Report by the Government Actuary on the drafts of the Social Security Benefits Up-rating Order 2000 and the Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2000

January 2000

Presented to Parliament by
the Secretary of State for Social Security
and the Paymaster General
by Command of Her Majesty

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To: The Right Hon. Alistair Darling MP, Secretary of State for Social Security
Ms Dawn Primarolo MP, Paymaster General

REPORT BY THE GOVERNMENT ACTUARY ON THE DRAFTS OF THE SOCIAL SECURITY BENEFITS UP-RATING ORDER 2000 AND THE SOCIAL SECURITY (CONTRIBUTIONS) (RE-RATING AND NATIONAL INSURANCE FUNDS PAYMENTS) ORDER 2000

Sir and Madam,

I attach a report on the likely effects on the National Insurance Fund of the *Social Security Benefits Up-rating Order 2000* and the *Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2000*. This report is made in accordance with sections 142(1), 147(2) and 150(8) of *the Social Security Administration Act 1992*, as amended by the *Social Security Contributions (Transfer of Functions Act, etc.) 1999*.

The report estimates the receipts of and payments from the National Insurance Fund for the years 1999-2000 and 2000-01 and the balance in the fund at the start and end of each year. The economic assumptions used correspond with those prepared by Her Majesty's Treasury at the time of the Pre-Budget Report in November 1999.

On the basis of the estimates in the report, the level of the National Insurance Fund at 31st March 2001 will be greater than one-sixth of benefit payments in 2000-01. Thus it exceeds the minimum level that I recommend to ensure that a reasonable working balance is maintained. It will not therefore be necessary for any Treasury grant to be made to the National Insurance Fund in 2000-01.

Christopher Daykin
Government Actuary
January 2000

Contents

Contents

	Paragraphs
Summary	1-4
Description of the changes to benefits and contributions	5-15
Methods and assumptions used to project receipts and payments	16-17
Estimates of receipts and payments and balance in the fund	18-22
Analysis of benefit payments and contribution receipts	23-24
Effect of different assumptions about unemployment, earnings and contracting out	25-28
Conclusion	29-31

Appendices	Appendix
Main rates of benefit	1
Main features of the contribution system	2
Detailed methods and assumptions used	3
Estimated payments from the National Insurance Fund for benefits, and effect of benefit up-rating on payments in 2000-01	4
Analysis of the changes in contribution receipts for 2000-01 as a result of the contribution re-rating order and other measures	5
Analysis of contribution receipts by fund and class of contributor, and analysis of payments in respect of appropriate personal pensions and age-related rebates in respect of contracted-out money purchase schemes made by the National Insurance Contributions Office	6
Comparison of estimates for 1999-2000 made now and in Cm 4199 (January 1999)	7

Report by the Government Actuary on the drafts of the Social Security Benefits Up-rating Order 2000 and the Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2000

Summary

1. This report is on the likely effects on the Great Britain National Insurance Fund of:

> (i) the *Social Security Benefits Up-rating Order 2000* (the Up-rating Order). Section 150(8) of the Social Security Administration Act 1992 requires the Secretary of State for Social Security to lay a report by the Government Actuary before Parliament with drafts of any orders which alter the rates of benefits made under that section of the Act, and
>
> (ii) the *Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2000* (the Re-rating Order). Sections 142(1), and 147(2) of the Social Security Administration Act, as amended by the Social Security Contributions (Transfer of Functions, etc.) Act 1999, require the Treasury to lay a report by the Government Actuary before Parliament with drafts of any orders which alter the rates of contributions made under those sections of that Act.

The report also sets out the effects on the National Insurance Fund of changes which will be made by the *Social Security (Contributions) (Amendment) Regulations 2000*. The report reflects the changes to be made by the Welfare Reform and Pensions Act 1999 to benefits and Class 1 contributions and changes proposed by the Child Support, Pensions and Social Security Bill 1999 to Class 1A contributions. This report does not consider the separate Northern Ireland National Insurance Fund, nor the effects of the orders on that Fund.

2. The report shows estimates of the receipts of and payments from the National Insurance Fund for 1999-2000 and 2000-01. The receipts from contributions and the payments on benefits in these years will depend, among other things, upon the levels of unemployment and employment, and the rate of increase in earnings. The estimates have been made using assumptions about the levels of unemployment, employment and earnings increases which correspond with those prepared by Her Majesty's Treasury at the time of the Pre-Budget Report in November 1999 (see paragraph 17 and Appendix 3, paragraph 24).

3. The orders and regulations covered and the financial effects are as follows:

- the proposed Up-rating Order, which increases from April 2000 the rates at which many benefits are paid, and which is estimated to result in extra benefit payments in 2000-01 of 531 million;
- the proposed Re-rating Order, which alters the rates of Class 2, Class 3 and Class 4 contributions, adjusts the bands of earnings on which contributions are paid and will reduce receipts to the National Insurance Fund by an amount which is estimated to be 320 million in 2000-01;
- the proposed *Social Security (Contributions) (Amendments) Regulations 2000*, which increase the lower and upper earnings limits, the primary threshold (as defined in the Welfare Reform and Pensions Act 1999) and secondary threshold for Class 1 National Insurance contributions. It is estimated that these changes will reduce receipts to the National Insurance Fund in 2000-01 by 527 million.

4. On the basis of the estimates in this report, no Treasury grant is required in 2000-01, as the balance in the fund at 31st March 2001 is estimated to be 16,659 million (35.3% of estimated benefit payments), and so significantly exceeds one-sixth of estimated benefit payments in 2000-01.

Description of the changes to benefits and contributions

5. The Up-rating Order increases the rates of social security benefits paid from the National Insurance Fund, from the week beginning 10th April 2000 by the increase in the retail prices index in the year to September 1999 (1.1%), except for contribution-based jobseeker's allowance which is increased by 1.6%. Table 1 shows the changes to the major benefit rates. A more complete summary of the principal rates of benefit before and after the proposed changes is given in Appendix 1.

Table 1 - Changes to the major benefits rates

	Weekly rate in 1999-2000	Proposed increase in weekly rate	Weekly rate proposed from 10th April 2000
Retirement pension single person standard rate	66.75	0.75	67.50
Retirement pension married couple standard rate	106.70	1.20	107.90
Contribution-based jobseeker's allowance single person over 25	51.40	0.80	52.20
Incapacity benefit long-term main rate	66.75	0.75	67.50

6. Earnings-related additional pensions of retirement pensioners and widow beneficiaries who qualified for these pensions before 6th April 2000 will be increased by 1.1%. There is no increase in additional pension for those on incapacity benefit below state pension age. The increase applies to additional pensions before abatement for any guaranteed minimum pensions paid from occupational pension schemes where the pensioner has been contracted-out before 6th April 1997. However, where a guaranteed minimum pension in payment includes an amount arising from earnings between 6th April 1988 and 5th April 1997, such amount is also required to be increased by 1.1% by the occupational scheme, and the increase in additional pension is correspondingly reduced.

