Government Actuary's Department

# Report by the Government Actuary on:

# The draft Social Security Benefits Up-rating Order 2016; and

# The draft Social Security (Contributions) (Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2016

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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 section 150A(5) of the Social Security Administration Act 1992.

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To: The Right Hon. Iain Duncan Smith MP, Secretary of State for Work and Pensions

David Gauke 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 2016 and the draft Social Security (Contributions) (Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2016.

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 section 150A(5) of the Social Security Administration Act 1992.

This report also includes the potential effect on the National Insurance Fund of the changes in the National Insurance Contributions (Rate Ceilings) Act 2015 and of the proposed changes in the Welfare Reform and Work Bill currently before the UK Parliament.

Martin Clarke
Government Actuary
January 2016

Government Actuary's Department

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# 1 Executive summary

*Legislative requirements*

1.1 This report discusses the potential effect on the National Insurance Fund (the Fund, or NIF) of the up-rating of contributory benefits and any changes to National Insurance contribution rates and thresholds announced at the time of the 25 November 2015 Autumn Statement. My report mainly concentrates on the impact of the announcements over the next financial year, but I also consider the projected position of the Fund over the next five financial years. This report also provides benefit expenditure projections to help inform decisions relating to the size of additional Treasury Grant payment(s) into the Fund.

1.2 This report has been prepared under sections 142(1) and 150A(5) of the Social Security Administration Act 1992 (SSAA 92). It considers the potential effect on the NIF of:

> the draft Social Security Benefits Up-rating Order 2016 ("the Up-rating Order")

> the draft Social Security (Contributions) (Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2016 ("the Contribution Regulations").

1.3 This report includes the potential effect on the Fund of the changes in the National Insurance Contributions (Rate Ceilings) Act 2015 and of the proposed changes in the Welfare Reform and Work Bill currently before the UK Parliament. The report also refers to The Employment Allowance (Increase of Maximum Amount) Regulations 2016 and The Employment Allowance (Excluded Companies) Regulations 2016.

1.4 This report is required to be laid by the Secretary of State for Work and Pensions before Parliament under section 150A(5) of SSAA 92, and by HM Treasury under section 142(1) of SSAA 92 in respect of the Contribution Regulations. However, an Order is not being laid under section 150 of the SSAA 92 and so the usual references to section 150(8) do not apply.

1.5 This report is confined to the National Insurance Fund in Great Britain. It does not consider the separate Northern Ireland National Insurance Fund.

*Estimates for 2015-16*

1.6 The updated estimates of benefit payments and contribution receipts in 2015-16 allowing for the Up-rating, Re-rating and changes to limits and thresholds set out in the 2015 Up-rating report are:

**Table 1.1 – Comparison of current and previous 2015-16 estimates**

| £ billion | This review | Last year's estimates |
|---|---|---|
| Fund size as at 31 March 2015 | 20.9 | 19.6 |
| Contribution receipts | 88.4 | 86.8 |
| Treasury Grants[(1)] | 9.6 | 0.0 |
| Benefit payments[(2)] | 95.1 | 95.7 |
| Fund size as at 31 March 2016 | 24.7 | 11.5 |
| Fund size as at 31 March 2016 (as a % of benefit payments) | 25.9% | 12.0% |

[(1)] I understand from HMRC that by the end of March 2016 £9.6bn will have been paid.

[(2)] The benefit payments do not include the net redundancy payments.

1.7 Since the time of last year's report, HMRC have moved to a new in-house model for Class 1 National Insurance contributions. In preparing my results for this report I have carried out a comparison of my National Insurance contribution modelling against HMRC's new approach and can confirm that, with one exception, my results are virtually identical to HMRC's. The exception lies in our respective results for 2015-16, where my contribution estimates for the NIF and NHS together are some £2 billion larger than HMRC's, which are based on a specific in-year adjustment. My results are consistent with HMRC's monthly and annual historical record of tax and NIC receipts, however, both in terms of the 2014-15 full-year and emerging 2015-16 data. We are in liaison with HMRC regarding these differences. In last year's report, I presented two alternative sets of results, the first adjusted in line with HMRC in-year estimates and the second indicating what the estimates would be without any adjustment. In light of the above, in this report I have chosen to present only results unadjusted for the HMRC in-year estimates.

1.8 The difference between the previously and currently projected Fund size as at 31 March 2016 is predominantly due to £9.6 billion in Treasury Grants expected to be paid into the NIF by 31 March 2016. Without this, the projected Fund size at 31 March 2016 would have increased by around £3.6 billion, through a combination of a slightly larger starting Fund and contributions and slightly lower benefit payments than previously estimated.

*Financial effect of the draft order, regulations, Act and Bill on the Fund in 2016-17*

1.9 The financial effects of the draft order, the draft regulations, the Act and the Bill currently before Parliament on projected benefit payments and contribution receipts for 2016-17 compared to the projected situation had there been no changes in benefit rates and contribution rates and limits for that year are estimated as follows (details of proposed changes are shown in section 0 below this report):

**Table 1.2 – Impact of the draft Order, Regulations, Act and Bill on the Fund as at 31 March 2017**

| | **£ million** |
|---|---|
| Fund without changes | 28,389 |
| Impact of changes due to the draft Up-rating Order | (1,791) |
| Impact of changes due to the draft Contribution Regulations | 117 |
| Impact of the Welfare Reform and Work Bill currently before the UK Parliament | 0 |
| Impact of the draft Employment Allowance Regulations | (387) |
| Impact of the National Insurance Contributions (Rate Ceilings) Act 2015 | 0 |
| Fund with changes | 26,328 |

1.10 Allowing for the above financial effects, during 2016-17 receipts are estimated to exceed payments out of the Fund by £1.6 billion. The balance in the Fund at 31 March 2017 is estimated at £26.3 billion, or 27.0% of the estimated benefit payments (including redundancy payments) of £97.6 billion in the year 2016-17. These estimates exclude the effect of any Treasury Grant that might be paid to the NIF during the year.

1.11 As the estimated payments and receipts are two large numbers, even relatively small changes in either or both of these numbers could produce a proportionately large change in the difference between them. Therefore the size of the Fund and the Fund as a percentage of benefit payments can be particularly sensitive to even small changes in assumptions and experience. To illustrate the sensitivity of the estimates to the earnings increase assumption in particular, this report includes additional sets of estimates for the projected Fund cash flow and balance, varying the earnings increase assumption.

