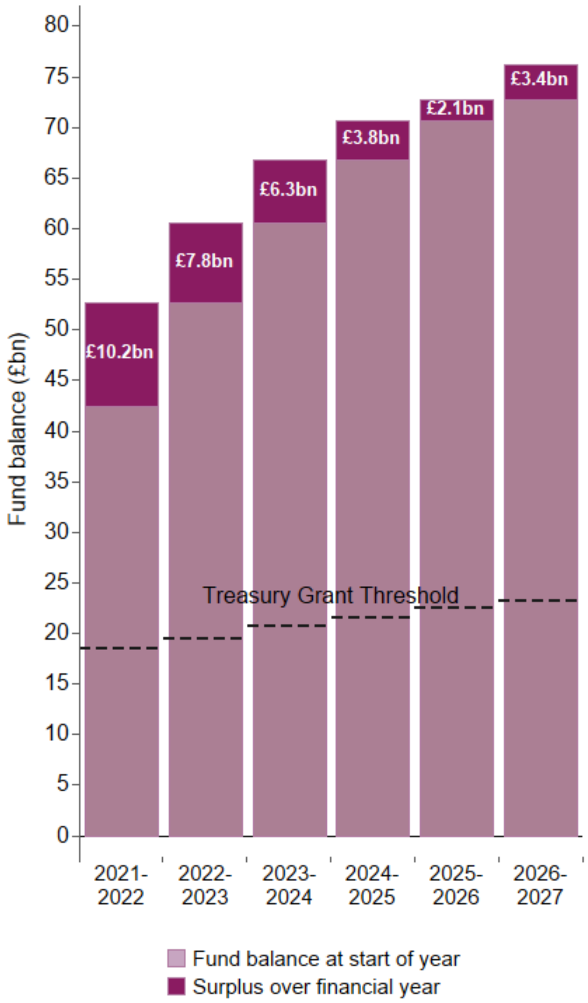
Principal projections

1.6 The projection to 2026-2027 shows that, under the principal assumptions, the balance of the Fund is projected to increase in all years of the projection as contribution income is expected to exceed benefit expenditure.

1.7 The yearly Fund balances in this projection are greater than those projected in my January 2021 report. Appendix A contains a comparison of the projected Fund balances at 31 March 2022 from the two reports.

1.8 The projections in this report indicate that the estimated 2022-2023 end-year Fund balance (£60.5 billion) will be around 52% of estimated benefit expenditure (£116.9 billion including redundancy payments). This proportion is projected to remain above the recommended minimum of one-sixth[2] of benefit expenditure up to and including 2026-2027. As shown in Chart 1.2, this suggests Treasury Grants[3] will not be required in this period. A Treasury Grant was last paid in the 2015-2016 financial year.

Chart 1.2 – Projected Fund balance up to 2026-2027



[1] Further detail is provided in 2.9 and 2.10.
[2] Further detail is provided in 2.13.
[3] Further detail is provided in 2.12.

Variant projections

1.9 The estimates of receipts and payments and the Fund balance are based on various assumptions and are sensitive to some of these, in particular earnings growth. Section 3 of this report shows these sensitivities through a series of variant estimates.

Coronavirus pandemic

1.10 The coronavirus pandemic has continued to have a bearing on the Fund. Its effects include changes to levels of employment, distorted earnings growth metrics and excess deaths. The assumptions I have used to project the Fund take account of the continued effects of the pandemic and are consistent with the Office for Budget Responsibility's (OBR's) most recent economic forecast.

Long term review

1.11 Longer term projections of the Fund (up to 2080) can be found in my Quinquennial Review of the Fund as at April 2015, published on 19 October 2017[1]. My next Quinquennial Review of the Fund is expected to be published in 2022.

Professional standards and limitations

1.12 This work has been carried out in accordance with the relevant actuarial professional standards TAS 100 and ASORP1 issued by the Financial Reporting Council (FRC). The FRC sets standards for actuarial work in the UK.

1.13 This report has been prepared for Parliament in accordance with the Social Security Administration Act 1992. It is not appropriate for any other purpose. No other person or third party is entitled to place any reliance on the contents of this report and GAD has no liability to any other person or third party for any act or omission taken, either in whole or in part, on the basis of this report.

1.14 This report does not consider the Northern Ireland National Insurance Fund.

[1] https://www.gov.uk/government/publications/government-actuarys-quinquennial-review-of-the-national-insurance-fund-as-at-april-2015

2 Principal estimates for receipts, payments and the Fund balance

2.1 Table 2.1 below sets out my estimates of receipts and payments of the Fund for 2021-2022 and 2022-2023 allowing for the draft Order, the draft Regulations and the Act.

Table 2.1 – Estimated receipts and payments and statement of balances of the Fund

Great Britain, £ million		2021-2022[1]		2022-2023	
Receipts					
	Contributions	122,765		126,272	
	Less recoveries of statutory payments (and abatements)	2,703		2,861	
Net contribution income			120,062		123,412
Treasury Grant			0		0
Compensation from Consolidated Fund for statutory payments recoveries			2,580		2,847
Income from investments			58		297
Other receipts			0		0
Total receipts[2]			122,700		126,555
Payments					
Benefits	At present rates	110,246		112,474	
	Increase due to proposed changes			3,395	
Total			110,246		115,869
Administration costs			924		961
Redundancy fund payments (net)			638		1,026
Transfer to Northern Ireland			549		739
Other payments			127		132
Total payments[2]			112,485		118,727
Statement of balances					
Balance at beginning of year[3]			42,484		52,698
Excess of receipts over payments			10,215		7,828
Balance at end of year[2]			52,698		60,527
Balance at end of year as percentage of annual benefit payments[4]			47.5%		51.8%

1 These estimates update those in my report in January 2021 reflecting the latest accounts of the Fund and other more recent information. A breakdown and analysis of this change is provided in Appendix A.

2 Figures may not sum to totals shown due to rounding.

3 The balance at 31 March 2021 is taken from the published accounts of the Fund for the year 2020-2021.

4 Percentages of benefit payments allow for net redundancy payments.

Estimates for 2022-2023

Benefit expenditure

2.2 The proposed measures in the draft Order increase the rates of social security benefits paid from the Fund from April 2022. The full rate of the basic state pension increases from £137.60 per week to £141.85 per week and the full rate of the new state pension increases from £179.60 per week to £185.15 per week. Appendix B sets out details of the main rates of benefits paid from the Fund before and after the proposed measures. Chart 2.1 shows how expenditure is split between the largest benefits.

2.3 I estimate that the increase in benefit expenditure in 2022-2023 as a result of the proposed measures in the draft Order will be £3.4 billion, taking estimated expenditure on the relevant benefits from £112.3 billion to £115.7 billion. Table 2.2 overleaf shows this estimate, and the effect of the draft Order, split by benefit type.

Chart 2.1 – Breakdown of benefit expenditure

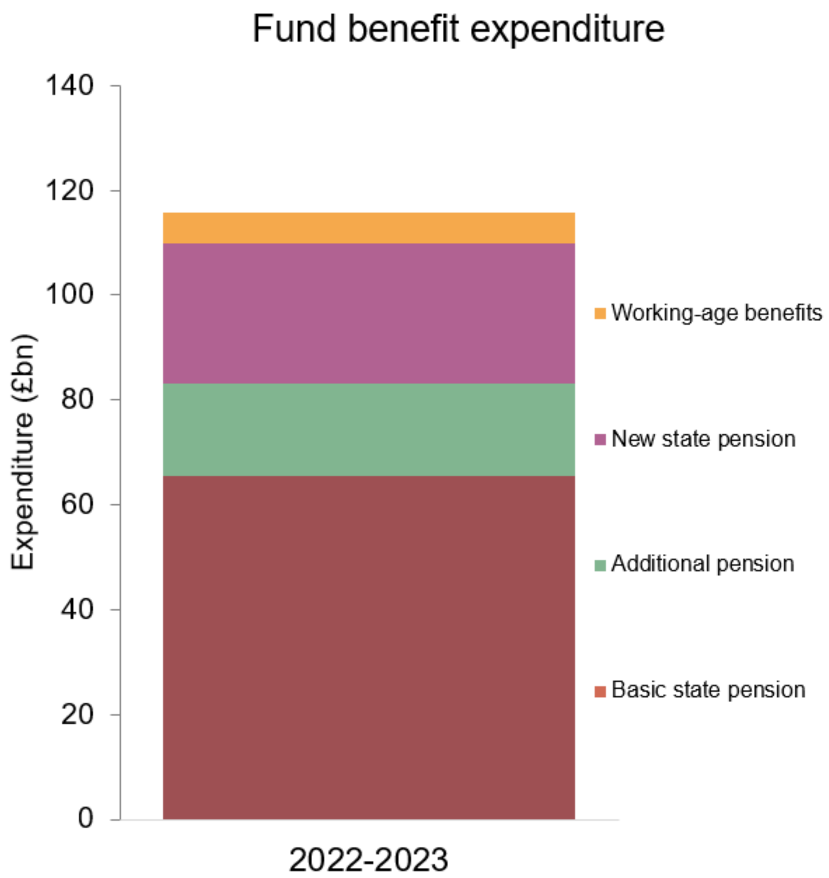


Table 2.2 - Benefit expenditure and the effect of the draft Order in 2022-2023

Great Britain **£ million**	**Estimated total benefit payments in 2021-2022**	**Estimated total benefit payments in 2022-2023 before the draft Order**	**Estimated extra benefit payments in 2022-2023 as a result of the draft Order**	**Estimated total benefit payments in 2022-2023 after the draft Order**
New state pension[1]	20,065	26,001	746	26,747
Basic state pension[2,3]	67,062	63,770	1,802	65,572
Additional pension	17,440	16,749	689	17,437
Incapacity benefit	1	(0)	(0)	(0)
Widows'/bereavement benefits	175	215	6	221
Contributory employment and support allowance	4,632	4,899	139	5,038
Contribution-based jobseeker's allowance	172	67	2	69
Maternity allowance[4]	346	381	11	392
Bereavement support payment	227	265	0	265
Total of benefits covered by the draft Order[5]	**110,120**	**112,347**	**3,395**	**115,741**
Guardian's allowance[6]	2	2	0	2
Christmas bonus	124	125	0	125
Total of benefits not covered by the draft Order[4]	**126**	**128**	**0**	**128**
Total benefits[5]	**110,246**	**112,474**	**3,395**	**115,869**

1 Includes expenditure on protected payments. Revaluation of protected payments which will come into payment during 2022-2023 is set by the State Pension Revaluation for Transitional Pensions Order 2021.