7. The Social Security Act 1986 provided for new awards of additional pensions to widows and widowers to fall from 100% of their deceased spouse's additional pension to 50% from 6th April 2000. However, under the Welfare Reform and Pensions Act 1999, awards will continue at 100% until regulations are laid to alter this position. In this report we have assumed that awards of additional pensions to widows and widowers in 2000-01 will be 100% of their deceased spouse's additional pension.

8. The Welfare Reform and Pensions Act 1999 introduced changes to Maternity Allowance with effect from April 2000. Entitlement to Maternity Allowance has been extended to include employed pregnant women who earn between the maternity threshold, which will be 30 per week in 2000-01, and the lower earnings limit. The rate payable will be related to the earnings of the woman. Self-employed women who hold a certificate of Small Earnings Exception will also receive Maternity Allowance for the first time. They will receive 90% of the maternity threshold. All other pregnant self-employed women will have their Maternity Allowance increased by 15% to bring their benefit in line with employed women.

9. The Re-rating Order will increase the Class 3 weekly contribution rate broadly in line with the increase in the basic state pension. However the Class 2 rate will be reduced to 2 per week from April 2000, as announced by the Chancellor of the Exchequer in the March 1999 Budget. This will be paid by self-employed people with earnings above the small earnings exception, which will be increased from 3,770 to 3,825 a year. For Class 4, the lower profits limit and the upper profits limit will be altered to align them with the Income Tax Personal Allowance and the upper earnings limit for Class 1 contributions respectively. The rate of Class 4 National Insurance Contributions will increase in April 2000 from 6% to 7%. However the changes to the Class 4 rate and limits will have no effect on contribution receipts until 2001-2002 and so this will not affect the finances of the National Insurance Fund during the period covered by this report.

10. The proposed *Social Security (Contributions) (Amendment) Regulations 2000* will increase the lower and upper earnings limits for Class 1 contributions to 67 (from 66) a week and 535 (from 500) a week respectively. The increase to the LEL is in line with the increase to the basic state retirement pension while the increase to the UEL is as announced by the Chancellor of the Exchequer in the March 1999 Budget.

11. The Welfare Reform and Pensions Act 1999 provided for a primary threshold for Class 1 contributions to be set by regulations. Employees will pay contributions based on earnings above this primary threshold, which can be different from the secondary threshold (the starting point for employers' contributions). However the current intention is to align the primary threshold and the secondary threshold at the level of the Income Tax Personal Allowance from April 2001.

12. The proposed *Social Security (Contributions) (Amendment) Regulations 2000* will set the level of the primary threshold

for Class 1 contributions at 76 a week for weekly-paid employees and at 329 a month for other employees. The same regulations will set the level of the secondary threshold for Class 1 contributions at 84 a week for weekly paid employees and at 365 a month for other employees. The secondary threshold has been increased from 83 a week in 1999-2000 in line with the increase in the retail prices index in the year to September 1999. All the changes introduced by the Re-rating Order and the proposed regulations are shown in Appendix 2. The financial effects of all these changes are shown in Appendix 5. The effects of the orders on the Northern Ireland National Insurance Fund have not been included in this report.

13. The Child Support, Pensions and Social Security Bill 1999 seeks to extend Class 1A contributions to benefits in kind other than cars and fuel. This change will take effect from April 2000, although there will be no effect on contribution receipts until 2001-2002 and so this will not affect the finances of the National Insurance Fund during the period covered by this report.

14. The changes to Class 1 National Insurance contributions do not give rise to any change in benefit entitlement for employees. Accrual of the state earnings-related pension and contracted-out rebates for both employees and employers will continue to be calculated on earnings between the lower earnings limit and the upper earnings limit. In some circumstances this could result in a contracted-out rebate being greater than the National Insurance contribution liability for primary or secondary contributions. However, for secondary contributions the employer can offset the surplus contracted-out rebate against her or his total payment of secondary and primary National Insurance contributions. The deduction by employers of part or all of statutory sick pay (SSP) and statutory maternity pay (SMP) paid to employees will be unaffected.

15. The introduction of a primary threshold for Class 1 National Insurance contributions has altered the structure of the National Health Service allocation from Class 1 National Insurance contributions. The National Health Service allocation for secondary Class 1 contributions is to be 0.9% of all earnings in respect of employees with earnings above the primary threshold. Previously the National Health Service allocation was paid in respect of employees earnings above the lower earnings limit. This change will take effect from April 2000 when the primary threshold is introduced at 76 a week. (The allocation of amounts to the National Health Service is performed at an aggregate level, so the circumstances under which the NHS allocation for a single employee exceeds the secondary Class 1 liability do not give rise to problems.) For primary contributions the National Health Service allocation is to remain as 1.05% of earnings on which contributions are paid between the primary threshold and the upper earnings limit. The National Health Service allocation for other classes of National Insurance contributions remains unchanged. The rates are given in Appendix 2.

Methods and assumptions used to project receipts and payments

16. Each significant item of receipts and payments of the National Insurance Fund is estimated separately. The results are laid out in a format similar to the audited accounts for the National Insurance Fund for the year 1998-99. Redundancy receipts are not shown as a separate item, but redundancy payments are shown net of receipts.

17. The main economic assumptions which have been used are those which were, in part, set out in table B11 of Annex B of the Chancellor of the Exchequer's Pre-budget Report. The important assumptions are that the number of jobs in the UK, including the armed forces, is assumed to be 24.3 million in 1999-2000 and 2000-01, the increase in average earnings is assumed to be 4.7% over the year to 1999-2000 and 4.3% over the year to 2000-01, and the numbers unemployed and claiming benefit in the GB are assumed to be 1.18 million on average in 1999-2000 and 1.16 million in 2000-01. Details of the methods used to estimate contribution income and benefit expenditure are given in Appendix 3.

Estimates of receipts and payments and balance in the fund

18. The estimates of receipts and payments for 2000-01 (with the estimates for 1999-2000 shown for comparison) are given in Table 2.