*Requirement for a Treasury Grant in 2016-17*

1.12 Section 2 of the Social Security Act 1993 permits payments from money voted by Parliament into the (Great Britain) National Insurance Fund (a "Treasury Grant"). HM Treasury may determine the size of such payments provided that they do not exceed a certain percentage (17%) of benefit expenditure for the financial year concerned as estimated by the Government Actuary or Deputy Government Actuary.

1.13 It has been the practice in recent decades that payment of a Treasury Grant to the Great Britain Fund has been based on whether the balance in the Fund is projected to fall below 1/6$^{th}$ of estimated annual benefit expenditure.

1.14 Treasury Grants totalling £9.6 billion are expected to be paid in 2015-16. The 2016-17 estimate of benefit expenditure (excluding statutory payments paid by employers) is £97.6 billion and consequently the maximum Treasury Grant permitted under the Social Security Act 1993, of 17% of benefit expenditure estimated by the Government Actuary, is £16.6 billion. This estimate uses the proposed benefit rates for 2016-17, so is not very sensitive to economic assumptions, and demographic factors are likely to affect it only slightly.

1.15 The 1/6$^{th}$ of estimated benefit expenditure measure is £16.3 billion, which when compared with the projected Fund balance at 31 March 2017 of £26.3 billion results in an excess of £10.1 billion. I therefore do not expect that a Treasury Grant will be needed in 2016-17.

1.16 My projections of the amounts of Treasury Grant that may potentially be required in the years 2016-17 to 2020-21, on a number of different sets of assumptions, suggest that payment of Treasury Grants will not immediately be required and might only be required in a number of years' time, should much less favourable conditions compared to the central assumptions be experienced. This is an improved outlook in comparison with last year, mainly due to a combination of more optimistic economic assumptions, payment of Treasury Grant, a downward revision in contributory ESA and updates to contribution modelling using more recent information sources.

*Assumptions and sensitivities*

1.17 The assumptions used in my projections are based on "determinant" output from the OBR and, where appropriate, are consistent with the central assumptions used by the OBR in its Economic and fiscal outlook (EFO) report published on 25 November 2015. Details of the key assumptions are given in section 3 below.

1.18 Varying the key assumptions would change the estimates for benefit payments and contribution receipts and in turn the estimated balance of the Fund. Table 1.3 below illustrates the effect on contribution receipts of a 1% higher/lower earnings increase assumption in the current and next financial year, and also the effect on contribution receipts of increasing/decreasing the estimated number of employees by 200,000. I have only shown the impact on contribution receipts as the impact on benefits in the two years would be relatively small, particularly as benefit increases are already known or in the process of being brought in for these years and are thus not expected to vary. The impact of these changes in assumptions on the projected Fund as at March 2017 would be broadly equal to the sum of the effects in 2015-16 and 2016-17.

**Table 1.3 – Effect on contribution receipts of the National Insurance Fund in 2015-16 and 2016-17 of variations in economic assumptions**

| Variation £ million | Effect on receipts in 2015-16 | Effect on receipts in 2016-17 | Approximate effect on the 31 March 2017 Fund balance |
|---|---|---|---|
| 1% lower employee earnings increases | -990 | -2,270 | -3,260 |
| 1% higher employee earnings increases | +990 | +2,270 | +3,260 |
| Lower GB number of employees by 200,000 in 2016-17 only | +0 | -650 | -650 |
| Higher GB number of employees by 200,000 in 2016-17 only | +0 | +650 | +650 |

*5-year projections*

1.19 I have once again included a 5-year projection of the Fund at Appendix 6 of this report. Longer term projections of the Fund will be included in my next Quinquennial Review report.

1.20 In these projections I have not considered the effect of any possible changes in State Pension age after 2020-21 as any such changes would not affect any of the figures in this report.

1.21 As the estimated payments and receipts are two large numbers, even relatively small changes in either or both of these numbers could produce a proportionately large change in the difference between them. Therefore the size of the Fund and the Fund as a percentage of benefit payments can be particularly sensitive to even small changes in assumptions and experience. To illustrate the sensitivity of the estimates to the earnings increase assumption in particular, I have prepared three additional sets of estimates for the projected Fund cash flow and balance, varying the earnings increase assumption. Table 1.4 below summarises the Fund balance situation at 31 March 2021 in each scenario. As mentioned in 1.16 above, the relative improvement in Fund level in comparison with last year is mainly due to a combination of more optimistic economic assumptions, payment of Treasury Grant, a downward revision in contributory ESA and updates to contribution modelling using more recent information sources. This illustration excludes the potential impact of the payment of additional Treasury Grants after 2015-16. Detailed results are provided in Appendix 6.

**Table 1.4 - Projected Fund balance at 31 March 2021, based on varying earnings assumptions (excluding Treasury Grants)**

| Great Britain, £million | 31 March 2021 Fund balance |
|---|---|
| Central assumptions | 58,002 |
| Earnings variant, 1% higher increases in each year | 78,122 |
| Earnings variant, 1% lower increases in each year | 37,361 |
| Earnings variant, repeating past earnings increases (and CPI) in future | 0[(1)] |

[(1)] Reflected as zero as the Fund is projected to be in deficit.

## 2 Proposed changes to benefits and contributions

*Up-rating Order 2016*

2.1 The draft Up-rating Order proposes increasing the rates of some social security benefits paid from the Fund, from April 2016.

2.2 The most significant benefit paid from the National Insurance Fund is retirement pensions.

2.3 The basic State Pension must be up-rated by at least the growth in earnings but this Government has committed to up-rating it by the highest of growth in average earnings (AWE), prices (CPI) or 2.5%, the so-called "triple lock". The annual increase in the level of CPI to September 2015 was -0.1% and average earnings (AWE) increase over the year to May-July 2015 was 2.9%. The result of the triple lock is, therefore, that it is proposed that the basic state Pension will be up-rated by 2.9%. Further details are available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/480317/proposed_benefit_and_pension_rates_2016_to_2017.pdf.

2.4 The draft Up-rating Order proposes no increase in earnings-related additional pensions (under the state earnings-related pension scheme (SERPS), state second pension (S2P) and graduated retirement benefit), in light of the -0.1% change in the CPI.

2.5 Similarly, the draft Up-rating Order proposes no increase in increments and inheritable lump-sum payments relating to the deferral of retirement pensions, again in light of the -0.1% change in the CPI.

2.6 Table 2.1 below shows the proposed changes in the major benefit rates. Full details of the rates of benefits provided from the National Insurance Fund are shown in Appendix 1.