2 Includes expenditure on graduated retirement benefit, existing increments and deferral lump sums (in respect of deferred basic state pension and deferred additional pension).

3 Includes allowance for payments in respect of historic underpayments; further detail is provided in F.86.

4 The rate of Maternity Allowance is not covered by the draft Order but it is linked to the prescribed rate of statutory maternity pay which is covered by the draft Order.

5 Figures may not sum to totals due to rounding.

6 The functions of the Secretary of State under Part 10 of the Social Security Administration Act 1992 (review and alterations of benefits: Great Britain) relating to Guardian's allowance were transferred to the Treasury by section 49(3) of the Tax Credits Act 2002. Guardian's allowance will be up-rated by a separate Statutory Instrument made by the Treasury.

Contribution income

2.4 Section 162 of the Social Security Administration Act 1992 sets out how NICs receipts are to be split between the Fund and the NHS. The contributions shown in this section are NICs receipts less the relevant NHS allocation. The split of NICs receipts between the Fund and the NHS is set out in Appendix G.

2.5 The proposed measures in the draft Regulations increase some of the thresholds used to determine the amount of earnings or profits that NICs are payable on. The primary threshold increases from £184 per week to £190 per week and the secondary threshold increases from £170 per week to £175 per week. Similar changes apply to the small profits threshold and lower profits limit.

2.6 The measures in the Act increase some of the rates used to determine the amount of NICs payable, and NHS allocation. The increases to both sets of rates are 1.25%. These increases are temporary and will apply in respect of the 2022-2023 tax year only. After this a separate levy will apply, which will not impact the Fund.

2.7 Appendix C sets out details of the main features of the Fund's contribution system.

2.8 I estimate that the combined effect of the measures proposed in the draft Regulations and the measures in the Act will be a decrease in Fund contribution income in 2022-2023 of £4.2 billion. A breakdown of this estimate by contribution type is shown in Table 2.3. The effect of changes for Classes 2 and 4 are generally not observable due to the delay between when contributions are accrued and the date that they go on to be paid. Chart 2.2 below provides a breakdown of the main types of contribution income.

2.9 For most classes of NICs, the additional contributions due under the Act are equal to the additional NHS allocation, meaning there is no effect on Fund income. However, for secondary Class 1 contributions, the two amounts differ, resulting in a reduction in Fund income. In broad terms this occurs because, for secondary Class 1 contributions, the total amount of NICs payable is calculated[1] by applying the relevant rate of NICs to earnings in excess of the secondary threshold, whereas the equivalent NHS allocation[2] is calculated by applying the relevant NHS allocation rate to total earnings, not just those above the secondary threshold. This means that, for secondary Class 1 contributions, an equal increase in both rates will result in a larger increase in NHS allocation than increase in NICs.

2.10 I estimate the increase in secondary Class 1 NICs due to the Act to be £7.5 billion and the increase in the NHS allocation due to the Act to be £10.3 billion. The result of a 1.25% increase to both rates is therefore a reduction in Fund income of around £2.9 billion relative to no change in NICs rates (figures do not sum due to rounding)[3].

[1] The method for secondary Class 1 contributions is set out in Section 9 of the Social Security Contributions and Benefits Act 1992.
[2] Rates are set out in Section 162(5) of the Social Security Administration Act 1992, as amended (in particular by the Health and Social Care Levy Act 2021). The method adopted for calculating the NHS allocation for secondary Class 1 contributions is in line with the interpretation of this section provided to GAD by HMRC.
[3] A similar effect occurred when NIC rates were increased in 2003.

Chart 2.2 – Breakdown of contribution income

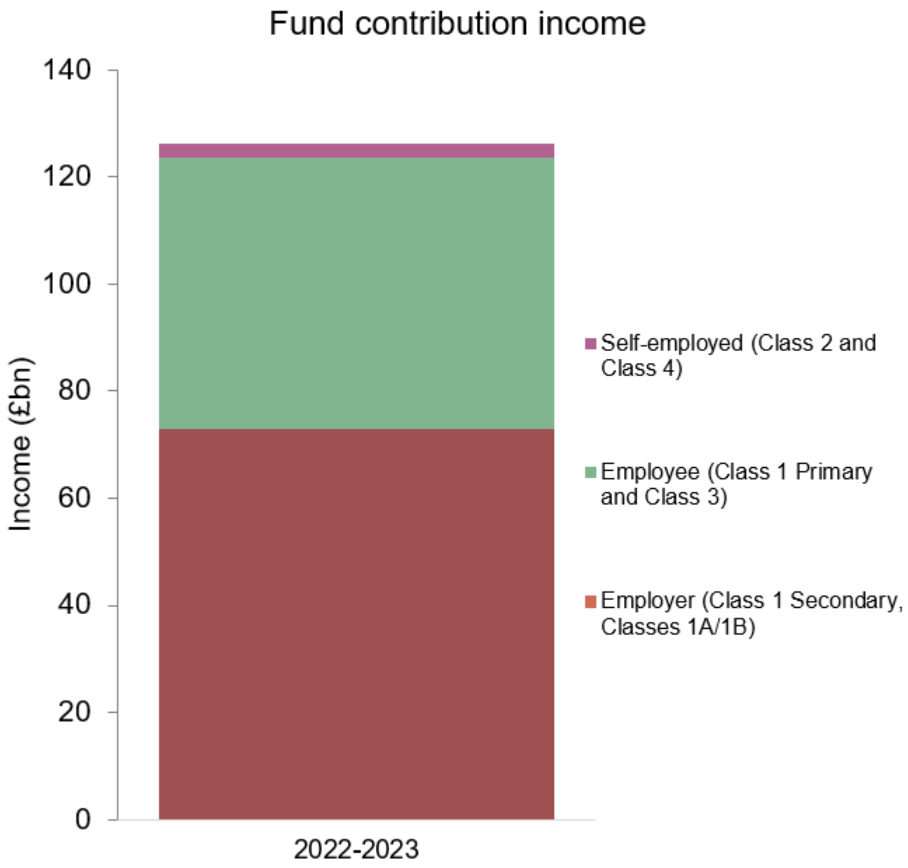


Table 2.3 - Contribution income and the effect of the draft Regulations and the Act in 2022-2023[1]

Great Britain £ million	2021-2022 contribution income estimates	2022-2023 contribution income estimates				
		Before the draft Regulations and the Act	Impact of the draft Regulations	Impact of the Act	Combined impact of the draft Regulations and the Act	After the draft Regulations and the Act
Class 1	118,591	126,041	(1,377)	(2,850)	(4,227)	121,814
Class 1A and 1B	1,510	1,624	0	0	0	1,624
Class 2	393	388	0[2]	0	0	388
Class 3[3]	145	145	0	0	0	145
Class 4	2,125	2,301	0[2]	0	0	2,301
Total[4]	122,765	130,499	(1,377)	(2,850)	(4,227)	126,272

1 Table 2.3 shows contributions payable to the Fund.
2 There is no impact from the draft Regulations in 2022-2023 due to the delay between when contributions are accrued and the date they are paid.
3 Levels of voluntary contributions are variable and rates applied depend on the tax year the credit relates to. I have used the 2021-2022 estimate for 2022-2023.
4 Figures may not sum to totals shown due to rounding.

Projections to 2026-2027

2.11 Table 2.4 below provides projections for the period to 2026-2027.

Table 2.4 – Fund projections from 2020-2021 to 2026-2027

Great Britain, £ million	2020-2021[1]	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027
Total receipts	114,262	122,700	126,555	132,049	135,094	139,103	144,555
Total payments	108,711	112,485	118,727	125,764	131,260	136,962	141,181
Excess of receipts over payments	5,551	10,215	7,828	6,285	3,833	2,141	3,373
Balance in fund at end of year	42,484	52,698	60,527	66,812	70,645	72,787	76,160
Balance at end of year as a percentage of benefit payments[2]	39.7%	47.5%	51.8%	53.9%	54.7%	54.0%	54.8%

1 Figures for 2020-2021 are from the published Fund accounts.

2 Benefit payments include net redundancy fund payments, they exclude administration costs and transfer to Northern Ireland NI Fund.

Treasury grant

2.12 A ‘Treasury Grant’ is a payment into the Fund from money voted by Parliament as permitted under Section 2 of the Social Security Act 1993. HM Treasury may determine the size of such payments provided that they do not exceed a certain percentage (17%) of benefit payments for the financial year concerned as estimated by the Government Actuary or Deputy Government Actuary.

2.13 A payment of a Treasury Grant is usually made if the balance of the Fund is projected to fall below one sixth (16.7%) of estimated annual benefit expenditure (including redundancy receipts). At the end of 2020 I formally reviewed this “minimum fund balance” and recommended that it should continue to be one-sixth of estimated annual benefit expenditure. I consider that this recommendation remains appropriate.

2.14 Under this principal projection, the Fund balance does not fall below the “minimum fund balance”. A Treasury Grant is therefore not expected to be required within the projection period.

3 Variant estimates for receipts, payments and the Fund balance

3.1 The estimates provided in this report depend on assumptions made about the future. In particular the Fund balance in the short-term is sensitive to:

- the level of earnings increases
- employment levels

3.2 This section provides projections based on variant assumptions to demonstrate how different experience could affect the Fund balance.

3.3 The variant projections are purely illustrations of the sensitivity of the results to economic and mortality assumptions. They are not intended to show extremes. A material change in conditions such as, for example, a significant reduction in employment rates causing a reduction in contribution income, could result in future experience being materially different from any of the variant projections shown.

3.4 The effect of multiple variant assumptions can broadly be estimated by combining together the effects of the relevant scenarios.