Table 2 - Estimated receipts and payments and statement of balances of the National Insurance Fund

Great Britain, million		1999-2000	2000-01
Receipts			
	Contributions (as given in Appendix 6)	50,974	52,828
	Less recoveries of SSP	28	29
	Less recoveries of SMP and SMP	566	591

	abatement			
	Less reduction in respect of NIC holidays for employers taking on those formerly long- term unemployed		2	0
Net contribution receipts			50,378	52,208
Treasury grant			0	0
Compensation from Consolidated Fund for SSP and SMP recoveries			607	616
Compensation from Consolidated Fund for recoveries in respect of NIC holidays for employers taking on those formerly long-term unemployed			2	0
			734	853
Income from investments			106	98
State scheme premiums			147	255
Other receipts				
Total receipts			51,973	54,030
Payments				
Benefits	At present rates (as given in App 4)		46,262	46,459
	Increase due to proposed changes			531
Personal pensions contracted- out rebates (as given in App 6)			2,859	2,575
Age-related rebates for contracted-out money purchase schemes (as given in App 6)			105	111
Administration costs			841	1112
Redundancy fund payments (net)			147	148
			230	200
Transfer to Northern Ireland			20	20
Other payments			50,465	51,157
Total payments		(1)	12,277	13,786
			1,508	2,873
Statement of balances			13,786	16,659
Balance at beginning of year				
Excess of receipts over Payments				
Balance at end of year				

Balance in fund as percentage of benefit payments (2)	29.7	35.3

1. The balance in the National Insurance Fund at 31st March 1999 has been taken from audited accounts of the fund for the year 1998-99.

(2) Percentages of benefit payments including net redundancy payments.

(3) Figures may not sum to totals shown due to rounding.

Estimates for 1999-2000

19. The estimates shown above for 1999-2000 may be compared with the estimates made one year ago, and published in the report by the Government Actuary in January 1999 (Cm 4199). The estimated surplus of 1,508 million for 1999-2000 shown above differs slightly from the surplus of 1,385 million estimated in that report. A reconciliation of the two estimates is given in Appendix 7.

Estimates for 2000-01

20. The extra benefit payments in 2000-01 as a result of the proposed increases in benefit rates from April 2000 are estimated to be 531 million. Particulars of the extra cost and of the payments for individual benefits are given in Appendix 4.

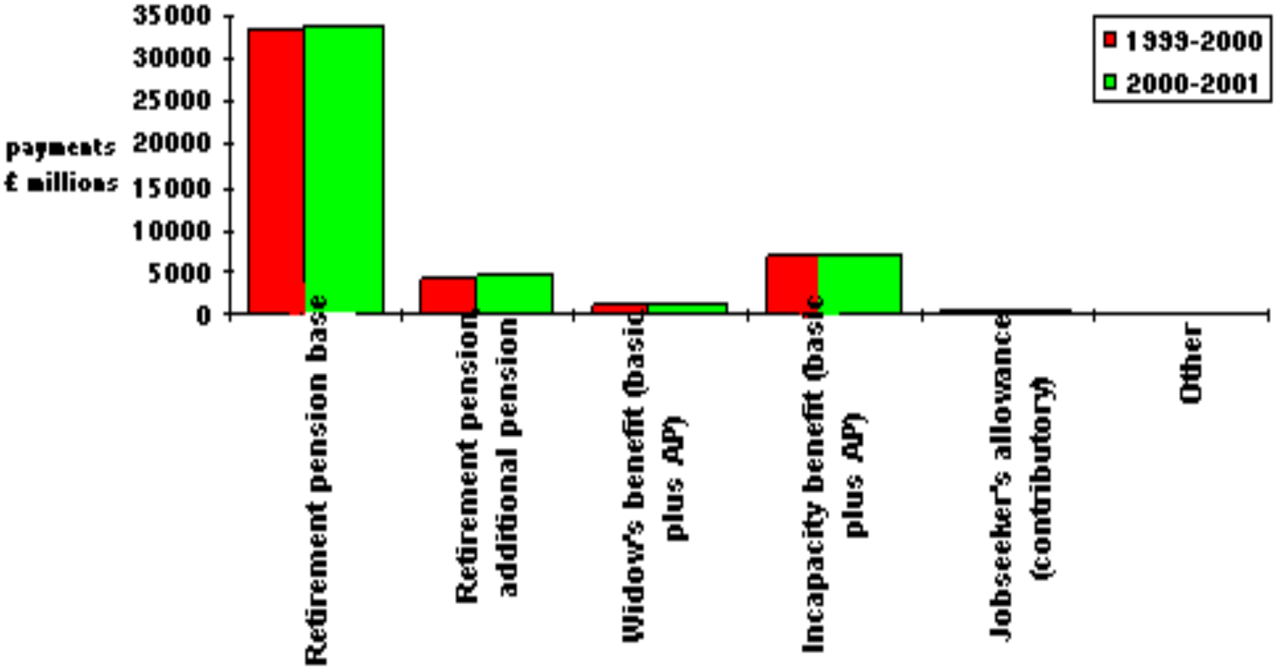
21. The financial effects on contribution receipts and contracted-out rebates of the proposed changes set out in paragraphs 9 to 15 are given in Appendix 5. The total effect of the changes is estimated to be a loss in revenue to the National Insurance Fund of 848 million. Other changes in contribution receipts from 1999-2000 to 2000-2001 arise largely as a result of forecast increases in earnings between the two years.

22. Table 2 shows that the amount of Treasury grant estimated to be needed in 2000-01 is again nil. At this stage, the estimate of the balance in the National Insurance Fund at 31st March 2001 substantially exceeds one-sixth of estimated benefit payments in 2000-01. My recommendation is that the level of one-sixth of benefit payments is the minimum level needed to ensure the maintenance of a reasonable working balance in the fund.