**Table 2.1 – Changes to the main state pension rates**

| | Weekly rate in 2015-16 | Proposed increase in weekly rate | Weekly rate in 2016-17 |
|---|---|---|---|
| Retirement pension – person claiming on their own or their deceased spouse's NI contributions – standard rate | £115.95 | £3.35 | £119.30 |
| Retirement pension – person claiming on their spouse's NI contributions – standard rate | £69.50 | £2.00 | £71.50 |

2.7 The financial effects of the benefit up-ratings are shown in section 4 of the report.

*Welfare Reform and Work Bill currently before the UK Parliament*

2.8 The Welfare Reform and Work Bill currently before the UK Parliament maintains the 2015-16 rates for the contribution-based Employment and Support Allowance (excluding the Support Group component) and contributions-based Jobseeker's Allowance in 2016-17, as shown in the following table. Full details of the rates of benefits provided from the National Insurance Fund are shown in Appendix 1.

**Table 2.2 – Rates of contribution-based Employment and Support Allowance (excluding the Support Group component) and contribution-based Jobseeker's Allowance**

| | Weekly rate in 2015-16 | Proposed increase in weekly rate | Weekly rate in 2016-17 |
|---|---|---|---|
| Contribution-based Jobseeker's Allowance single person 25 and over | £73.10 | £0.00 | £73.10 |
| Contribution-based Employment and Support Allowance personal allowance age 25 or over including work-related activity component | £102.15 | £0.00 | £102.15 |

2.9 Further details on the benefit rates applicable from April 2016 are available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/480317/proposed_benefit_and_pension_rates_2016_to_2017.pdf.

*Contributions Limits and Thresholds Amendments and National Insurance Funds Payments Regulations 2016 and the National Insurance Contributions (Rate Ceilings) Act 2015*

2.10 The draft Contribution Regulations propose increasing the upper earnings limit, below which primary Class 1 National Insurance contributions ("NICs") are payable at the main primary percentage, and the upper profit limit, below which Class 4 NICs are payable at the main Class 4 percentage. The Contribution Regulations also propose a new upper secondary threshold for certain types of apprentices below which secondary Class 1 NICs are payable at zero-rate and specify the upper secondary threshold, below which secondary Class 1 NICs are payable at an "age-related" percentage in respect of earners in the under 21 age group. Table 2.3 below shows the changes in the major contribution rates and limits.

2.11 The National Insurance Contributions (Rate Ceilings) Act 2015 provides that, for the duration of this Parliament, the rate of Class 1, Class 1A and Class 1B National Insurance Contributions paid by employees, employers and third parties will not exceed the current rates and the Upper Earnings Limit should not exceed the Higher Rate Threshold for income tax.

2.12 The Employment Allowance (Increase of Maximum Amount) Regulations 2016 increases the maximum value of the employment allowance from £2,000 to £3,000 for the tax year 2016-17 and subsequent tax years. However the Employment Allowance (Excluded Companies) Regulations 2016 provides that a company cannot qualify for an employment allowance where all the payments of earnings in a tax year are paid to or for the benefit of one employed earner only who is also a director of the company at the time the payments are made.

**Table 2.3 – Changes to the main limits and thresholds**

| Item | 2015-16 | 2016-17 |
|---|---|---|
| | Per week | |
| Lower Earnings Limit for Class 1 NICs | £112 | £112 |
| Upper Earnings Limit for Employees' (Primary) Class 1 NICs | £815 | £827 |
| Upper accrual point | £770 | N/A |
| Primary Threshold | £155 | £155 |
| Secondary Threshold | £156 | £156 |
| Upper Secondary Threshold | £815 | £827 |
| Rate of Class 2 NICs for Self- employed | £2.80 | £2.80 |
| | Per annum | |
| Small Profits Threshold for Class 2 NICs | £5,965 | £5,965 |
| | Per week | |
| Rate of (voluntary) Class 3 NICs | £14.10 | £14.10 |
| Rate of (voluntary) Class 3A NICs | Varies | Varies |
| | Per annum | |
| Class 4 NICs – Lower Profits Limit | £8,060 | £8,060 |
| Class 4 NICs – Upper Profits Limit | £42,385 | £43,000 |

2.13 Details of the revised rates and limits are shown in Appendix 2. Further details are available at:

https://www.gov.uk/government/publications/rates-and-allowances-national-insurance-contributions
https://www.gov.uk/government/publications/tax-and-tax-credit-rates-and-thresholds-for-2016-17/tax-and-tax-credit-rates-and-thresholds-for-2016-17

2.14 The financial effects of the draft Regulations and Bill currently before the UK Parliament are shown in section 4.

## 3 Assumptions used to project receipts and payments in 2015-16 and 2016-17

3.1 The key assumptions underlying the estimates for benefit payments and contribution receipts are those for employment and unemployment levels, and the rate of increase in earnings and CPI. The assumptions used in my projections are based on "determinant" output from the OBR and, where appropriate, are consistent with the central assumptions used by the OBR in its Economic and fiscal outlook (EFO) report published on 25 November 2015.

3.2 The table below provides details of the key assumptions underlying the estimates, along with last year's equivalents.

**Table 3.1 - Key assumptions[(1)]**

| | 2015-16 | 2016-17 |
|---|---|---|
| **General earnings increase (%) [(2)]** | | |
| This year's report | 2.9 | 3.5 |
| Last year's report | 2.1 | 3.3 |
| **Number of employees (millions) [(3)]** | | |
| This year's report | 26.7 | 27.0 |
| Last year's report | 26.7 | 26.8 |

(1) These assumptions are consistent with those used by the OBR in its Economic and fiscal outlook published on 25 November 2015. The general earnings increases have been taken from Table 4.1 of the OBR's Economic and fiscal outlook. The number of employees is based on labour force statistics as projected by the OBR and provided directly to GAD.

(2) This is the average earnings increase per employee from the previous financial year to the current financial year from Table 4.1 of the OBR's Economic and fiscal outlook.

(3) The 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. These figures are for the whole of the UK although in my projections I exclude Northern Ireland employees.

3.3 The triple lock increases applied in each of the years 2015-16 and 2016-17 are already determined and are not assumptions. However, at the time of last year's report, the 2016-17 triple lock increase was an assumption. Table 3.2 below therefore sets out information regarding how the triple lock increases have been determined, for comparison with Table 3.1.