Risks to the Fund balance at 31 March 2023

3.5 Future contribution income could vary significantly in the short-term as a result of changes in employment numbers and general earnings increases. Benefit expenditure over the same timescale tends to be more predictable compared to employment numbers and general earnings increases. This is because the number of beneficiaries is more closely linked to population numbers, which tend to be less volatile than the numbers in employment.

3.6 Table 3.1 shows the effect of changes in earnings increases and employment levels on contribution income for the Fund for the years 2021-2022 and 2022-2023. Varying these assumptions would not be expected to affect benefit expenditure significantly for these years as the rates at which benefits are payable in these years are now known, accordingly the effect on benefits is not shown. Chart 3.1 shows the effect on the Fund balance.

3.7 Although there is the potential for the pandemic to affect future mortality experience in a range of ways, the resulting population changes would be small relative to the overall pensioner population. Changes to the size of the pensioner population were considered in Section 3 of my January 2021 report[1].

Chart 3.1 – Effect of variant scenarios on the Fund balance as at 31 March 2023

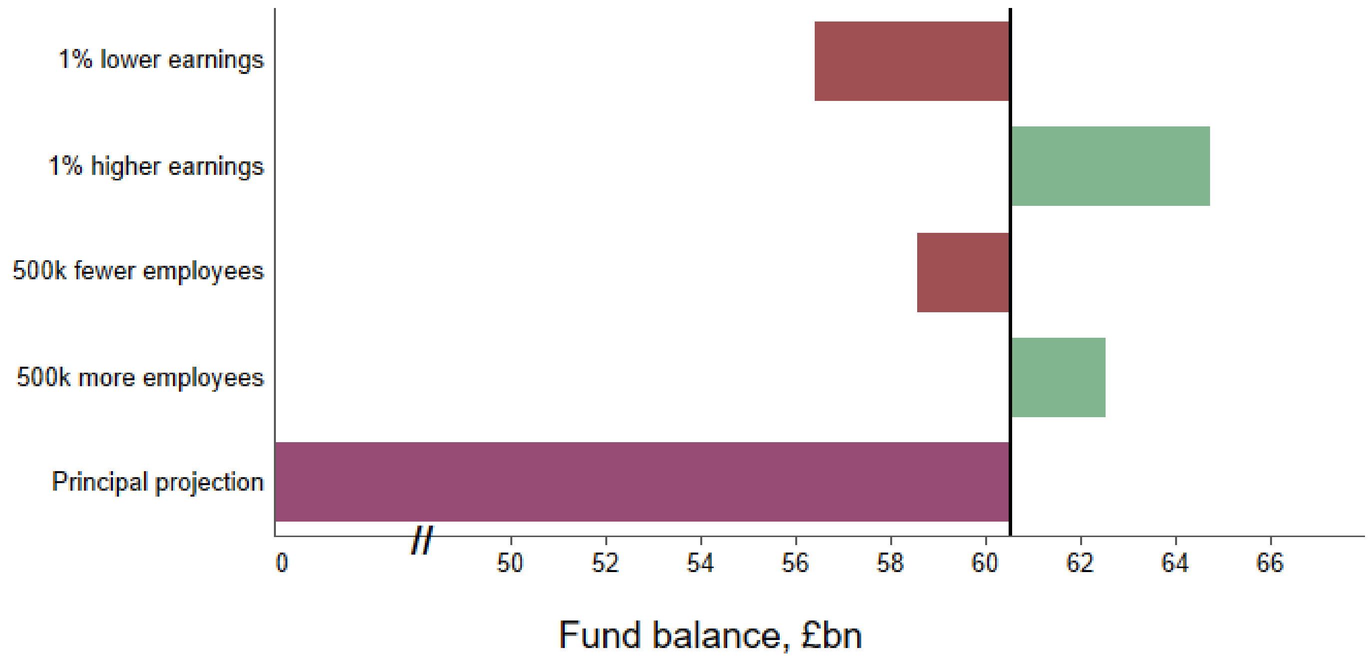


Table 3.1 - Effect on net income and Fund balance of variant assumptions (£ million)

Variant assumption	Effect on net income in 2021-2022	Effect on net income in 2022-2023	Approximate effect on the 31 March 2023 Fund balance
1% lower employee earnings increases	(1,283)	(2,846)	(4,129)
1% higher employee earnings increases	1,292	2,893	4,185
Lower number of employees by 500,000 in 2022-2023 only	0	(1,986)	(1,986)
Higher number of employees by 500,000 in 2022-2023 only	0	1,986	1,986

[1] https://www.gov.uk/government/publications/report-to-parliament-on-the-2021-re-rating-and-up-rating-orders

Variant 5-year projections

3.8 I have also prepared variant estimates for the projected cash flow and balance of the Fund for the 5-year projections to illustrate the sensitivity of the estimates to economic assumptions.

3.9 These variant projections are shown in the charts below. Details of the figures underlying these charts are provided in Appendix H.

3.10 The variant scenarios considered assume that:

- earnings increases are one percentage point higher than the principal assumption each year (“1% higher earnings increases”)
- earnings increases are one percentage point lower than the principal assumption each year (“1% lower earnings increases”)

3.11 The Fund is sensitive to earnings growth. Greater earnings growth leads to higher contribution income which increases the Fund balance. Greater earnings growth also increases benefit expenditure when it is the highest component of Triple Lock[1] and this then reduces the Fund balance. In the 1% higher earnings increases variant, Triple Lock increases are higher as a result of higher earnings but the overall effect is a larger Fund balance than in the principal projection.

3.12 Lower earnings growth leads to lower contribution income and therefore a decrease in the Fund balance. In the 1% lower earnings increases variant, the reduction in earnings has a relatively small effect on Triple Lock increases, because these cannot be less than 2.5%. The overall effect is a lower Fund balance, relative to the principal projection. The impact on the Fund balance in the 1% lower earnings increases variant is more pronounced than in the 1% higher earnings increases variant.

3.13 The level of the Fund does not fall below the Treasury Grant threshold under any variant considered in this section. I have calculated that reducing earnings growth assumptions only, earnings growth would need to be around 1.8 percentage points lower than the assumptions used under the principal projection to produce a scenario where a Treasury Grant is required for the first time in 2026-2027.

[1] Paragraphs E.1–E.4 explain the operation of Triple Lock.

Chart 3.2 – 1% higher earnings variant projection

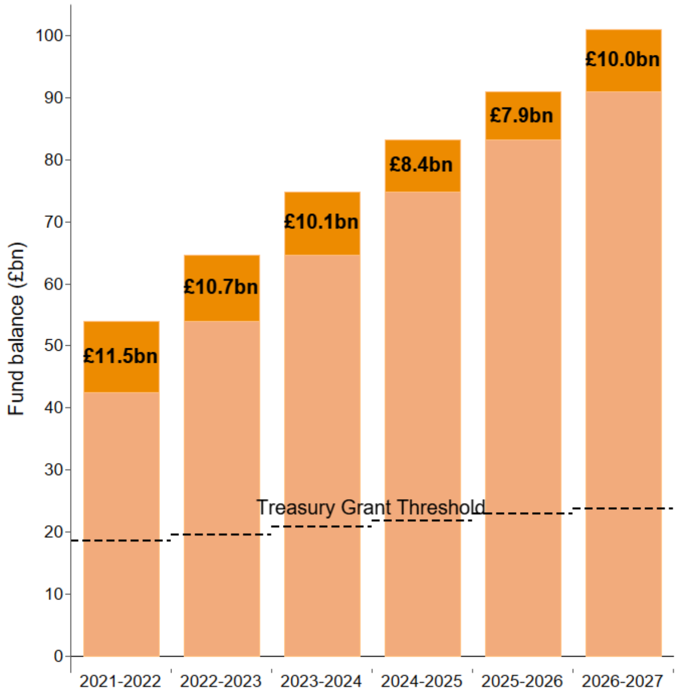
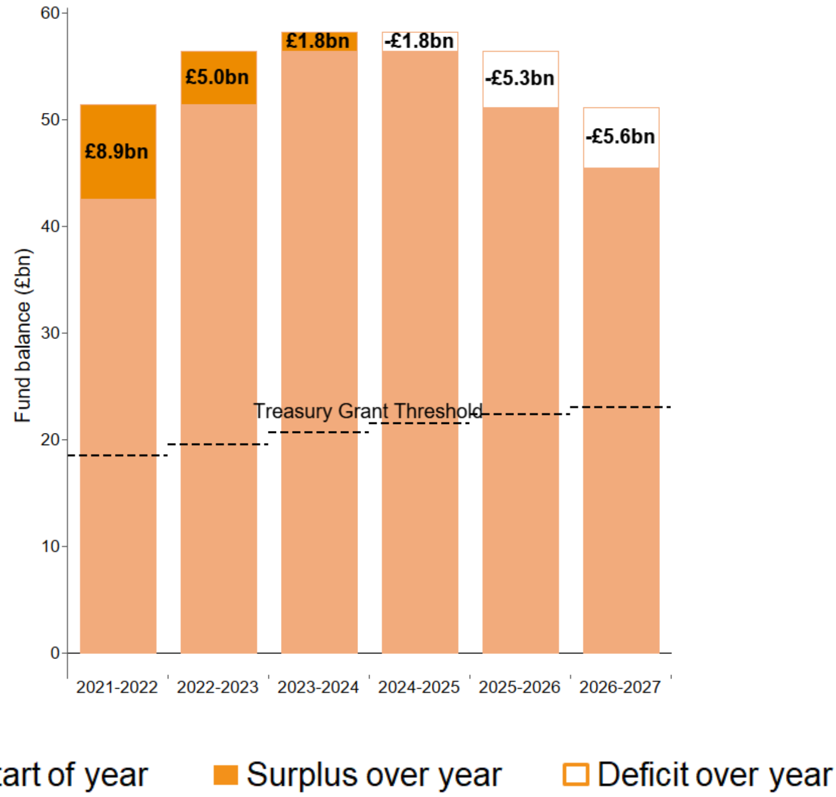