Analysis of benefit payments and contribution receipts

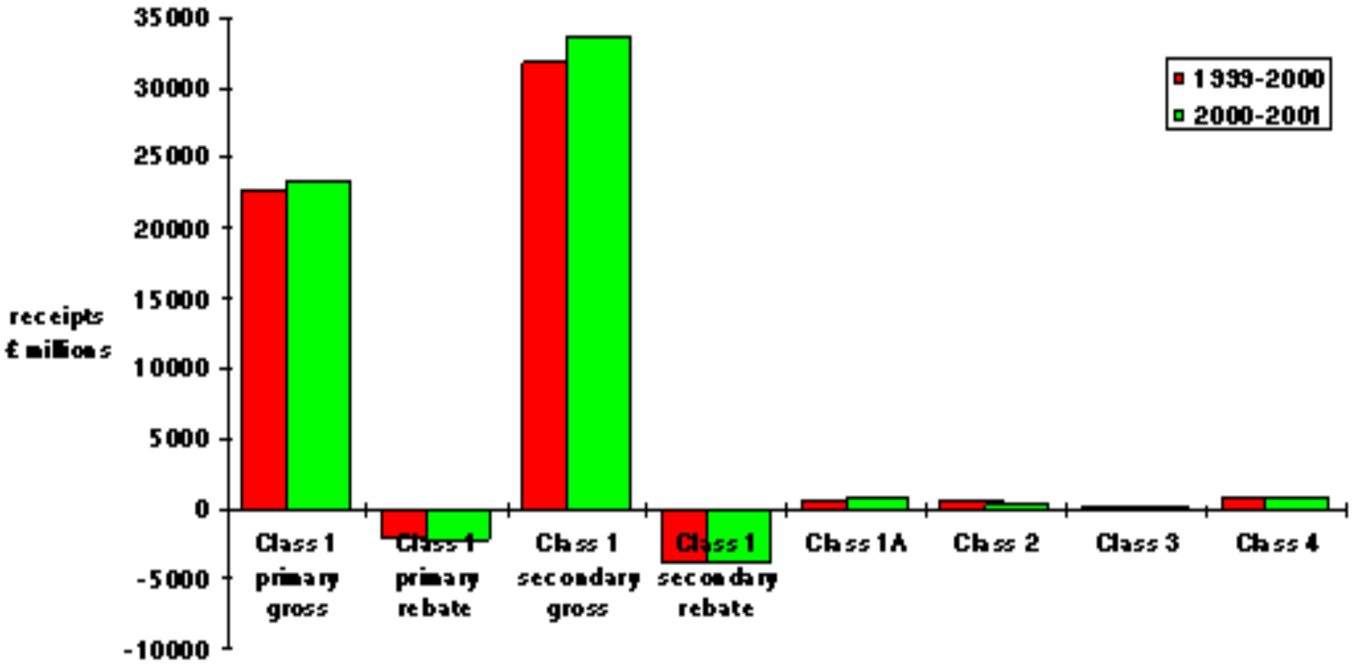
23. Figure 1, based on the detailed estimates in Appendix 4, shows that retirement pension accounts for the major part of benefit payments. Short-term projections indicate that the costs of retirement pension (including additional pension) as a proportion of benefit payments will increase slightly since the amount of additional pension is still growing rapidly, although it only accounts for about 12% of total retirement pension payments.

Figure 1 - Analysis of National Insurance benefit payments



24. Figure 2 shows an analysis of the contribution receipts to the National Insurance Fund. The changes to National Insurance contributions described in paragraph 9 to 15 above do not greatly affect the overall expected pattern of contribution receipts, although Class 2 contributions in 2000-01 will be less than half of the amount in 1999-2000 due to the reduction in the Class 2 contribution rate.

Figure 2 - Analysis of National Insurance Fund contribution receipts



Effect of different assumptions about unemployment, earnings and contracting-out

25. Different assumptions about unemployment would affect the estimates of benefit payments. Different assumed levels of employment would change the estimates of contributions. The estimates of contributions are also critically dependent on assumptions about the level of earnings increases. Thus it is appropriate to consider the effect on National Insurance Fund receipts and payments of different values for these economic assumptions. It is also appropriate to consider the effects of different assumptions for the numbers contracted out by different methods after April 2000 in view of the uncertainty regarding the current number of people who are contracted-out (see paragraph 28).

26. The effect of different assumed numbers of employees does not depend greatly on the assumptions used for earnings increases, nor does the effect of different earnings increase assumptions depend greatly on the number of employees assumed. Hence these factors have been considered separately, and the two effects can be treated as additive. The results of varying the economic assumptions are given in Table 3 below.

Table 3 - Effect on receipts and payments of the National Insurance Fund in 2000-01 of variations in economic assumptions

Great Britain, million

Variation compared to assumptions given in Appendix 3 paragraph 24	Effect on receipts in 2000-01	Effect on payments in 2000-01
GB number of employees-in-employment lower by 200,000 in 2000-01	-380	
GB number of employees-in-employment higher by 200,000 in 2000-01	+380	
Earnings increases 1% lower over the year to 1999-2000 and 2% lower over the year to 2000-01	-1,600	
Earnings increases 1% higher over the year to 1999-2000 and 2% higher over the year to 2000-01	+1,610	
GB unemployment higher by 200,000 in 2000-01		+90
GB unemployment lower by 200,000 in 2000-01		-90

27. Using the figures in Table 3 it is possible to estimate the likely contribution receipts, benefit payments and, most importantly, fund balance, under different sets of assumptions. For example, if earnings increases were 1% lower over the year to 1999-2000 and 2% lower over the year to 2000-01 and the number of employees were 200,000 lower and the number unemployed 200,000 higher, then the total effect on the receipts net of payments of the National Insurance Fund in 2000-01 would be a loss of around 2.1 billion, which would still not necessitate a Treasury grant in 2000-01.

28. Different levels or patterns of contracting out could have a material effect on the cash flows of the National Insurance Fund. Problems with the introduction of NIRS2 have meant that there is a lack of data showing current numbers contracted out through different routes and consequently there is, at present, uncertainty about the numbers of people contracting-out. Table 4 below shows the effect of different assumptions on the amounts of rebate in respect of 2000-01 and on the amounts of rebate actually paid (or, in the case of COSRS and the flat-rate part of COMPS rebates, deducted from contributions actually received) in 2000-01. Amounts of APP rebates for 2000-01 and COMPS rebates for 2000-01 above those deducted from contributions received in 2000-01 will generally be paid by the National Insurance Contributions Office after the end of the financial year direct to personal pension providers or the pension scheme.

Table 4 - Effect on receipts and payments of the National Insurance Fund of variations in assumptions on contracting out after April 2000

Great Britain, million

Variation in assumptions	Effect on rebates for 2000-01	Effect on rebates paid or deducted from contributions paid in 2000-01
100,000 more members of COSRS, with same sex, age and earnings profile as assumed COSRS membership	+70	+60
100,000 more members of COSRS with same sex and earnings profile as all COSRS members aged 40 and over	+80	+70
100,000 more members of COMPS, with same sex, age and earnings profile as assumed COSRS membership	+80	+30
100,000 more members of COMPS with same sex and earnings profile as all COSRS members aged 40 and over	+110	+30
100,000 more members of APPs with same sex, age and earnings profile as assumed COSRS membership	+100	0
100,000 more members of APPs with same sex, age and earnings profile as assumed existing APP holders	+50	0

For different assumptions for changes to the numbers of people contracting-out, these amounts can be scaled pro-rata.

Conclusion

29. Table 2 of the report shows that the balance in the National Insurance Fund at 31st March 2000 is likely to be substantially above the recommended minimum level of one-sixth (16.7%) of benefit payments. The level is likely to be slightly higher than estimated in the report on the changes in January 1999 (Cm 4199).