**Table 3.2 – Triple lock**

| | 2015-16 | 2016-17 |
|---|---|---|
| **Previous year's average May to July annual earnings increase (%)** | | |
| This year's report | 0.6 | 2.9 |
| Last year's report | 0.6 | 1.5 (assumed) |
| **Previous year's September CPI increase (%)** | | |
| This year's report | 1.2 | -0.1 |
| Last year's report | 1.2 | 1.2 (assumed) |
| **Triple lock increase (%)** | | |
| This year's report | 2.5 | 2.9 |
| Last year's report | 2.5 | 2.5 (assumed) |

3.4 The estimates of future receipts and payments have used a 2014-based principal population projection for Great Britain, from population projections issued by ONS in November 2015, as this is consistent with the population growth assumptions used by the OBR in its 25 November 2015 Economic and fiscal outlook.

3.5 Since the time of last year's report, HMRC have moved to a new in-house model for Class 1 National Insurance contributions. In preparing my results for this report I have carried out a comparison of my National Insurance contribution modelling against HMRC's new approach and can confirm that, with one exception, my results are virtually identical to HMRC's. The exception lies in our respective results for 2015-16, where my contribution estimates for the NIF and NHS together are some £2 billion larger than HMRC's, which are based on a specific in-year adjustment. My results are consistent with HMRC's monthly and annual historical record of tax and NIC receipts, however, both in terms of the 2014-15 full-year and emerging 2015-16 data. We are in liaison with HMRC regarding these differences. In last year's report, I presented two alternative sets of results, the first adjusted in line with HMRC in-year estimates and the second indicating what the estimates would be without any adjustment. In light of the above, in this report I have chosen to present only results unadjusted for the HMRC in-year estimates.

3.6 Further details of the methods used to estimate benefit payments and contribution receipts are provided in Appendix 3.

3.7 Section 5 below shows the broad impact of using different economic assumptions from those set out above.

## 4 Estimates of receipts, payments and fund balance

4.1 Table 4.1 below provides estimates of receipts and payments of the Fund for 2016-17 along with my latest estimates for 2015-16.

**Table 4.1 – Estimated receipts and payments and statement of balances of the National Insurance Fund**

| **Great Britain, £ million** | | | **2015-16** | | **2016-17** |
|---|---|---|---|---|---|
| **Receipts** | | | | | |
| | Contributions[1] | 90,909 | | 100,736[8] | |
| | Less recoveries of statutory payments (and abatements) | 2,515 | | 2,609 | |
| Net contribution receipts | | | 88,394 | | 98,127 |
| Treasury Grant | | | 9,600 | | 0 |
| Compensation from Consolidated Fund for statutory payments recoveries | | | 2,634 | | 2,601 |
| Income from investments | | | 114 | | 165 |
| State scheme premiums | | | 33 | | 16 |
| Other receipts [2] | | | 22 | | 23 |
| Total receipts [3] | | | 100,796 | | 100,933 |
| **Payments** | | | | | |
| Benefits[4] | At present rates | | 95,100 | 95,537 | |
| | Increase due to proposed changes | | | 1,791 | |
| | Total | | | | 97,351 |
| Administration costs | | | 830 | | 859 |
| Redundancy fund payments (net) [2][5] | | | 263 | | 275 |
| Transfer to Northern Ireland | | | 690 | | 632 |
| Other payments | | | 167 | | 169 |
| Total payments [3] | | | 97,050 | | 99,286 |
| **Statement of balances** | | | | | |
| Balance at beginning of year [6] | | | 20,935 | | 24,682 |
| Excess of receipts over payments | | | 3,746 | | 1,647 |
| Balance at end of year | | | 24,682 | | 26,328 |
| Balance at end of year as percentage of annual benefit payments [7] | | | 25.9% | | 27.0% |

(1) Includes the effects of the new arrangements in connection with the Employment Allowance, employees under the age of 21 and certain types of apprentice. Their impact on contributions has been provided by HM Revenue and Customs.

(2) The figures for 2015-16 are provisional estimates supplied by other government departments on the basis of amounts received or paid so far in this year.

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

(4) The effect of the draft Up-rating Order 2016 and the effect of the Welfare Reform and Work Bill currently before the UK Parliament are shown separately in Tables 4.2 and 4.3 below. In 2015-16, the split of benefits between these two Tables is £91,772 million/£3,307 million (net of redundancy recoveries) and in 2016-17 the split is £93,926 million/£3,403 million.

(5) Redundancy payments are shown net of redundancy recoveries, which are assumed to continue at current levels. The payments cover both payment in lieu of missing wages and missing pension contributions.

(6) The balance at 31 March 2015 is taken from the published accounts of the Fund for the year 2014-15.

(7) Percentages of benefit payments allow for net redundancy payments.

(8) The increase in 2016-17 National Insurance contributions estimates in comparison with 2015-16 estimates includes the effect of the abolition of salary-related contracting-out from April 2016.

*Estimates for 2015-16*

4.2 The estimates shown in Table 4.1 above for 2015-16 may be compared with the estimates for the same period included in my report of January 2015. A full comparison is included in Appendix 5.

4.3 In my January 2015 report it was estimated that payments during the year 2015-16 would exceed receipts by £8.6 billion. My updated estimate is that receipts during the year 2015-16 will exceed payments by £3.7 billion as shown in Table 4.1 above.

4.4 This £12.3 billion improvement, from a projected shortfall to a projected surplus for the year 2015-16, is predominantly due to £9.6 billion in Treasury Grants expected to be paid into the NIF by 31 March 2016. Without this, the projected Fund size at 31 March 2016 would have increased by around £3.6 billion, through a combination of a slightly larger starting Fund and contributions and slightly lower benefit payments than previously estimated. Further information regarding the difference between the estimates for 2015-16 in this report and last year's report is in Appendix 5.

4.5 Transfers are made from the Great Britain National Insurance Fund to the Northern Ireland National Insurance Fund in order to keep the balance in the Northern Ireland National Insurance Fund at 2.87% of the combined balance in the two funds. The transfer to Northern Ireland estimated for 2015-16 has increased from £401 million in last year's report to £690 million in this year's report. This increase arises because the 2014-15 out-turn and the 2015-16 estimates for Great Britain net cashflow are both now more favourable (higher income and/or lower expenditure) than last year's estimates, while both the 2014-15 out-turn and the 2015-16 estimates for Northern Ireland net cashflow are now less favourable than last year's estimates. This means that not only was the transfer to Northern Ireland of £609 million in 2014-15 insufficient to maintain the 2.87% relationship as at the end of 2014-15 (with the 2015-16 transfer to Northern Ireland consequently increased to compensate for this), but there is a need for a larger transfer in respect of 2015-16 itself to achieve the desired balance as at the end of that year.