Chart 3.3 – 1% lower earnings variant projection

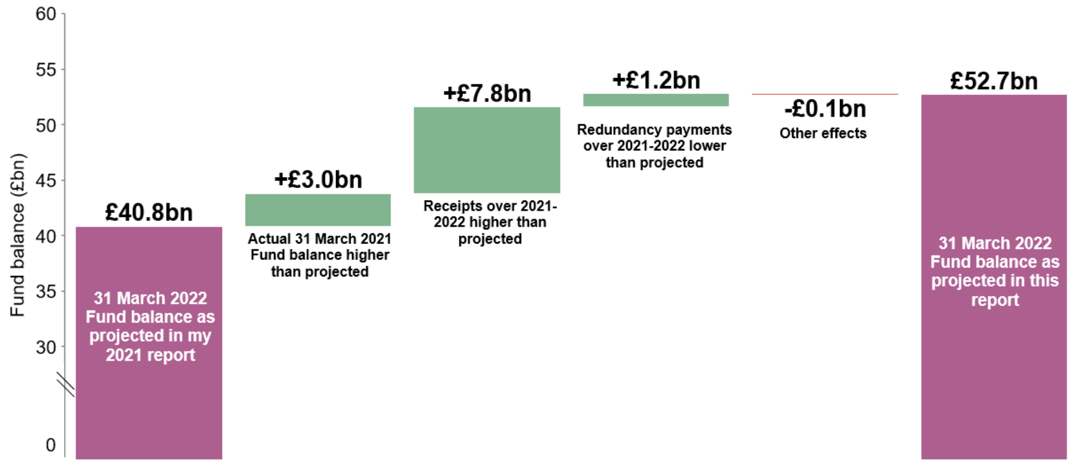


Appendix A: Revised 2021-2022 estimates

A.1 The 2021-2022 estimates shown in Table 2.1 differ from the estimates for the same period included in my report of January 2021.

A.2 In particular the estimated balance of the Fund as at 31 March 2022 of £52.7 billion differs from that estimated in my report from January 2021 of £40.8 billion. Chart A.1 below sets out a reconciliation between these results.

Chart A.1 – Reconciliation of Fund balance at 31 March 2022 with 2021 Up-rating Report



A.3 The change is primarily due to the updated estimates providing for:

- the actual Fund balance as at 31 March 2021 of £42.5 billion being £3.0 billion higher than that estimated in my report last year (£39.5 billion)
- receipts being £7.8 billion higher than estimated, primarily due to a better than expected recovery in earnings and employment levels following the outbreak of the coronavirus pandemic
- net redundancy fund benefits being £1.2bn lower than estimated, due to a lower than expected number of redundancies
- other positive and negative effects which sum to £0.1bn

A.4 Table A.1 below sets out a detailed breakdown of the 2021-2022 estimates in Table 2.1 of this report with those provided in Table 2.1 of last year's report.

Table A.1 – Comparison of 2021-2022 estimates from this report and last year's report

Great Britain **£ million**		**2021-2022 estimates in Table 2.1 of this report**		**2021-2022 estimates in Table 2.1 of last year's report**
Receipts				
Contributions	122,765		114,934	
Less recoveries of statutory payments (and abatements)	2,703		2,651	
Net contribution income[1]		120,062		112,283
Treasury Grant		0		0
Compensation from Consolidated Fund for statutory payments recoveries		2,580		2,638
Income from investments		58		0
Other receipts		0		0
Total receipts[1]		**122,700**		**114,922**
Payments				
Benefits		110,246		110,249
Administration costs		924		651
Redundancy fund payments (net)		638		1,834
Transfer to Northern Ireland		549		727
Other payments		127		146
Total payments[1]		**112,485**		**113,606**
Excess of receipts over payments[1]		10,215		1,316

1 Figures may not sum to totals due to rounding.

Appendix B: Main benefit rates

The draft Order

B.1 The draft Order proposes to up-rate the full rate of the basic state pension and the full rate of the new state pension from April 2022 by 3.1%, in line with the September 2021 CPI increase, subject to the appropriate rounding conventions. These increases are typically set using the Triple Lock methodology, however for the April 2022 up-rating, the earnings component has been excluded from the Triple Lock calculation. Appendix E describes the Triple Lock and provides further detail on the April 2022 up-rating.

B.2 The draft Order also proposes increasing other components of the pre-April 2016 state pension, including earnings-related additional pensions (such as SERPS and S2P) and graduated retirement benefit by 3.1%. The draft Order also proposes increasing amounts in excess of the full rate of the new state pension (protected payments) and expenditure on state pension deferral (increments) in line with the CPI increase.

B.3 Full details of the rates of benefits provided from the Fund are shown in the table below.

Table B.1 – Comparison of benefits paid from the Fund before and after April 2022 up-rating

All figures in £s	Weekly rate in 2021-2022	Weekly rate proposed from April 2022
State pension		
New state pension[1]	179.60	185.15
Category A or B (paid to individuals over SPa as at 5 April 2016 based on their own contributions or those made by a deceased spouse or civil partner)[2]	137.60	141.85
Category BL (paid to an individual over SPa as at 5 April 2016 based on their spouse or civil partner's contributions while the spouse/civil partner is alive)[3]	82.45	85.00
Graduated retirement benefit (unit)	0.1447	0.1492
Bereavement benefits[4]		
Bereavement Support Payment (lump sum standard rate)	2,500.00	2,500.00
Bereavement Support Payment (lump sum higher rate)	3,500.00	3,500.00
Bereavement Support Payment (monthly payments standard rate)	100.00	100.00
Bereavement Support Payment (monthly payments higher rate)	350.00	350.00
Widowed parent's allowance (maximum rate)	122.55	126.35
Employment and Support Allowance (contributory)[5]		
Personal allowance (age 25 or over)	74.70	77.00
Work-related activity component	29.70	30.60
Support component	39.40	40.60
Jobseeker's Allowance (contribution-based)[6]		
Personal benefit for those aged 18 to 24	59.20	61.05
Personal benefit for those aged 25 and over	74.70	77.00
Maternity Allowance[7]	151.97	156.66
Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay		
Standard rate[7]	151.97	156.66
Guardian's allowance		
First child/other children[8]	18.00	18.55
Increases for the children of widows, widowers, retirement pensioners and those on long-term rate and higher short-term rate of incapacity benefit and recipients of Incapacity Benefit over pension age		
Standard rate	11.35	11.35
Rate for eldest child for whom child benefit is also paid	8.00	8.00
Christmas bonus		
Christmas bonus to pensioners (lump sum)[8]	10.00	10.00

1 Not everyone receives this rate, awards are based on an individual's National Insurance record. A *de minimis* of 10 years of contributions applies in respect of post-April 2016 awards.

2 Proportionate rates are paid to those with proportionate contribution records. Pensioners in receipt of Category A or B basic state pensions receive an increase of 25p per week on reaching age 80 (the Age Addition).

3 Pensioners in receipt of Category BL basic state pensions receive an increase of 25p per week on reaching age 80 (the Age Addition).

4 Bereavement Support Payment (consisting of a lump sums and 18 monthly payments) is available to persons of working age whose spouse or civil partner died on or after 6 April 2017. The higher rate is payable if the surviving spouse or civil partner has dependent children (linked to Child Benefit entitlement). Widowed Parent's Allowance is available to working age parents whose spouse or civil partner died before 6 April 2017 for as long as there is a Child Benefit entitlement.

5 Employment and Support Allowance (ESA) replaced Incapacity Benefit for new claims from 27 October 2008. The benefit contains some extra additions dependent on the circumstances of the recipients. Everyone who satisfies the Work Capability Assessment will receive a personal allowance and either the work-related activity component or the support component. However, from April 2017 the Welfare Reform and Work Act 2016 provides that new ESA claimants placed in the work–related activity group will no longer receive the work-related activity component. The process to review Incapacity Benefit claims to assess if they can be transferred to ESA is now largely complete.

6 Unemployed people who meet certain conditions, primarily relating to the payment of NICs in the period recently before they become unemployed, can claim contribution-based Jobseeker's Allowance. Other unemployed people who either exhaust or have no entitlement to the contributory benefit may receive Universal Credit. Universal Credit may also be paid to recipients of contribution-based Jobseeker's Allowance if their income-based benefit requirements exceed the rate of contributory Jobseeker's Allowance.

7 The first 6 weeks of Statutory Maternity Pay and Statutory Adoption Pay are paid at 90% of the recipient's average weekly earnings with no upper limit. Thereafter the remaining weeks (maximum 33) are paid at the standard rate or, if lower, 90% of the recipient's average weekly earnings. Maternity Allowance is paid to employed women for up to 39 weeks at the amount shown or 90% of the woman's average weekly earnings if this calculation results in a figure which is less. The amount of Maternity Allowance a self-employed woman may receive depends on how many Class 2 NICs they have paid in the 66 weeks immediately preceding the week their baby is due. Statutory Paternity Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay are paid at the standard rate or 90% of average weekly earnings if lower.

8 This benefit is not increased by the draft Order.

Appendix C: Main features of the contribution system

Draft Regulations and the Act

C.1 The draft Regulations propose increasing some NICs rates and increasing some of the thresholds and limits that determine the earnings on which contributions are paid. The Act increases some NICs rates for 2022-2023 only. The table below shows the changes in contribution rates, limits and thresholds.