30. It is estimated that no Treasury grant is needed in 2000-01 for the balance in the fund at 31st March 2001 to be at least one sixth of estimated benefit payments in 2000-01. The balances in the National Insurance Fund over the period March 1999 to March 2001 are estimated to be as follows:

Table 5 - Balance in National Insurance Fund at the end of successive financial years

Balance at 31st March	1999	2000	2001
Percentage of benefit payments in previous financial year	(1) 27.6	29.7	35.3

(1) Using figures from audited accounts for 1998-99

31. If economic conditions differ from the assumptions given in paragraph 24 of Appendix 3, then the balance in the Fund at 31st March 2001 will be different from that given above. However, even quite substantial alterations in economic conditions should not cause the balance in the fund to fall below the levels seen in some recent years.

Government Actuary

CHRISTOPHER DAYKIN

Fellow of the Institute of Actuaries

January 2000

Appendix 1

MAIN RATES OF BENEFIT

	Weekly rate in 1999-2000	**Weekly rate proposed from 10th April 2000**
Retirement and widows' pensions and widowed mother's allowance		
Personal benefit (basic pension)	66.75	67.50
Wife or other adult dependant	39.95	40.40
Graduated retirement benefit (unit)	0.0867	0.0877
Widow's payment (1)	1,000	1,000
Incapacity benefit long-term rate		
Personal benefit	66.75	67.50
Transitional invalidity allowance higher rate	14.05	14.20
Transitional invalidity allowance middle rate	8.90	9.00
Transitional invalidity allowance lower rate	4.45	4.50
Wife or other adult dependant	39.95	40.40
Age increase higher rate	14.05	14.20
Age increase lower rate	7.05	7.10
Incapacity benefit short-term		
Personal benefit higher rate	59.55	60.20
Personal benefit lower rate	50.35	50.90
Wife or other adult dependant	31.15	31.50
Statutory sick pay	59.55	60.20
Jobseeker's allowance (contribution-based)		
Personal benefit for those aged 18 to 24	40.70	41.35
Personal benefit for those aged 25 and over	51.40	52.20
Maternity allowance (2)		

Higher rate	59.55	60.20
Lower rate	51.70	52.25
Statutory maternity pay		
Lower rate	59.55	60.20
Increases for the children of widows, retirement pensioners and those on long-term rate and higher short-term rate of incapacity benefit and recipients of incapacity benefit over pension age; guardian's allowance and child's special allowance		
First child	9.90	9.85
Other children	11.35	11.35
Christmas bonus to pensioners (1)	10.00	10.00

(1) Lump sum benefit

(2) From April 2000 a new rate of Maternity Allowance will be payable to pregnant women earning between the maternity threshold and the LEL. The rate payable will be related to earnings. Self-employed women who hold a certificate of Small Earnings Exception will receive 90% of the maternity threshold.

Appendix 2

MAIN FEATURES OF THE CONTRIBUTION SYSTEM

			Rate in 1999-2000	Rate proposed from April 2000
Class 1				
	Lower earnings limit (LEL)		66 a week	67 a week
	Upper earnings limit (UEL)		500 a week	535 a week
	Primary threshold			76 a week or 329 a month
	Secondary threshold		83 a week or 361 a month	84 a week or 365 a month
	Contribution rates (NI Fund and NHS combined)			
Primary (employee)		On earnings between LEL and UEL in 1999-2000 or between primary threshold and UEL in 2000-01, not contracted-out	(1) 10.0%	(1) 10.0%
		Reduced rate for married women and widow optants, on earnings between LEL and UEL in 1999-2000 or between primary threshold and UEL in 2000-01	(2) 3.85%	(2) 3.85%
		NHS allocation included in above (percentage of earnings between LEL and UEL in 1999-2000 or between primary threshold and UEL in 2000-01	1.05%	1.05%
Secondary (employer)		On all earnings above the secondary threshold	(3) 12.2%	(3) 12.2%
		NHS allocation included in above (percentage of all earnings for employees earning above the primary threshold)	0.9%	0.9%
Class 1A				
Contribution rate (4)			12.2%	12.2%

NHS allocation included in above	0.9%	0.9%
Class 2		
Flat rate contribution	6.55 a week	2.00 a week
Small earnings exception	3,770 a year	3,825 a year
NHS allocation included in above (percentage of contribution)	15.5%	15.5%
Class 3		
Flat rate contribution	6.45 a week	6.55 a week
NHS allocation included in above (percentage of contribution)	15.5%	15.5%
Class 4		
Lower profits limit	7,530 a year	4,385 a year
Upper profits limit	26,000 a year	27,820 a year
Contribution rate	6.0%	7.0%
NHS allocation included in above (percentage of profits between lower and upper profits limit)	1.15%	1.15%

(1) The contracted-out rebate for primary contributions in 1999-2000 and 2000-01 is 1.6% of earnings between the LEL and UEL for all forms of contracting out - contracted-out salary-related schemes (COSRS), contracted-out money purchase schemes (COMPS) and appropriate personal pensions (APPs).

(2) Married women opting to pay contributions at the reduced rate earn no entitlement to contributory National Insurance benefits as a result of these contributions. No women have been allowed to exercise this option since 1977, but around 200,000 women who have been continually married or widowed and in the labour market since that time have retained their right to pay the reduced rate.

(3) The contracted-out rebate for secondary contributions is 3.0% of earnings between the LEL and UEL for contracted-out salary-related schemes. For contracted-out money purchase schemes, the employers' contracted-out rebate varies according to the age of the employee: however, only a rebate of 0.6% will be deducted from contributions at the time they are paid, the remainder should be paid by the National Insurance Contributions Office in the following financial year after the submission by employers of end-of-year returns. For appropriate personal pensions, the total rebate (primary and secondary combined) applicable to earnings is, like the rebate for COMPS, related to the age of the employee. The rebate will be paid by the National Insurance Contributions Office to the personal pension provider after the submission by employers of end-of-year returns, with the employee and employer paying the not contracted-out rate of contributions during the year.

(4) For 1999-2000, Class 1A contributions are a percentage of the value of company cars and fuel. From April 2000 the liability for this class will be extended to include other taxable benefits. As Class 1A contributions are paid in the year following accrual this will have no effect on the finances of the National Insurance Fund until 2001-02.

Appendix 3

DETAILED METHODS AND ASSUMPTIONS USED

Contributions

1. Contributions are estimated separately for each class. Actual known receipts in recent years are used to adjust modelled estimates for future years.