*Estimates for 2016-17*

4.6 The size of the Fund as a percentage of benefit payments is projected to increase, from 25.9% at the end of 2015-16 (including a Treasury Grant of £9.6 billion) to 27.0% at the end of 2016-17.

4.7 I estimate that the potential increase in benefit payments in 2016-17 as a result of the proposed measures in the draft Up-rating Order will be £1.8 billion, taking estimated total benefit payments from £92.1 billion to £93.9 billion. A breakdown of the estimate is shown in the final column of Table 4.2 below.

**Table 4.2 - Estimated payments from the National Insurance Fund for benefits, and the effect of the draft Up-rating Order on payments in 2016-17**

| Great Britain<br>£ million | Estimated total payments in 2015-16 | Estimated total payments in 2016-17 before the draft Up-rating Order | Estimated extra payments in 2016-17 as a result of the draft Up-rating Order | Estimated total payments in 2016-17 after the draft Up-rating Order |
|---|---|---|---|---|
| Retirement Pensions – Basic (1) | 70,973 | 71,356 | 1,791 (5) | 73,148 |
| Retirement Pensions – Additional Pensions | 18,119 | 18,121 | 0 | 18,121 |
| Incapacity Benefit – Basic | 63 | 11 | 0 | 11 |
| Incapacity Benefit – Additional Pensions | 1 | 0 | 0 | 0 |
| Widows'/Bereavement Benefits – Basic | 522 | 508 | 0 | 508 |
| Widows'/Bereavement Benefits – Additional Pensions | 49 | 44 | 0 | 44 |
| Employment and Support Allowance (2) | 1,475 | 1,519 | 0 | 1,519 |
| Maternity Allowance | 440 | 448 | 0 | 448 |
| Guardian's Allowance | 2 | 2 | 0 | 2 |
| Christmas Bonus | 128 | 125 | 0 | 125 |
| Total (3) | 91,772 | 92,134 | 1,791 | 93,926 |
| Redundancy payments (net) (4) | 263 | 275 | 0 | 275 |

(1) Includes payments of Graduated Retirement Benefit and new State Pension from 2016-17.
(2) ESA Support Group component only
(3) Figures may not sum to totals due to rounding
(4) Redundancy payments are shown net of redundancy recoveries. The payments cover both payment in lieu of missing wages and missing pension contributions.
(5) Retirement Pensions – Basic (excluding Graduated Retirement Benefit and new State Pension) is the only benefit in the table paid out of the National Insurance Fund that is included in the draft Up-rating Order.

*Effects of the Welfare Reform and Work Bill currently before the UK Parliament*

4.8 The Welfare Reform and Work Bill currently before the UK Parliament maintains the 2016-17 rates for certain social security benefits at their 2015-16 rates. The estimated total benefit payments in 2016-17 for the relevant benefits would therefore remain £3.4 billion.

**Table 4.3 - Estimated payments from the National Insurance Fund for benefits, and the effect of the Welfare Reform and Work Bill currently before the UK Parliament on payments in 2016-17**

| Great Britain<br>£ million | Estimated total payments in 2015-16 | Estimated total payments in 2016-17 before the proposed changes in the Welfare Reform and Work Bill | Estimated extra payments in 2016-17 as a result of the proposed changes in the Welfare Reform and Work Bill | Estimated total payments in 2016-17 after the proposed changes in the Welfare Reform and Work Bill |
|---|---|---|---|---|
| Contribution-based Employment and Support Allowance (1) | 2,966 | 3,030 | 0 | 3,030 |
| Contribution-based Jobseeker's Allowance | 341 | 373 | 0 | 373 |
| Total (2) | 3,307 | 3,403 | 0 | 3,403 |

(1) Excludes the ESA Support Group component.
(2) Figures may not sum to totals due to rounding.

*Effects of the draft Contributions Limits and Thresholds Amendments and National Insurance Funds Payments Regulations 2016 and the National Insurance Contributions (Rate Ceilings) Act 2015*

4.9 I estimate that the effect of the measures proposed in the draft Contributions Limits and Thresholds Amendments and National Insurance Funds Payments Regulations, the Employment Allowance Regulations, the National Insurance Contributions (Rate Ceilings) Act 2015 will be a decrease in contribution receipts to the Fund in 2016-17 of £270 million. This estimate includes the use of component estimates from HMRC. A breakdown of this estimate is shown in Table 4.4.

**Table 4.4 – Estimated effects of the draft Contributions Limits and Thresholds Amendments and National Insurance Funds Payments Regulations, the Employment Allowance Regulations and the National Insurance Contributions (Rate Ceilings) Act 2015**

| Great Britain<br><br>£million | 2015-16 contribution receipt estimates | 2016-17 contribution receipt estimates[1] | | | | | |
|---|---|---|---|---|---|---|---|
| | | Before the Act and Regulations | Impact of the draft Contribution Regulations | Impact of the draft Employment Allowance Regulations | Impact of the NICs Act 2015 | Impact of the Act and Regulations | After the Act and Regulations |
| Class 1 | 87,154 | 97,295 | +117 | -387 | +0 | -270 | 97,025 |
| Class 2 | 357 | 210 | +0 | +0 | +0 | +0 | 210 |
| Class 3 | 22 | 20 | +0 | +0 | +0 | +0 | 20 |
| Class 3A | 366 | 366 | +0 | +0 | +0 | +0 | 366 |
| Class 4 | 1,896 | 1,954 | +0 | +0 | +0 | +0 | 1,954 |
| Total[2] | 89,795 | 99,845 | +117 | -387 | +0 | -270 | 99,575 |

(1) The above table reflects the effect of the Act and Regulations on 2016-17 contribution receipts. The effect on contribution accruals will be slightly different, due to the delay between when contributions are accrued and the date that they go on to be paid.

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

4.10 The main reason for the increase in receipts is the effect of the proposed increases in the Upper Earnings Limit.

*Fund balance*

4.11 I estimate that the balance in the Fund at 31 March 2017, allowing for the measures proposed in the draft Up-rating Order, the draft Contributions Limits and Thresholds Amendments and National Insurance Funds Payments Regulations, the Employment Allowance Regulations, the National Insurance Contributions (Rate Ceilings) Act 2015 and the proposed changes in the Welfare Reform and Work Bill currently before the UK Parliament will be £26.3 billion. As this exceeds one-sixth of estimated benefit payments including redundancy payments (that is, one-sixth of £97.6 billion, or £16.3 billion) I expect that a Treasury Grant will not be needed in 2016-17.