Table C.1 – NIC rates, limits and thresholds

		Rate in 2021-2022	Rate set or proposed in 2022-2023
Class 1			
Lower earnings limit (LEL)		£120 a week	£123 a week
Upper earnings limit (UEL)		£967 a week	£967 a week
Primary threshold		£184 a week	£190 a week
Secondary threshold		£170 a week	£175 a week
Upper secondary threshold for under age 21 group		£967 a week	£967 a week
Upper secondary threshold for relevant apprentices		£967 a week	£967 a week
Contribution rates (NI Fund and NHS combined)			
Primary (employee)	On earnings between the primary threshold and UEL	12.00%	13.25%[1]
	On earnings above the UEL	2.00%	3.25%[1]
	NHS allocation included in above – percentage of earnings between the primary threshold and UEL	2.05%	3.30%[1]
	– percentage of earnings above the UEL	1.00%	2.25%[1]
Secondary (employer)	On all earnings above the secondary threshold	13.80%	15.05%[1]
	Zero-rate on earnings between the secondary threshold and upper secondary threshold for under age 21 group and relevant apprentices	0.00%	0.00%
	NHS allocation included in above (percentage of all earnings on which contributions are paid for employees earning above the primary threshold)[1]	1.90%	3.15%[1]

	Rate in 2021-2022	**Rate set or proposed in 2022-2023**
Class 1A and Class 1B		
Contribution rate (employer only)	13.80%	15.05%[1]
NHS allocation included in above	1.90%	3.15%[1]
Class 2		
Flat-rate contribution	£3.05 a week	£3.15 a week
Small profits threshold	£6,515.00 a year	£6,725.00 a year
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 3		
Flat-rate contribution	£15.40 a week	£15.85 a week
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 4		
Lower Profits Limit (LPL)	£9,568 a year	£9,880 a year
Upper Profits Limit (UPL)	£50,270 a year	£50,270 a year
Contribution rate		
On profits between the LPL and UPL	9.00%	10.25%[1]
On profits above the UPL	2.00%	3.25%[1]
NHS allocation included in above		
Percentage of profits between the LPL and UPL	2.15%	3.40%[1]
Percentage of profits above the UPL	1.00%	2.25%[1]

1 Includes a 1.25% temporary addition that will be removed at the end of 2022-2023.

2 The amount of the secondary Class 1 NICs apportioned to the NHS is calculated as the relevant percentage (3.25% in 2022-2023) of the total earnings of those employees who earn above the primary threshold. This is in line with the interpretation of subsections (5) and (5A) of section 162 of the Social Security Administration Act 1992 provided to GAD by HMRC.

Appendix D: Key assumptions

D.1 The key assumptions used to prepare the estimates in this report are the population projections and economic assumptions that determine future employment levels and the rate of increase in earnings and CPI. These assumptions are set out in this appendix alongside the variant assumptions used for the sensitivity analysis in Section 3.

D.2 The population assumptions used in this report are based on the Office for National Statistics (ONS) 2018-based 0% future EU migration population projection for Great Britain, published in October 2019, updated for 2019 and 2020 population estimates. The economic assumptions used in this report are consistent with the central assumptions used by the OBR in its Economic and Fiscal Outlook (EFO) report published on 27 October 2021.

D.3 My understanding is that both ONS and OBR have determined these assumptions with the intention that there is no allowance for prudence or optimism. In my view, these assumptions are the most appropriate for the purposes of estimating the financial position of the Fund over the relatively short period considered in this report and I have therefore decided to adopt them as the principal assumptions.

D.4 The coronavirus pandemic is an area of uncertainty of particular relevance to this report. The economic assumptions underlying the EFO incorporate broad based assumptions about the evolution of the pandemic. My report includes variant projections to show the impact on the Fund if other economic assumptions were adopted. In my January 2021 report, I considered the effect of increased and reduced pensioner numbers on the Fund and found that the effect was relatively modest.

D.5 The estimates in my January 2021 report were also based on the most recent population projections and EFO at the time. These were ONS's 2018-based principal population projection for Great Britain (published in October 2019) and the EFO published on 25 November 2020. Those assumptions are the "UR 2021" assumptions shown in the tables in this appendix.

Population projections

D.6 My assumptions for the number of individuals over State Pension age (SPa) are based on the ONS 2018 0% future EU migration population projections for Great Britain, published in October 2019, updated for 2019 and 2020 population estimates, as shown in Table D.1. These projections do not include any individuals over SPa who receive a state pension while living overseas.

D.7 The ONS population data used includes limited allowance for the effects of the coronavirus pandemic – some excess deaths are included in ONS' 2020 figures but the 2018 projection contains no allowance, either for observed excess deaths or changes to future mortality. As described in paragraphs F.28 to F.32 the projections are adjusted so that the assumed population recovery from the coronavirus pandemic is aligned to the approach adopted by OBR in its EFO. This approach results in 34,850 assumed future excess pensioner deaths in 2021-2022 and 17,400 assumed excess pensioner deaths in each year thereafter. Excess pensioner deaths being assumed to otherwise have occurred within 8 years of their occurrence.

Table D.1 – Numbers over SPa at the start of the financial year

Financial year	UR 2022 people-based (millions)	UR 2021 people-based (millions)	Change (millions)
2021-2022	11.6	11.6	0.0
2022-2023	11.7	11.8	(0.1)
2023-2024	11.9	12.0	(0.1)
2024-2025	12.1	12.2	(0.1)
2025-2026	12.4	12.5	(0.1)
2026-2027	12.6	N/A	N/A

D.8 These figures suggest the number of individuals over SPa is relatively stable over the 5 year projection period. However, this timeframe coincides with a period of increasing SPa from 66 to 66.5 (the increase from 66 to 67 continues into 2027-2028, but this is beyond the projection period) during which the population over SPa is expected to rise as a result of increasing life expectancy and historically high numbers of people reaching SPa. The effects of this on the sustainability of the Fund are highlighted in the longer-term projections in the Quinquennial Review.

Employment levels

D.9 My assumptions for the number of GB employees are set out in Table D.2 below:

Table D.2 - Number of GB employees

Financial year	UR 2022 (millions)	UR 2021 (millions)	Change (millions)
2021-2022	27.2	27.3	(0.1)
2022-2023	27.2	26.7	0.5
2023-2024	27.5	27.0	0.4
2024-2025	27.6	27.4	0.2
2025-2026	27.6	27.6	0.1
2026-2027	27.6	N/A	N/A

D.10 The assumed number of employees refers to the number of people employed rather than the number of jobs, as one person may have more than one job. Employees exclude the self-employed. The estimates are less sensitive to the assumed number of self-employed people which is also based on the assumptions for the October 2021 EFO.

D.11 The assumptions in Table D.2 have been derived by:

- taking the number of UK employees from Table 1.6 of the supplementary economy tables published alongside the October 2021 EFO
- adjusting these figures to exclude Northern Ireland employees

Increase in earnings and CPI

D.12 My assumptions for increases in earnings and CPI are set out in Table D.3 below. These figures are the Q2 earnings and Q3 CPI assumptions (taken from tables 1.6 and 1.7 of the EFO supplementary economy tables). This is because up-rating each April is generally based on Q2 earnings and Q3 CPI out-turn from the previous financial year.

Table D.3 - Annual increase in earnings and CPI

Year of April up-rating	CPI			Increase in earnings		
	UR 2022	UR 2021	Change	UR 2022	UR 2021	Change
2021	0.5[1]	0.5[1]	0.0	(1.0)[1]	(1.0)[1]	0.0
2022	3.1[1]	1.4	1.7	8.3[1]	4.1	4.2
2023	3.9	1.6	2.3	3.8	2.0	1.8
2024	2.4	1.8	0.6	3.1	2.4	0.7
2025	2.0	1.9	0.1	2.0	2.8	(0.8)
2026	2.0	N/A	N/A	2.8	N/A	N/A

[1] The increases to be applied in April 2021 and April 2022 are now determined. Last year the April 2021 increase was determined.

D.13 When projecting earnings for the purpose of estimating contribution income, my assumption on earnings growth is taken from Table 2.10 of the EFO which shows the average growth across the 4 quarters of the financial year.

Appendix E: Triple Lock

Operation

E.1 Triple lock increases are determined as the highest of the annual growth in average May-July earnings (AWE), September prices (CPI) and 2.5%. These increases are applied to basic and new state pension payments, excluding increases for deferral.

E.2 For the April 2022 up-rating, the earnings component of Triple Lock has been excluded from the calculation[1]. I have assumed that the Triple Lock will operate with all three components in all future years.

E.3 I have applied this Triple Lock rule to the increase in earnings and CPI assumptions for each subsequent year in the projections (April 2023 onwards). For example, under the central projection in April 2023 AWE is 3.8% and CPI is 3.9% and so the Triple Lock assumption is 3.9% as CPI is higher than AWE and the minimum increase of 2.5%.

E.4 Table E.1 below shows each element of the Triple Lock over the last 5 years and in the 5 years ahead with the highest element used for Triple Lock up-rating highlighted. Over these 10 years earnings is the highest in 4 of the 10 years (not including April 2022), the minimum 2.5% is highest in 3 of the 10 years and CPI is the highest in the remaining 3.

Table E.1 – Triple Lock increases (historic and central projection assumptions)

Year of April up-rating	CPI	AWE	Minimum increase	Triple Lock	Value of £100 after cumulative Triple Lock increases
2017	1.0%	2.4%	**2.5%**	2.5%	£102.50
2018	**3.0%**	2.2%	2.5%	3.0%	£105.58
2019	2.4%	**2.6%**	2.5%	2.6%	£108.32
2020	1.7%	**3.9%**	2.5%	3.9%	£112.54
2021	0.5%	(1.0)%	**2.5%**	2.5%	£115.36
2022	**3.1%**	8.3%	2.5%	3.1%	£118.93
2023[1]	**3.9%**	3.8%	2.5%	3.9%	£123.57
2024[1]	2.4%	**3.1%**	2.5%	3.1%	£127.40
2025[1]	2.0%	2.0%	**2.5%**	2.5%	£130.59
2026[1]	2.0%	**2.8%**	2.5%	2.8%	£134.24

[1] Figures for 2023-2026 up-ratings are projections.