2. Estimates of Class 1 contributions are made separately for gross contributions and amounts of contracted-out rebates. Estimates of gross contributions and rebates are made using an earnings distribution based on the New Earnings Survey, projected in line with the earnings increases shown in paragraph 24 below. The gross contribution results are scaled in line with the assumed number of employees which are also given in paragraph 24. The estimates of amounts of contracted-out rebates are made in a similar way, using an assumption of the numbers contracted out which allows for the continuation of the trend in the proportions of employees contracted out into occupational schemes observed in recent years. At the moment there is more uncertainty than normal about the level of contracting out through different routes, due to a lack of recent data on the numbers contracting out. Therefore the estimates of contracted-out rebates are more uncertain than would usually be the case.

3. Other classes of contributions are estimated using simpler models. Class 1A contributions are estimated using data provided by the Inland Revenue and information on Class 1A contributions paid in previous years. Class 1B contributions are estimated using data provided by the Inland Revenue. Estimates of Class 2 and Class 4 contributions are estimated using data on the earnings of the self-employed received from the Inland Revenue, adjusted for earnings increases. This data is combined with information on contributions received in the past, the assumed numbers of self-employed in the future, and the rates of Class 2 and Class 4 in order to estimate the contributions paid. Class 3 contributions are estimated by adjusting the contributions paid in earlier years for the changes in the contribution rate.

4. Statutory sick pay (SSP) and statutory maternity pay (SMP) recovered by employers are estimated by adjusting amounts recovered in the latest year for which data are available broadly in line with changes in numbers of employees, rates of benefit, and, for earnings-related statutory maternity pay, the average earnings of women. The additional amount in excess of 100% of SMP paid which can be reclaimed by small employers (SMP abatement) is estimated in a similar way. A lack of data on actual amounts of SSP and SMP reclaimed by employers in recent years means that the estimates are more uncertain than would usually be the case. The amount of the payment from the Consolidated Fund is estimated as the amounts of SSP and SMP recovered, with adjustments in the current year arising from revisions to estimates of amounts recovered in prior years.

5. The amount of the National Insurance contribution holiday for employers taking on those previously long-term unemployed was calculated using assumptions for the take-up of the scheme and the earnings of those involved provided by the Department of Social Security. Data on the actual take-up of the scheme have been used to revise estimates. This scheme has been stopped for new cases from April 1999, and so the amounts involved are estimated to have reduced to zero by the end of 2000-01.

Other receipts

6. The estimates given for receipts from state scheme premiums are based on data from the National Insurance Contributions Office on the receipts of these amounts in the recent past. The option for pension schemes to pay state scheme premiums (except for contributions equivalent premiums) was ended from April 1997, although some payments appear to have been made subsequent to this. It was assumed that the level of contributions paid since April 1998 is the ultimate level and will not change greatly in the future.

7. The investments of the National Insurance Fund are largely in government securities, which pay interest twice a year. The interest income from investments is estimated by considering the income from existing investments, and adjusting this for the interest income from investments which will be bought or sold each year, depending on whether the fund is growing or diminishing. In the current year an allowance for realised capital gains or losses is made.

8. The amount of the Treasury grant for 2000-01 is estimated as that amount needed to ensure that the estimate of the fund balance at 31st March 2001 is at least one-sixth of benefit payments (including redundancy fund payments) in 2000-01.

9. Estimates for the item called "Other receipts" in the accounts of the National Insurance Fund (mainly recoveries of damages in tort from benefit paid) are provided by Analytical Services Division of the Department of Social Security.

Benefits

10. Benefits are estimated separately for each of the contributory benefits, and separately for the basic, flat-rate elements and for additional pensions (SERPS).

11. In general, for flat-rate benefits, numbers are estimated by taking the most recent data on beneficiaries and projecting these with allowance for awards and cessations in future years based on past experience and taking into account demographic factors. The average rate of benefit is calculated, making allowance for dependency and average amounts of benefit, based on past data and observed trends.

12. Estimates of basic retirement pension, by far the largest benefit, use the latest population projections (mid-1998 based) as a basis for the numbers over pension age. They allow for gradual changes in the proportion of that population receiving basic retirement pension, as well as for an increasing trend in the numbers of overseas residents receiving pension. Allowance is also made for trends in the average amounts of benefit and the changing mix in categories of retirement pension for women arising from the increasing trend for women to have entitlement on their own contributions.

13. Estimates of amounts of additional pension paid with retirement pension are derived from age-specific data on past earnings. For future years, earnings factors are derived by adjusting these for earnings increases and for demographic and economic activity rate changes under pension age. Accrued earnings are survived to pension age using population mortality rates. At pension age the accrued survived earnings are converted to amounts of additional pension awarded, and survived using the latest population mortality rates (mid-1998 based). A similar method is used for guaranteed minimum pensions and contracted-out deductions, with adjustment to the mortality rates to allow for generally lighter mortality for those contracted-out. As described in paragraph 7 of the report, it has been assumed that a widow or widower who is awarded additional pension based on the contribution record of his or her deceased spouse will continue to receive 100% of his or her deceased spouse's additional pension after 6th April 2000.

14. Estimates of widows' benefit are based on an awards and survivorship model. This model is split between projecting the remaining pre-1988 widows who have full transitional protection and are subject to the pre-1988 rules for widows' benefit, and projecting a build-up of post-1988 widows subject to the post-1988 rules. Awards are based on recent data and are projected using numbers of new widows from the latest marital conditions projection (mid-1996 based); survival rates and transfer rates by single age and type of widows benefit are derived from DSS administrative data.

15. Estimates of the amount of additional pension paid with widows' benefits are derived from the retirement pension additional pension model. Accrued additional pension to men dying under pension age, and actual additional pension in payment to those dying over pension age are converted to give amounts of widows' additional pension using assumptions on marital status and age of surviving widow. The amount is split by type of widows' benefit and survived using the main basic widows benefit model. Amounts of survived widows' additional pension are transferred back to the main retirement pension model in respect of widows who reach pension age. A similar method is used for contracted-out deductions. Again it has been assumed that widows who are awarded additional pension based on the contribution record of their deceased spouse will continue to receive 100% of their deceased spouse's additional pension after 6th April 2000.

16. Trends in awards and survival for incapacity benefit take account of assumptions of the effect that the medical test is expected to have both on new cases and on those awarded invalidity benefit pre-1995. The estimates also take account of incapacity benefit ceasing at pension age and those on benefit converting to retirement pension at that age. All the main changes to incapacity benefit that took place in April 1995 are fully incorporated in the estimates, as is the new 52 weeks linking provision. Additional pension with incapacity benefit ceased for new awards from April 1995, although pre-1995 cases still retain the benefit at the existing rate.