*Treasury Grant*

4.12 Section 2 of the Social Security Act 1993 permits payments from money voted by Parliament into the (Great Britain) National Insurance Fund (a "Treasury Grant"). HM Treasury may determine the size of such payments provided that they do not exceed a certain percentage (17%) of benefit expenditure for the financial year concerned as estimated by the Government Actuary or Deputy Government Actuary.

4.13 It has been the practice in recent decades that payment of a Treasury Grant to the Great Britain Fund has been based on whether the balance in the Fund is projected to fall below 1/6th of estimated annual benefit expenditure. This report provides estimates of benefit expenditure in the next financial year, and gives an indication of whether, allowing for that expenditure and the effect of the changes to contributions, the projected balance in the Fund at the end of the next financial year may be less than

1/6th of estimated benefit expenditure, on the assumptions adopted.

4.14 Following GAD's equivalent report last year, Parliamentary approval was sought at the beginning of 2015 to provide for a potential Treasury Grant of up to 10% of benefit expenditure (£9.6 billion) in order to ensure the recommended balance was maintained. The total payment for the year is expected to be the £9.6 billion as approved by Parliament.

4.15 The 2016-17 estimate of benefit expenditure (excluding statutory payments paid by employers) is £97.6 billion[1] and consequently the maximum Treasury Grant permitted under the Social Security Act 1993, 17% of benefit expenditure estimated by the Government Actuary, is £16.6 billion. This estimate uses the proposed benefit rates for 2016-17, so is not very sensitive to economic assumptions, and demographic factors are likely to affect it only slightly.

4.16 The 1/6th of estimated benefit expenditure measure is £16.3 billion. When compared with the projected Fund balance at 31 March 2017 of £26.3 billion, this results in an excess of £10.1 billion, or 10.3% of estimated benefit expenditure[1]. I therefore expect that a Treasury Grant will not be needed in 2016-17.

4.17 Appendix 6 provides projections of the amounts of Treasury Grant that may potentially be required in the years 2016-17 to 2020-21, on a number of different sets of assumptions. These estimates suggest that payment of Treasury Grants will not immediately be required and might only be required in a number of years' time, should much less favourable conditions compared to the central assumptions be experienced.

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[1] This amount includes, as required by the legislation (section 2 of the Social Security Act 1993),
- expenditure by HMRC on Guardians Allowance,
- expenditure on Christmas bonus to people whose qualifying benefits is paid from the NI Fund,
- (net) expenditure by the Insolvency Service of the Department for Business Innovation & Skills on benefits under the Employment Rights Act 1996 and section 124 of the Pension Schemes Act 1993.

However it ignores as immaterial amounts of statutory payments paid by HMRC to former employees of insolvent employers.

# 5 Sensitivity of estimates to economic assumptions

5.1 My projections are dependent on the following key variables: earnings increases and employment levels. To provide an indication of the broad impact of alternative assumptions in this regard, Table 5.1 below shows the effects of changes in these assumptions on contribution receipts for the National Insurance Fund. I have only shown the impact on contribution receipts as the benefits rates for 2015-16 are already known and the proposed impact on benefits in 2016-17 would be relatively small. I have, however, included 5-year projections in Appendix 6 that project the effect of these alternative earnings increase assumptions for both contributions and benefits.

**Table 5.1 – Effect on contribution receipts of the National Insurance Fund in 2015-16 and 2016-17 of variations in economic assumptions**

| Variation £ million | Effect on receipts in 2015-16 | Effect on receipts in 2016-17 | Approximate effect on the 31 March 2017 Fund balance |
|---|---|---|---|
| 1% lower employee earnings increases | -990 | -2,270 | -3,260 |
| 1% higher employee earnings increases | +990 | +2,270 | +3,260 |
| Lower GB number of employees by 200,000 in 2016-17 only | +0 | -650 | -650 |
| Higher GB number of employees by 200,000 in 2016-17 only | +0 | +650 | +650 |

5.2 The assumptions for the number of employees and earnings increases are largely independent. Therefore the effects of changes to these assumptions can be broadly treated as additive.

5.3 The figures in Table 5.1 can be interpolated or extrapolated to estimate the effects on contribution receipts and fund balance under different sets of assumptions. However, it should be noted that the emerging estimates become less reliable the further any extrapolation lies from the base scenario. It should also be noted that if future experience differs from past experience, future estimates could be commensurately different.

5.4 I also considered the effect on the projected Fund cash flow and balance over the next five years, of varying the assumption for future earnings increases. Table 5.2 below summarises the Fund balance situation at 31 March 2021 in each scenario. This illustration excludes the potential impact of the payment of Treasury Grants after 2015-16. Appendix 6 sets out details of these projections.

**Table 5.2 - Projected Fund balance at 31 March 2021 based on variant earnings assumptions (excluding Treasury Grants)**

| Great Britain, £million | 31 March 2021 Fund balance |
|---|---|
| Central assumptions | 58,002 |
| Earnings variant, 1% higher increases in each year | 78,122 |
| Earnings variant, 1% lower increases in each year | 37,361 |
| Earnings variant, repeating past earnings increases (and CPI) in future | 0(1) |

(1) Reflected as zero as the Fund is projected to be in deficit.

## 6 Conclusion

6.1 The balance in the National Insurance Fund at 31 March 2016, as set out in Table 4.1 of this report, is estimated to be £24.7 billion. This is £13.2 billion larger than the estimate in my report in January 2015.

6.2 I estimate the balance of the Fund at 31 March 2017, allowing for the proposed increases in benefits and changes in contributions in 2016-17 that would arise from the proposed draft Up-rating Order, the draft Contributions Limits and Thresholds Amendments and National Insurance Funds Payments Regulations, the changes in the National Insurance Contributions (Rate Ceilings) Act 2015 and the proposed changes in the Welfare Reform and Work Bill currently before the UK Parliament, also allowing for the effect of the Employment Allowance Regulations on contribution receipts in 2016-17, to be £26.3 billion. As this estimated Fund balance is larger than one-sixth of benefit payments during the year (equivalent to £16.3 billion), I expect, on the basis of the assumptions that I have used, that a payment would not be required during 2016-17 to the Fund out of money provided by Parliament in accordance with section 2(2) of the Social Security Act 1993.