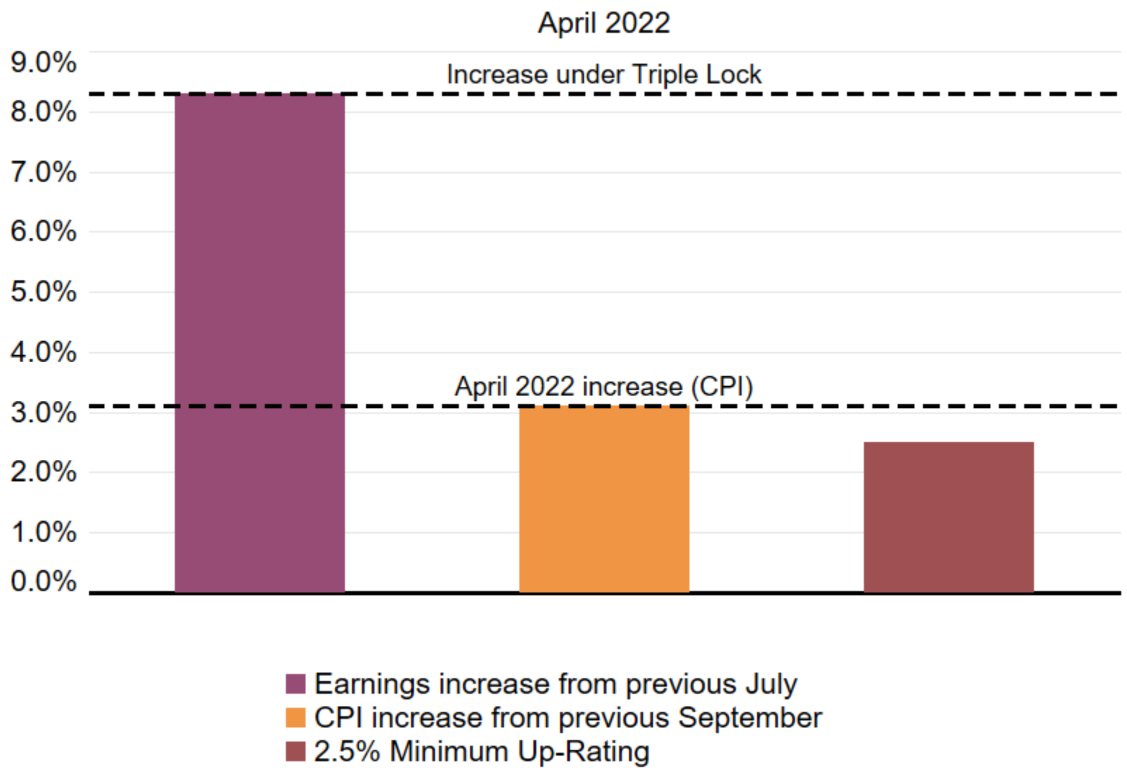
[1] Set out in the Social Security (Up-rating of Benefits) Act 2021.

April 2022 up-rating

E.5 The earnings figures for 2021 and 2022 in Table E.1 display a relatively sharp fall (-1.0%) followed by an immediate sharp recovery (+8.3%) in AWE. The increase in 2022 is unusually high and has been driven by factors such as the end of the furlough scheme. It was not included in the calculation of the April 2022 up-rating.

E.6 The up-rating for April 2022 is equal to the relevant CPI figure (3.1%). If the standard Triple Lock method had applied and AWE had been used, the up-rating would have been set at 8.3%.

Chart E.1 – Up-rating in April 2022



E.7 In a hypothetical scenario where Triple Lock was applied to the April 2022 up-rating, pension benefits would be greater in 2022-2023 and all subsequent years. By April 2023 these scenarios would result in the Fund balance being projected to be around £4.2 billion lower. Compared to my principal projection, the Fund balance would decrease as benefit expenditure would be higher in all future years. By the end of the projection period (31 March 2027) this single greater increase in April 2022 would be projected to leave the Fund balance over £25.4 billion lower.

E.8 Greater pension payments may result in lower levels of Pension Credit being paid. Pension Credit is not paid from the Fund so is not considered in my report.

Appendix F: Data, methodology and other assumptions

General

F.1 During the preparation of this report I have relied on the data sets supplied to me at that time. In particular I have relied on the general completeness and accuracy of the information supplied without independent verification. I have not carried out an independent audit of the data supplied and cannot confirm or guarantee the overall quality or correctness of the data. Any issues with the data could impact on the projections in this report.

Contributions modelling

Earnings projection

F.2 Contributions are estimated separately for each class of NICs.

F.3 Estimates of Class 1 NICs are made by first making a projection of workforce earnings based on:

- assumed levels of UK employment in each year, together with an assumed profile of workers by age and gender derived from OBR's employment projection model used for its Fiscal Sustainability Report published in July 2020; employment numbers are broken down between Great Britain and Northern Ireland using ONS labour force data up to 2020-2021 with an allowance for expected future population changes
- earnings distributions, by age and gender; these were derived using the 2019 Annual Survey of Hours and Earnings (ASHE) produced by ONS[1]
- assumptions on the rate of earnings growth from year to year

Total NICs income

F.4 The projection of earnings is then used to estimate the expected NICs due in each year.

F.5 Other classes of NICs, which generate substantially lower revenues than Class 1, are estimated using simplified models.

F.6 Class 1A and Class 1B contributions are estimated using data and projections provided by HMRC. These are UK figures and the amount attributable to Great Britain is taken as a percentage of the UK figure.

[1] ONS have no responsibility for the distributions adopted beyond the data that they originally supplied to GAD.

F.7 Class 2 and Class 4 contributions made by the self-employed are estimated in a similar way to Class 1, but using assumptions on employment, earnings growth and earnings distributions specifically for the self-employed. These earnings distributions are derived from HMRC's Survey of Personal Incomes.

F.8 Class 3 contributions are a very small part of total NICs and have been estimated approximately by assuming that the contributions received each year are unchanged from the amount received in 2020-2021.

F.9 I have generally assumed that future increases in contribution limits and thresholds will be in line with CPI increases in each year. However, as announced at the March 2021 Budget, I have assumed that the Upper Earnings Limit and the Upper Profits Limit remain constant at the 2021-2022 level up to and including 2025-2026.

F.10 Modelled estimates of NICs for future years were compared with data provided by HMRC on actual NIC receipts up to and including 2020-2021. For Classes 2 and 4, I have aligned my estimates with the data on NICs payable in respect of income in 2019-2020, which is largely before the pandemic.

F.11 For Class 1 NICs, I would normally align with data on NICs due in respect of 2020-2021 earnings. However, the labour market in that year was significantly affected by the pandemic and aligning my estimates with that data may lead to distortions in my estimates for future years.

F.12 Therefore, for this report, I have aligned my estimates of Class 1 NICs for 2021-2022 with the estimate made by HMRC for OBR's October 2021 EFO. The HMRC figure took into account partial data on PAYE receipts in 2021-2022 and a judgement by OBR on how receipts for the full year are likely to perform. In particular, this will reflect the assumed pace of recovery from the pandemic.

F.13 I have not analysed how OBR has derived its assumption. However, given I am adopting OBR's economic assumptions more generally, I consider it is reasonable to have regard to their assumption about Class 1 NICs in 2021-2022.

F.14 In preparing the Fund accounts, HMRC need to split the total UK contributions between those payable to the Great Britain and Northern Ireland Funds. Apart from Class 4, the split has in recent years been set at 98% for Great Britain and 2% for Northern Ireland. However, it is the intention to apply a lower level of rounding from 2021-2022. Therefore, in 2021-2022, it is expected that the split of contributions will be 97.9%:2.1%. I have made an allowance for this change in practice in my estimates. A different split is applied to Class 4 receipts using an analysis of postcodes relating to Class 4 liabilities, and this is not changing.

F.15 Adjustments are also made to allow for HMRC estimates of the effect of certain measures announced in successive fiscal events that it is not possible to include directly in the calculation models. These adjustments represent less than 0.5% of projected NIC income.

NICs allocation between the Fund and the NHS

F.16 The above calculations focus on making a projection of total NICs. It is then necessary to divide these NICs between those allocated to the Fund and those allocated to the NHS.

F.17 Class 1 contributions are split between primary Fund and NHS and secondary Fund and NHS contributions based on data derived from end of year returns from the National Insurance PAYE System (NPS) database and provided in the Earnings Limits Scan supplied by HMRC. The latest Earnings Limits Scan provides information up to and including 2019-2020. I have therefore used this information to split the total Class 1 NICs received in 2019-2020, as produced by the calculation model, between the different components. The split of NICs in future years was then derived from the model adjusted so that it is consistent with the split shown by the Earnings Limits Scan information.

F.18 For Classes 1A, 1B, 2 and 3, the NHS allocations are defined in legislation as a fixed proportion of the total NICs payable, as set out in Appendix C.

F.19 The NHS allocation for Class 4 contributions is different for contributions paid on profits above and below the Upper Profits Limit. This means there is not a constant ratio between contributions allocated to the Fund and NHS for this class. Therefore, I have used the calculation model to determine the split between the Fund and the NHS shares of the contributions based on the assumed self-employed earnings distribution.

Reclaimed NICs for statutory payments

F.20 Employers can reclaim a proportion of the statutory payments made to employees, plus an element of “compensation” for small employers, from the amounts of Class 1 NICs they pay. Statutory payments include:

- Statutory Maternity Pay (SMP)
- Statutory Paternity Pay (SPP)
- Statutory Shared Parental Pay (ShPP)
- Statutory Adoption Pay (SAP), and
- Statutory Parental Bereavement Pay (SPBP)

F.21 In broad terms, amounts reclaimed by employers are estimated by adjusting data on amounts reclaimed in the latest complete year (2020-2021) in line with changes in numbers of employees, the numbers of births (or children, in respect of adoption), rates of benefit, and (where relevant) the average earnings of potential recipients.

F.22 The Fund receives payments from the Consolidated Fund to offset the amounts recovered by employers (apart from the compensation element). These payments are estimated in a similar way to the amounts recovered by employers.

Comparison with HMRC estimates

F.23 HMRC make estimates of NICs using their own models. I have compared my contribution estimates with those made by HMRC. My estimates of total NICs are generally around 0.5% lower than the figure produced by HMRC. I will continue to liaise with HMRC in relation to the consistency of the projections.

Other receipts modelling

F.24 The investment income has been estimated for future years by applying an assumed rate of investment return to the average balance in the Fund during each future year. The investment return on the Fund is expected to be close to the Official Bank of England Rate (Bank Rate) given that the assets of the Fund are deposited with the Commissioners for the Reduction of National Debt. The assumed rate of investment return is based on the 3-month interbank LIBOR contained in the EFO report published in October 2021. This is assumed to be close to the Bank Rate over the period of the projection.

Pension benefits modelling

F.25 Estimates of expenditure on contributory benefits are projected separately for each of the following 6 types of benefit;

- basic state pension
- lump sums payable to those who have deferred, and are not yet in receipt of, their basic state pension
- additional pension (SERPS and S2P)
- graduated retirement benefit
- new state pension
- protected payments (paid alongside new state pension)

F.26 The projection approaches adopted for each type of benefit are detailed in paragraphs F.35 to F.82. The projections allow for the increase in SPa from 66 to 66.5 during 2026-2027 (the increase from 66 to 67 continues into 2027-2028, but this is beyond the projection period).