17. The estimate of the cost of contribution-based jobseeker's allowance is based on the assumptions for the number of unemployed set out in paragraph 24 of this appendix. It takes account of the estimated proportion of those unemployed who are entitled to the contributory element of jobseeker's allowance. The proportion entitled is derived from recent data on contributory jobseeker's allowance analysed by duration of unemployment. The data suggests that there has been little change in the proportion entitled since the introduction of jobseeker's allowance, although there have been significant changes at longer durations. The model takes recent data on duration-specific proportions entitled and applies these to a durational split of the numbers unemployed based on durational profiles supplied by the Department for Education and Employment.

18. The underlying Government Actuary's Department estimates of payments for all benefits are aligned to recent data on payments for 1999-2000 to ensure that account is taken of more recent changes in factors affecting benefit payments than are incorporated in data on numbers of beneficiaries.

Other payments

19. Redundancy payments estimates (net of redundancy receipts) are provided by the Department of Trade and Industry, and are based on the same economic assumptions as the other estimates.

20. Estimates of payments to providers of appropriate personal pensions (APPs) are made using the method for calculating contracted-out rebates which was described in paragraph 2 of this appendix. Virtually all the rebates in respect of contributions paid in one financial year are paid in the following financial year. As noted in paragraph 2 of this appendix, there is currently a great deal of uncertainty regarding the number of people contracting-out through personal pensions, due to a lack of recent data. Allowance has been made for the reduction in payments to providers of appropriate personal pensions in 1998-99, which was caused by delays associated with the introduction of the NIRS2 recording system. It is expected that the delayed payments will all be made in 1999-2000.

21. Transfers from the Great Britain National Insurance Fund to the Northern Ireland National Insurance Fund are made in order to keep the balance in the Northern Ireland National Insurance Fund at 2.66% of the combined balance in the two funds. Estimates of transfers to Northern Ireland are made on this basis.

22. The figures for administration costs are provided by the Inland Revenue.

23. The figures for "Other payments" are based on an extrapolation of amounts shown in the accounts of the National Insurance Fund for this item in previous years.

Economic assumptions

24. The estimates for contribution receipts are sensitive to the assumptions used about the numbers of employees and the numbers of self-employed workers, and to the assumptions used for earnings increases. The estimates of benefit payments depend, among other things, on assumptions about the numbers unemployed. In accordance with normal practice, working assumptions have been given by the Government in regard to these factors. The economic assumptions which have been used are those which underlie the estimates of the contributory social security benefits as given in the Pre-Budget Report. These are given below:

Assumptions used for estimates

	1999-2000	2000-01
Number of employment jobs (UK), million (including HMF, excluding self-employed)	24.3	24.3

Increase in average earnings on one year earlier, %	4.70	4.30
Average number of unemployed (GB), million	1.18	1.16

The assumptions for 1999-2000 differ from those used in making last year's report.

A comparison is given in Appendix 7.

25. The effects of variations in these assumptions are given in paragraphs 25 and 26 of the main report.

Appendix 4

ESTIMATED PAYMENTS FROM THE NATIONAL INSURANCE FUND FOR BENEFITS, AND EFFECT OF BENEFIT UP-RATING ON PAYMENTS IN 2000-01

Great Britain million	Estimated total payments in 1999-2000	Estimated total payments in 2000-01	Extra payments in 2000-01 as a result of up-rating
Retirement pensions - basic	33,448	33,830	369
Retirement pensions - additional pensions	4,291	4,725	82
Widows' benefit - basic	739	714	7
Widows' benefit - additional pensions	241	248	4
Incapacity benefit - basic	6,124	6,138	62
Incapacity benefit - additional pensions	751	641	0
Contribution-based jobseeker's allowance	507	525	8
Maternity allowance	40	47	0
Guardian's allowance and child's special allowance	2	2	0
Christmas bonus	120	121	0
Total (1)	46,262	46,991	531
Redundancy payments (net) (1)	147	148	0

(1) Figures from these lines appear in Table 2 in the text.

Appendix 5

ANALYSIS OF THE CHANGES IN CONTRIBUTION RECEIPTS FOR 2000-01 AS A RESULT OF THE CONTRIBUTION RE-RATING ORDER AND OTHER MEASURES

Great Britain, million **National Insurance Fund effects**	**Contributions for 2000-01**		**Contributions received in 2000-01 (1)**	
Social Security (Contributions) (Re-rating and National Insurance Fund Payments) Order 2000				
Increases in Class 2 rate and small earnings exception - indexation effect	+7		+5	
Additional effect of reducing Class 2 rate to 2 per week from April 2000	-429		-326	
Increase in Class 3 rate	+1		+0	
Increase in Class 4 profit limits - indexation effect (2)	-1		0	
Additional effect of increasing Class 4 rate (2)	+182		0	
Additional effect of restructuring Class 4 limits (2)	+441		0	
Total		+201		-320
Proposed Social Security Contributions and Credits (Miscellaneous Amendments) Regulations 2000				
Increase in Class 1 lower and upper earnings limits - indexation effect				
Effect on contribution receipts from gross contributions	-124		-112	
Effect on contribution receipts from contracted-out rebates	-7		-7	
Additional effect of raising UEL above the rate of increase in the RPI				
Effect on contribution receipts from gross	+529		+471	

contributions				
Effect on contribution receipts from contracted-out rebates	-208		-141	
Effect of introducing primary threshold (3)	-824		-738	
Total		-635		-527
Child Support, Pensions and Social Security Bill 1999				
Effect of extending Class 1A liability to include other benefits in kind		+196		0
Total, all measures		-237		-848

(1) The balance of contributions for 2000-01 will not be received until after 31st March 2001.

(2) Because of self-assessment, changes in the rates and limits in 2000-01 do not have an effect on contributions received until 2001-02.

(3) The Welfare Reform and Pensions Act 1999 introduced the primary threshold for Class 1 contributions. The Social Security Contributions and Credits (Miscellaneous Amendments) Regulations 2000 set the primary threshold at 76 in 2000-01.

The measures given above also have a small effect on contributions allocated to the National Health Service.