6.3 If economic conditions depart from the assumptions used, the balance of the Fund at 31 March 2017 could be different from that given above, potentially giving rise to the need for a Treasury Grant. The effect of variations in some of these assumptions is described in section 5.

6.4 Based on estimates for the period beyond 2016-17 up to 2020-21, it would seem that payment of Treasury Grants will not immediately be required and might only be required in a number of years' time, should much less favourable conditions compared to the central assumptions be experienced. This is an improved outlook in comparison with last year, mainly due to a combination of more optimistic economic assumptions, payment of Treasury Grant, a downward revision in contributory ESA and updates to contribution modelling using more recent information sources. Estimates are given in Appendix 6 including the effect of using alternative assumptions for earnings growth and are summarised below.

**Table 6.1 – Estimated effect on projected potential Treasury Grants of varying assumptions**

| Great Britain, £millions | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| Central assumptions | 0 | 0 | 0 | 0 | 0 |
| Earnings variant, 1% higher increases in each year | 0 | 0 | 0 | 0 | 0 |
| Earnings variant, 1% lower increases in each year | 0 | 0 | 0 | 0 | 0 |
| Earnings variant, repeating past earnings increases (and CPI) in future | 0 | 0 | 5,473 | 7,685 | 9,478 |

Martin Clarke
Government Actuary
January 2016

## Appendix 1: Main rates of benefit provided from the National Insurance Fund

| All figures in £s | Weekly rate in 2015-16 | Weekly rate proposed from April 2016 |
|---|---|---|
| **State Pension** | | |
| Category A or B (paid to individuals over State Pension age based on their own contributions or those made by a deceased spouse or civil partner) | 115.95 | 119.30 |
| Category BL (paid to an individual over state pension age based on their spouse or civil partner's contributions while the spouse/civil partner is alive) | 69.50 | 71.50 |
| Non-contributory rate (paid to those over age 80 with inadequate contributions) | 69.50 | 71.50 |
| Increase for spouse or other adult dependant (retirement pension only) | 65.70 | 65.70 |
| Graduated retirement benefit (unit) | 0.1330 | 0.1330 |
| New State Pension | N/A | 155.65 |
| **Bereavement benefits**[1] | | |
| Widowed parent's/mother's allowance and bereavement allowance/widow's pension (standard rate) | 112.55 | 112.55 |
| Bereavement payment (lump sum) | 2000.00 | 2000.00 |
| **Employment and Support Allowance (contribution-based)** [4] | | |
| Personal allowance (age 25 or over) [3] | 73.10 | 73.10 |
| Work-related activity component [3] | 29.05 | 29.05 |
| Support component | 36.20 | 36.20 |
| **Incapacity Benefit long-term rate** [2] | | |
| Personal benefit | 105.35 | 105.35 |
| Transitional invalidity allowance higher rate | 11.15 | 11.15 |
| Transitional invalidity allowance middle rate | 6.20 | 6.20 |
| Transitional invalidity allowance lower rate | 6.20 | 6.20 |
| Wife or other adult dependant | 61.20 | 61.20 |
| Age increase higher rate | 11.15 | 11.15 |
| Age increase lower rate | 6.20 | 6.20 |
| **Incapacity Benefit short-term (under State Pension age)** | | |
| Personal benefit higher rate | 94.05 | 94.05 |
| Personal benefit lower rate | 79.45 | 79.45 |
| Wife or other adult dependant | 47.65 | 47.65 |
| **Incapacity Benefit short-term (over State pension age)** | | |
| Personal benefit higher rate | 105.35 | 105.35 |
| Personal benefit lower rate | 101.10 | 101.10 |
| Wife or other adult dependant | 58.90 | 58.90 |
| **Jobseeker's Allowance (contribution-based)** [5] | | |
| Personal benefit for those aged 18 to 24 [3] | 57.90 | 57.90 |
| Personal benefit for those aged 25 and over [3] | 73.10 | 73.10 |
| **Maternity Allowance** [6] | 139.58 | 139.58 |
| **Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay (including Statutory Shared Parental Pay from April 2015) Standard rate** [6] | 139.58 | 139.58 |
| **Guardian's allowance** | | |
| First child/other children | 16.55 | 16.55 |

| | | |
|---|---|---|
| **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** | | |
| First child | 8.00 | 8.00 |
| Other children | 11.35 | 11.35 |
| Christmas bonus to pensioners (lump sum) | 10.00 | 10.00 |

(1) Lower rates of bereavement allowance/widow's pension apply for people who are younger at the age of bereavement.

(2) The threshold for incapacity benefit and contribution-based Employment and Support Allowance offset for occupational and personal pensions is £85 a week for both years.

(3) These are benefits that are included in the Welfare Reform and Work Bill currently before the UK Parliament.

(4) 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. However, everyone who satisfies the Work Capability Assessment will receive a personal allowance and either the work-related activity component or the support component. The process is underway to review Incapacity Benefit claims to assess if they can be converted to ESA.

(5) Unemployed people who meet certain conditions, primarily relating to the payment of National Insurance contributions 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 income-based Jobseeker's Allowance/Universal Credit.

(6) 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 at the amount shown or 90% of the woman's average weekly earnings if this calculation results in a figure which is less. Self-employed women who hold a certificate of small earnings exception receive Maternity Allowance equal to 90% of the Maternity Allowance threshold (£30 a week).

## Appendix 2: Main features of the contribution system

| | | Rate in 2015-16 | Rate proposed from April 2016 |
|---|---|---|---|
| Class 1 | | | |
| Lower earnings limit (LEL) | | £112 a week | £112 a week |
| Upper earnings limit (UEL) | | £815 a week | £827 a week |
| Upper accrual point (UAP) | | £770 a week | N/A |
| Primary threshold | | £155 a week | £155 a week |
| Secondary threshold | | £156 a week | £156 a week |
| Upper secondary threshold | | £815 a week | £827 a week |
| **Contribution rates (NI Fund and NHS combined)** | | | |
| Primary (employee) | On earnings between the primary threshold and UEL [1] | 12.00% | 12.00% |
| | Reduced rate on earnings between the primary threshold and UEL for married women and widow optants | 5.85% | 5.85% |
| | On earnings above the UEL | 2.00% | 2.00% |
| | NHS allocation included in above | | |
| | – percentage of earnings between the primary threshold and UEL | 2.05% | 2.05% |
| | – percentage of earnings above the UEL | 1.00% | 1.00% |
| Secondary (employer) | On all earnings above the secondary threshold [1] | 13.80% | 13.80% |
| | NHS allocation included in above (percentage of all earnings on which contributions are paid for employees earning above the primary threshold) [2] | 1.90% | 1.90% |
| Class 1A and Class 1B | | | |
| Contribution rate (employer only) | | 13.80% | 13.80% |
| NHS allocation included in above | | 1.90% | 1.90% |