F.27 The projections use the following data sets provided by DWP:

- the "quarterly statistical extract" of state pension payments (QSE) data set - this is a data set which contains anonymised data for a 5% sample of individuals in receipt of benefits and the amount of benefit in payment - the estimates in this report are based on the QSE relating to payments as at 31 March 2020 - QSE data sets also include past lump sums paid where the recipient is still in receipt of a benefit
- the "lifetime labour market database 2" (L2) data set - this is a data set which sets out anonymised data for a 1% sample of the population showing past earnings and contribution record history - the estimates in this report are based on the L2 data set as at 31 March 2020
- the "forecast data" - this is DWP management data forecasting aggregate amounts of benefit expenditure over the current financial year, revised monthly based on actual out-turn

F.28 The projections use the following data sets published by ONS:

- 2018-based 0% future EU migration population projection for Great Britain
- 2019-based population estimate for Great Britain
- 2020-based population estimate for Great Britain
- 2008-based marital status projections for England and Wales

F.29 Three of the four ONS data sets were determined before the pandemic and consequently the initial benefit projections based solely on them include limited allowance for recent excess pensioner deaths caused by the pandemic or the possibility that fewer deaths might occur in future as a result.

F.30 The 6 separate benefit projections were scaled so that the 2021-2022 estimates align with the forecast data in 2021-2022. I understand that the "forecast data" used (November 2021) allows for actual and assumed excess pensioner deaths due to the pandemic in the year 2021-2022 of around 34,850. This is consistent with the assumption for 2021-2022 excess pensioner deaths made in the EFO.

F.31 I then applied different adjustment factors in each future year so that my projections are consistent with OBR's other assumption in their EFO that excess pensioner deaths are generally brought forward from the following 8 years.

F.32 From the data provided I have not been able to identify what proportion of the difference between the individual benefit projections and DWP's forecast data for 2021-2022 is due to excess pensioner deaths and what proportion is due to other factors. This impact of the pandemic therefore creates more uncertainty than usual around the benefit expenditure projections.

F.33 The adjustment factors used in the year 2021-2022 are as set out below and the adjustment factors in future years of the projections differ from these by less than 1% for all benefits for all future years:

- basic state pension: 1.00
- lump sums: 1.06
- additional pension: 1.00
- graduated retirement benefit: 0.94
- new state pension: 0.99
- protected payments: 1.02

F.34 The majority of the adjustment factors are close to 1.00. Aside from excess pensioner deaths, there are various reasons why I would not expect them to equal 1.00. For example, the QSE data set is only a 5% sample size and is produced close to the extract date so does not allow for corrected payments made retrospectively where incorrect benefit payments have initially been made.

Basic state pension

F.35 To project expenditure on basic state pension, for each projection year, I multiplied together:

- a projected number of people over SPa
- an assumed "proportion of the population entitled" (PEnt) to any basic state pension
- an assumed "mean proportion of the standard rate" (MPnSR) payable to those entitled to any basic state pension
- an annual standard benefit rate

F.36 I have carried out the above calculations separately for each age and for 5 categories of people; men, single women, married women, divorced women and widows.

F.37 The number of men and women at each age over SPa is taken directly from the 2018-based 0% future EU migration population projection for Great Britain (updated for 2019 and 2020 population estimates). I then split the numbers for women into single, married, divorced and widowed women using ONS's England and Wales 2008-based marital status projections.

Proportions entitled (PEnt)

F.38 For each age for each of the 5 categories of people I have determined a PEnt assumption for the year 2021-2022 by comparing the number of people receiving basic state pension in the QSE data with the number of people in the population projection. For married women I have set PEnt assumptions separately depending on whether entitlement is to Category A pension, Category BL pension or both.

F.39 In 2020-2021 this comparison showed that for men and divorced and widowed women the proportion entitled is close to 100% at all ages old enough to qualify for basic state pension. For single and married women the proportion is age related matching recent demographic trends - for example that there were more female earners in younger generations. Based on these observations I have set PEnt assumptions as 98% for men, 96% for divorced women, 100% for widows and age related assumptions for single women and married women.

F.40 The same PEnt assumptions are then used in every future year of the projection but with the age related assumption applying to those aged one year older in each subsequent projection year reflecting ageing of recipients.

Mean proportion of the standard rate (MPnSR)

F.41 For each age for each of the 5 categories of people I have determined an MPnSR assumption for the year 2020-2021. This is done by calculating the average amount of basic state pension received by those receiving some basic state pension in the QSE data and expressing this as a proportion of the standard benefit rate. For married women I have set MPnSR assumptions separately depending on whether entitlement is to Category A pension, Category BL pension or both.

F.42 In 2020-2021 this comparison shows that for men and single, divorced and widowed women the proportion entitled is between 90% and 100% at all ages old enough to qualify for basic state pension. For married women the proportion is age related matching recent demographic trends. Based on these observations I have set MPnSR assumptions as 97% for men, 91% for single women, 94% for divorced women, 98% for widows and age related assumptions for married women entitled to different categories of basic state pension.

F.43 The same MPnSR assumptions were then used in every future year of the projection but with the age related assumption applying to those aged one year older in each subsequent projection year reflecting ageing of recipients.

Adjustments for Category D pensions and increments

F.44 Some pensioners in receipt of basic state pension are eligible for an increase in pension up to a specified amount on reaching age 80 (the Category D “Over 80 Pension”). This increase is not based on NICs and is not payable from the Fund but is included and not separately identified in the QSE data. The projection therefore includes an adjustment to the MPnSR assumptions described above to model the exclusion of Over 80 Pension payments from the expenditure projections for basic state pension. These adjustments range between a 0% and 4% reduction in the MPnSR assumption depending on the category of person being projected. In general larger reductions are made to those with lower MPnSR assumptions.

F.45 After calculating the MPnSR assumptions described above I have made an adjustment to those assumptions to reflect that some basic state pension relates to increments paid to those who have previously deferred their basic state pension and are now in receipt of it. These adjustments reflect the proportion of basic state pension that is made up of increments as shown in the QSE data and the different up-rating that increments attract (CPI rather than the Triple Lock that applies to basic state pension).

F.46 Apart from lump sums captured in the lump sums projections described below, new awards in relation to those who have deferred their basic state pension and are not yet in receipt of it are ignored.

F.47 Except for women with entitlement to Category BL pension (regardless of any entitlement to Category A), the standard benefit rate for projection year 2022-2023 is £141.85 per week. For women with entitlement to Category BL pension the standard benefit rate for projection year 2022-2023 is £85.00 per week. The standard benefit rates used are thereafter up-rated in line with Triple Lock up-rating implied by the economic assumptions for future projection years.

Overseas pensioners receiving basic state pension

F.48 Pensioners residing overseas are not captured in the approach to projecting basic state pension expenditure described above as the population projections used only cover those in GB.

F.49 The QSE data set shows that the net impact of immigration and emigration over SPa is immaterial to the total level of overseas state pension payable. I therefore model payment of basic state pension to overseas pensioners separately as though this group are a closed population. This separate projection is then added to the basic state pension projection described above.

F.50 Payments of basic state pension to pensioners overseas (including increments already in payment) are projected forward by running off the existing payments shown in the QSE data set. The run off uses mortality rates based on ONS's 2018-based 0% future EU migration GB population projection (i.e. assuming mortality rates for overseas pensioners are in line with those experienced domestically). These projections do not uprate pensions for those living in countries where pensions are frozen.

F.51 These projections allow for Category B coming into payment to widows at an average aggregate rate equal to 90% of the Category A pension that it derives from and ignore Category B coming into payment to widowers and bereaved civil partners. Apart from lump sums captured in the lump sum projections described below, new awards in relation to those living overseas who have deferred their basic state pension and are not yet in receipt of it are also ignored.

Lump sums

F.52 People reaching SPa before 6 April 2016 can defer payment of their basic state pension and take a lump sum when they bring their basic state pension into payment. Projections are made of the amounts of lump sum payable in the future to those still deferring their basic state pension.

F.53 Data from the QSE data set (including previous QSE data sets back to 2011) is used to identify those who have reached SPa before 6 April 2016 and who have subsequently taken a lump sum after deferring their pension. The proportion of those reaching SPa in each year before 6 April 2016 who deferred their pension and took a lump sum is then calculated separately for different deferral periods. For each deferral period the average proportion of the maximum lump sum payable (allowing for up-rating of pension in deferment and payment of interest at 2% above the Bank of England base rate) is also calculated.

F.54 These proportions are then projected forward for each year to 2026-2027 and applied to all people who reached SPa in each year before 6 April 2016. This provides estimates of the numbers who are still deferring their pension, the length of time before they will cease deferring their pension and the proportion of the maximum lump sum payable they will receive when they cease deferring (allowing for up-rating of pension in deferment and interest). Any lump sums projected to be paid in each year up to 2026-2027 are then added up to produce the projections of lump sums payable in each of those years.

F.55 These lump sum projections are carried out separately for four groups: males and females with each split into residents of Great Britain or elsewhere.

Additional pension and graduated retirement benefit

F.56 I have projected additional pension and graduated retirement benefit by running off the existing payments shown in the QSE data set using mortality rates based on ONS's 2018-based 0% future EU migration GB population projection (updated for 2019 and 2020 population estimates).

F.57 The QSE data set shows that people with additional pension exhibit lower mortality rates than in the population. Mortality rates used for modelling these benefits are therefore set lower than those implied by the population data in F.28. The adjustments vary by age and gender but, on average for those receiving additional pensions, are equivalent to additional pensions being in payment for about half a year longer than if standard population mortality rates were used.

F.58 These projections allow for CPI up-rating of these benefits throughout the projection period with adjustments for additional pension for contracting-out deductions and their pre 1988 and post 1988 up-rating rules.

F.59 These projections allow for the inheritance of benefits to widows, widowers and bereaved civil partners using the 2008-based marital status projections for England and Wales. For additional pension the rate of inheritance is assumed to lie between 50% and 100%. For graduated retirement benefit the rate of inheritance is assumed to be 50%.