Appendix 6

ANALYSIS OF CONTRIBUTION RECEIPTS BY FUND AND CLASS OF CONTRIBUTOR, AND ANALYSIS OF OCCUPATIONAL PENSION SCHEME CONTRACTED-OUT REBATES

Great Britain, million			**1999-2000**		**2000-2001**	
National Insurance Fund						
Class 1 (1)(4)	Primary	Gross	22,854		23,306	
		Contracted-out rebate (2)	2,049		2,155	
		Net		20,805		21,151
	Secondary	Gross	31,863		33,580	
		Contracted-out rebate (2)	3,737		3,926	
		Net		28,125		29,654
	Total	Gross	54,717		56,886	
		Contracted-out rebate (2)	5,786		6,081	
		Net		48,931		50,805
Class 1A				587		830
Class 1B				0		11
Class 2				593		280
Class 3				55		54
Class 4				808		847
Total National Insurance Fund Contributions (3)				50,974		52,828
National Health Service						
Class 1 (4)	Primary		2,672		2,739	
	Secondary		3,387		3,532	
	Total			6,059		6271
Class 1A				58		66
Class 1B				0		1
Class 2				109		51
Class 3				10		10
Class 4				192		201
Total National Health Service Contributions				6,427		6,600
All contributions						

Class 1 (1)(4)	Primary	Gross	25,526		26,044	
		Contracted-out rebate (2)	2,049		2155	
		Net		23,477		23,889
	Secondary	Gross	35,250		37,112	
		Contracted-out rebate (2)	3,737		3,926	
		Net		31,513		33,186
	Total	Gross	60,776		63,157	
		Contracted-out rebate (2)	5,786		6,081	
		Net		54,990		57,076
Class 1A				645		896
Class 1B				0		12
Class 2				702		332
Class 3				65		64
Class 4				999		1,048
Total contributions				**57,401**		**59,428**

(1) All figures are gross of recoveries by employers of statutory sick pay, statutory maternity pay and the National Insurance contribution holiday for employment of those persons previously long-term unemployed.

(2) Contracted-out rebates in respect of contracted-out occupational pension schemes deducted from contributions paid in year only.

(3)These figures appear in Table 2 in the text.

(4) These figures take into account the expected increase in NIC revenue from the Service Provision legislation which will come into effect from April 2000.

(5) Figures may not sum to totals shown due to rounding

ANALYSIS OF PAYMENTS IN RESPECT OF APPROPRIATE PERSONAL PENSIONS AND AGE-RELATED REBATES IN RESPECT OF CONTRACTED-OUT MONEY PURCHASE SCHEMES MADE BY THE INLAND REVENUE

Great Britain, million		**1999-2000**		**2000-2001**	
Personal pension rebates					
	Primary contracted-out rebates	832		749	
	Secondary contracted-out rebates	2,027		1,826	
	Total (1)		2,859		2,575
Age-related rebates for members of contracted-out money-purchase schemes (1)			105		111

All payments in respect of personal pensions and age-related rebates to contracted-out Money purchase schemes	2,964	2,686

(1) The figures from these lines appear in Table 2 in the text.

(2) Figures may not sum to totals shown due to rounding

Appendix 7

COMPARISON OF ESTIMATES FOR 1999-2000 MADE NOW AND IN Cm 4199 (JANUARY 1999)

Great Britain, million		1999-2000 estimates made now		1999-2000 estimates given in Cm 4199	
Receipts					
	Contributions	50,974		49,997	
	Less recoveries of SSP	28		28	
	Less recoveries of SMP and SMP abatement	566		565	
	Less reduction in respect of NIC holidays for employers taking on those former long-term unemployed	2		2	
Net contribution receipts			50,378		49,402
Treasury grant			0		0
Compensation from Consolidated Fund for SSP and SMP recoveries			607		590
Compensation from Consolidated Fund for recoveries in respect of NIC holidays for employers taking on those formerly long-term unemployed			2		2
Income from investments			734		780
State scheme premiums			106		49
Other receipts			147		115
Total receipts			51,973		50,938
Payments					
			46,262		46,266
Personal pensions contracted-out rebates			2,859		2,041
Age-related rebates for contracted-out money purchase schemes			105		86
Administration costs			841		783

Redundancy fund payments (net)	147	126
Transfer to Northern Ireland	230	230
Other payments	20	20
Total payments	50,465	49,552

Figures may not sum to totals due to rounding.

REASONS FOR CHANGES IN ESTIMATES

1. The estimates of Class 1 contributions are slightly higher than last year for both primary and secondary contributions. This is largely because of changes in the economic assumptions used. Current estimates assume higher numbers of employees than the estimates prepared last year (see paragraph 9 below).

2. Estimates of Class 1A contributions are higher than last year. This is because of changes in estimates received from the Inland Revenue showing the taxable value of benefits in kind. Estimates of Class 2, Class 3 and Class 4 contributions are little changed since last year.

3. Estimates of SSP and SMP are also little changed since last year. No new data on SSP and SMP have been produced for the last few months during the transition between the NIRS and NIRS2 computer systems. Estimates for recoveries by employers under the NIC holiday for those taking on workers formerly long-term unemployed have not altered much; again no new data have been received for several months.

4. Income from investments is estimated to be slightly lower than was estimated at this time last year. The revised estimate is based on information about the actual income in the first part of 1999-2000, and the investments currently held for the fund.

5. The estimate of total benefit payments for 1999-2000 is very similar to the estimate shown in last year's report although there are differences in estimates relating to each benefit. The estimates of retirement pension have increased by approximately 345 million. This is offset by a decrease in incapacity benefit and contributory jobseeker's allowance. Incapacity benefit has decreased by approximately 320 million, arising from a re-appraisal of all the parameters in the model, as a result of more recent data. There is a reduction in underlying estimates for contributory jobseeker's allowance of approximately 20 million due to lower unemployment assumptions.

6. The estimate of State Scheme Premiums received is higher than at this time last year. As described in paragraph 6 of Appendix 3, it has been assumed that receipts of State Scheme Premiums have now reached their ultimate level. Receipts of State Scheme Premiums have been relatively constant since April 1998, following a fall as a result of the end of an option for schemes to pay one type of State Scheme Premium. Last year it was assumed that receipts of State Scheme Premiums would fall even further.

7. Payments of minimum contributions to appropriate personal pension providers are now estimated to be significantly higher than was estimated last year. As described in paragraph 20 of Appendix 3, payments of rebates to personal pension providers were delayed in 1998-99 due to the introduction of NIRS2. We have assumed that payments delayed from 1998-99 will all be made in 1999-2000. As a result, our estimate of payments in 1999-2000 is higher than that last year.

8. Estimates of the administration costs that will be charged to the National Insurance Fund have been supplied by the Inland Revenue. The estimates are higher than those given last year. Estimates for "other receipts" (mainly recoveries of compensation in tort) are higher than the estimates made last year.

9. The assumptions used in making the two sets of estimates are compared in the table below.

	1999-2000 estimates made now	**1999-2000 estimates given in Cm 4199**

Number of employees in employment (UK), million (including HMF, excluding self-employed)	24.3	23.7
Increase in average earnings on one year earlier, %	4.70	4.60
Average number of unemployed (GB), million	1.18	1.25