F.60 As the QSE data set includes payment to overseas pensioners this projection approach automatically captures payments of additional pension and graduated retirement benefit to overseas pensioners.

F.61 This modelling approach involves various simplifications which I do not expect to be material. For example, I have ignored the possibility of new awards in relation to current deferrals (new awards to current deferrers will be increasingly rare as the minimum period of deferral increases with the passage of time).

New state pension

F.62 To project expenditure on new state pension, for each projection year, I multiplied together:

- the projected number of people over SPa
- an assumed "mean proportion of the standard rate" (MPnSR) representing the average proportion payable to each person once over SPa
- the annual standard benefit rate

F.63 I have carried out the above calculations separately for each age and for men and women. The number of men and women at each age over SPa was taken directly from the 2018-based 0% future EU migration population projection for Great Britain (updated for 2019 and 2020 population estimates).

F.64 This approach differs a little to the basic state pension projection. This is because the two projections use different data to determine the average amount payable to each person over SPa. This derives from there being no new awards of basic state pension and relatively few recipients of new state pension in the QSE data used.

F.65 For each age for men and women I have determined an MPnSR assumption using the QSE and L2 datasets. For each individual in the L2 dataset I have assumed that their post 6 April 2020 contribution record extends such that when they reach SPa they have completed half of their remaining potential qualifying years.

F.66 The same MPnSR assumptions were then used in every future year of the projection but with the age-related assumption applying to those aged one year older in each future projection year reflecting the ageing of recipients.

F.67 This leads to an MPnSR assumption of around 90% for both men and women, with variation by age. The MPnSR decreases as age increases, so future recipients are assumed to have a slightly higher MPnSR than current recipients. The lower MPnSR assumptions for older members reflects a number of factors, including changes to SPa and the effects of historic contracting-out.

F.68 The standard benefit rate for projection year 2022-2023 is £185.15 per week. This is thereafter up-rated in line with Triple Lock up-rating implied by the economic assumptions for future projection years.

F.69 These new state pension projections assume no-one chooses to defer new state pension. This assumption is made because of limited data on deferral behaviour and because deferrals are offered on terms that are broadly cost neutral.

F.70 The projection of new state pensions is based on data as at 31 March 2020. At this time, new state pensions had only been payable for a few years and so the estimates of expenditure on these (including protected payments) are based on more limited data than other expenditure. If the estimates of new state pension expenditure were increased or lowered by around 2% then cumulative expenditure over the 5 year projection period could be around £4 billion higher or lower than estimated.

Overseas pensioners receiving new state pension

F.71 Pensioners residing overseas are not captured in the approach to projecting new state pension expenditure described above as the population projections used only cover those in GB.

F.72 The new state pension projections therefore include a separate projection for new state pension payable to individuals residing overseas. This separate projection is then added to the new state pension projection for those resident in Great Britain described above.

F.73 New state pensions already in payment to those residing overseas are captured in the QSE data set and are projected using the same run off approach and same assumptions as used to project overseas basic state pensions already in payment (see paragraphs F.48 to F.51 above) but with no inheritance.

F.74 New awards of new state pension arising from those reaching SPa in the future while resident overseas are then included in each starting and future projection year by multiplying together:

- the total projected number of new overseas pensioner awards each year
- an assumed average proportion of the standard rate of new state pension put into payment
- the standard benefit rate allowing for up-rating

F.75 These projections of new awards of new state pension overseas are carried out separately for four groups: men and women and whether pensions in the overseas country of residence are frozen or not.

F.76 The total number of new overseas pensioners reaching SPa in each projection year is projected by assuming that the rate of new awards to overseas pensioners between 2016 and 2020 (compared to the numbers of recent new awards in GB) continues at the same rate beyond 2020.

F.77 The assumed average proportion of the standard rate is derived from QSE data across all benefit types and are:

- 60% for males with frozen benefits
- 46% for males with non-frozen benefits
- 57% for females with frozen benefits
- 49% for females with non-frozen benefits

F.78 As there are high deferral rates for overseas new awards the approach described above is adjusted to allow for deferrals assuming that 50% of those reaching SPa each year defer payment by up to five years. An allowance is also added for the increments such deferrers would receive.

Protected payments

F.79 Those reaching SPa from 6 April 2016 onwards may be entitled to protected payments in addition to new state pension. A person’s protected payment is their entitlement at the introduction of the new state pension based on the pre-Pensions Act 2014 system less the full rate of new state pension. If this amount is less than zero a person has no protected payment.

F.80 I have identified individuals from the QSE and L2 datasets who would be affected by the new state pension transitional arrangements and calculated protected payment amounts for all in this group.

F.81 I projected these protected payments by running off these amounts using the same mortality rates used to project additional pensions and graduated retirement benefit (see paragraph F.56 and F.57). These projections allow for CPI up-rating and mortality before and after coming into payment. Allowance is made for inheritance of protected payments using ONS's 2008-based marital status projections for England and Wales and assuming a 50% inheritance rate.

F.82 As the L2 data set includes contribution records for those who have paid NICs and then emigrated overseas this projection approach automatically captures protected payments to overseas pensioners.

Working age benefits and other payments modelling

F.83 The estimates of benefits for widows, bereavement, incapacity, employment and support, jobseekers, maternity, and Christmas bonus are based on information provided by the DWP.

F.84 Estimates for Guardian's Allowance are derived from recent data, adjusted in line with the projected number of children in the population and the assumed increase in the benefit rate.

F.85 The Insolvency Service has provided projections of gross redundancy payments which underlie recent OBR projections. Redundancy payments estimates net of redundancy receipts have been estimated by GAD as 95% of the projected gross redundancy payments, based on the patterns in recent years.

F.86 DWP has identified certain groups of basic state pension recipients who may have been underpaid[1]. The total size of the underpayments has been estimated in the EFO at £1.063bn and is expected to be repaid by the end of 2023, I have assumed that repayments outstanding at 30 September 2021 will be spread evenly over the remainder of the repayment period. Future benefit payments are also expected to increase once records are corrected. I have used details from the EFO to allow for correction of underpayments and uplifts to future benefit outgoings. These amounts are included within basic state pension figures in this report.

F.87 Although data used in these projections is checked for reasonableness, such issues are not always detectable (see F.1).

F.88 The administration costs are based on those incurred in 2020-2021 as recorded in the published Fund accounts, with future costs estimated as the 2020-2021 costs increased in line with earnings growth.

[1] https://www.gov.uk/government/publications/state-pension-underpayments-progress-on-cases-reviewed-to-30-september-2021/state-pension-underpayments-progress-on-cases-reviewed-to-30-september-2021

F.89 Each year transfers between the Great Britain National Insurance Fund and the Northern Ireland National Insurance Fund are made in order to keep the balance in the Northern Ireland National Insurance Fund at a certain percentage of the combined balance in the two funds (the "parity ratio"). The projections in this report allow for estimated transfers between the two Funds.

F.90 The total payment made in 2021-2022 will be based on a parity ratio of 2.76%. This proportion is based on analysis of the populations aged 16 and over in Great Britain and Northern Ireland as provided in the mid-2020 population estimate published by ONS in summer 2021. This methodology, including the use of the latest ONS population estimates, was agreed following my review of the parity process in 2020 and remains appropriate. Payments made after 2021-2022 are assumed to be based on the same parity ratio.

Appendix G: NICs split by NIF and NHS

Table G.1 – NICs split between NIF and NHS

Great Britain, £ million		**2021-2022**		**2022-2023**	
National Insurance Fund					
Class 1[1]	Primary	48,424		50,398	
	Secondary	70,167		71,416	
	Total		118,591		121,814
Classes 1A and 1B			1,510		1,624
Class 2			393		388
Class 3			145		145
Class 4			2,125		2,301
Total National Insurance Fund contributions[2,3]			**122,765**		**126,272**
National Health Service					
Class 1	Primary	11,354		19,127	
	Secondary	16,574		27,772	
	Total		27,928		46,898
Classes 1A and 1B			241		259
Class 2			72		71
Class 3			27		27
Class 4			826		891
Total National Health Service contributions[3]			**29,093**		**48,146**
All contributions					
Class 1[1]	Primary	59,778		69,525	
	Secondary	86,741		99,188	
	Total		146,519		168,712
Classes 1A and 1B			1,752		1,884
Class 2			465		459
Class 3			172		172
Class 4			2,951		3,191
Total contributions[3]			**151,858**		**174,418**

1 All figures are gross of recoveries by employers of Statutory Maternity Pay, Statutory Paternity Pay Statutory Adoption Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay.
2 These figures appear in Table 2.1 in the main report.
3 Figures may not sum to totals shown due to rounding.

Appendix H: Variant projections of the Fund to 2026-2027

H.1 This section provides details of the projected cash flow and balance of the Fund over the period to 2026-2027 under the variant assumptions. Actual receipts and payments in 2020-2021 from the Fund accounts are included.

Table H.1 - Variant fund projections to 2026-2027 - 1% higher earnings

Great Britain, £ million	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027
Total receipts	114,262	123,983	129,462	136,654	141,499	147,364	154,896
Total payments	108,711	112,491	118,751	126,570	133,122	139,510	144,934
Excess of receipts over payments	5,551	11,492	10,711	10,085	8,377	7,855	9,962
Balance in fund at end of year	42,484	53,976	64,687	74,772	83,149	91,004	100,966
Balance at end of year as a percentage of benefit payments	39.7%	48.7%	55.3%	60.0%	63.4%	66.3%	70.8%

Table H.2 - Variant fund projections to 2026-2027 - 1% lower earnings

Great Britain, £ million	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027
Total receipts	114,262	121,425	123,695	127,486	128,844	131,033	134,515
Total payments	108,711	112,478	118,702	125,719	130,658	136,286	140,146
Excess of receipts over payments	5,551	8,947	4,993	1,767	(1,814)	(5,253)	(5,630)
Balance in fund at end of year	42,484	51,431	56,424	58,191	56,376	51,123	45,492
Balance at end of year as a percentage of benefit payments	39.7%	46.4%	48.3%	47.0%	43.8%	38.1%	33.0%

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