| | Rate in 2015-16 | Rate proposed from April 2016 |
|---|---|---|
| Class 2 | | |
| Flat-rate contribution | £2.80 a week | £2.80 a week |
| Small earnings exception | N/A | N/A |
| Small profits threshold | £5,965 a year | £5,965 a year |
| NHS allocation included in above (percentage of contribution) | 15.50% | 15.50% |
| Class 3 | | |
| Flat-rate contribution | £14.10 a week | £14.10 a week |
| NHS allocation included in above (percentage of contribution) | 15.50% | 15.50% |
| Class 3A(3) | | |
| Contribution | Varies | Varies |
| NHS allocation included in above (percentage of contribution) | 15.50% | 15.50% |
| Class 4 | | |
| Lower Profits Limit (LPL) | £8,060 a year | £8,060 a year |
| Upper Profits Limit (UPL) | £42,385 a year | £43,000 a year |
| Contribution rate | | |
| On profits between the LPL and UPL | 9.00% | 9.00% |
| On profits above the UPL | 2.00% | 2.00% |
| NHS allocation included in above | | |
| Percentage of profits between the LPL and UPL | 2.15% | 2.15% |
| Percentage of profits above the UPL | 1.00% | 1.00% |

(1) The contracted-out rebate for primary contributions in 2015-16 is 1.4% of earnings between the LEL and UAP for COSRs. The contracted out rebate for secondary contributions in 2015-16 is 3.4% of earnings between the LEL and UAP for COSRs.

(2) The amount of the secondary Class 1 NICs apportioned to the NHS is calculated as the relevant percentage (currently 1.9%) 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.

(3) Class 3A voluntary contributions are distinct from the Class 3 voluntary contributions. They were introduced from 2015-16, under the Social Security Class 3A Contributions (Units of Additional Pension) Regulations 2014. Class 3A contributions differ by age, sex and amount of State Pension top up to be purchased (up to a maximum).

## Appendix 3: Methods

*This Appendix describes the methods adopted for years 2015-16 and 2016-17, the focus of this report. Additional methods covering 5-year projections are described in Appendix 6.*

*Contributions*

1. Contributions are estimated separately for each class of National Insurance contribution. Actual known National Insurance Contribution amounts in recent years from HM Revenue & Customs (HMRC), including figures from the audited National Insurance Fund accounts, are used to adjust modelled estimates for future years. Adjustments are also made to allow for HMRC estimates of the effect of certain measures announced in successive Budgets and Autumn Statements that are either too new or too small to add to my main modelling.
2. Estimates of Class 1 contributions are made using earnings distributions based on the Annual Survey of Hours and Earnings (ASHE) produced by the Office for National Statistics and the Survey of Personal Incomes published by HMRC.
3. Since the time of last year's report, HMRC have moved to a new in-house model for Class 1 National Insurance contributions. In preparing my results for this report I have carried out a comparison of my National Insurance contribution modelling against HMRC's new approach and can confirm that, with one exception, my results are virtually identical to HMRC's. The exception lies in our respective results for 2015-16, where my contribution estimates for the NIF and NHS together are some £2 billion larger than HMRC's, which are based on a specific in-year adjustment. My results are consistent with HMRC's monthly and annual historical record of tax and NIC receipts, however, both in terms of the 2014-15 full-year and emerging 2015-16 data. We are in liaison with HMRC regarding these differences. In last year's report, I presented two alternative sets of results, the first adjusted in line with HMRC in-year estimates and the second indicating what the estimates would be without any adjustment. In light of the above, in this report I have chosen to present only results unadjusted for the HMRC in-year estimates.
4. Although this report concerns the National Insurance Fund of Great Britain, transfers from the Great Britain National Insurance Fund to the Northern Ireland National Insurance Fund are made (see paragraph 26 below).
5. Other classes of National Insurance contributions, which generate substantially lower revenues than Class 1, are estimated using simplified models. Class 1A and Class 1B contributions are estimated using data and projections provided by HMRC on contributions paid in previous years. Class 2 and Class 4 contributions are estimated using data on the earnings of the self-employed received from HMRC, adjusted for earnings increases. These data are combined with information on contributions received in the past, the assumed numbers of self-employed in the future, and the Class 2 and Class 4 contribution rates. Class 3 contributions are estimated by adjusting the contributions paid in earlier years for the changes in the contribution rate. The underlying numbers of people paying Class 3 contributions are based on HMRC assumptions. I have also allowed for Class 3A voluntary contributions among those current and prospective pensioners reaching SPa before 6 April 2016, adopting DWP's estimates of the Class 3A contributions that will be received in 2015-16 and 2016-17.
6. For the avoidance of doubt, this report excludes any allowance for the Upper Earnings Limit to follow the Higher Rate Threshold up to £50,000 by the end of the current Parliament, a manifesto undertaking which is not yet in (draft) legislation. This

approach is consistent with paragraph 4.12 of OBR's 25 November 2015 Economic and fiscal outlook.

7. Statutory payments include
   - Statutory Maternity Pay (SMP)
   - Statutory Paternity Pay (SPP) including Additional Statutory Paternity Pay (ASPP)
   - Statutory Shared Parental Pay (ShPP) and
   - Statutory Adoption Pay (SAP)

   Recovery of Statutory Sick Pay (SSP) ceased in respect of periods of sickness from April 2014, and only small amounts can be recovered after that date and until April 2016 in respect of periods of sickness before that date. ASPP was introduced for births with due date between April 2011 and April 2015. ShPP applies for births with a due date from April 2015. Amounts recovered by employers are estimated by adjusting amounts recovered in the latest years for which data are available broadly in line with changes in numbers of employees, the numbers of births or children, rates of benefit, and, for statutory payments with earnings-related components (SMP and SAP), the average earnings of potential recipients. The additional amounts in excess of 100% paid which can be reclaimed by small employers (abatement) are estimated in a similar way. The amounts of the payment from the Consolidated Fund are estimated as the amounts recovered, with adjustments in the current year arising from revisions to estimates of amounts recovered in prior years. Historically there were problems with the data for statutory payments. The position has improved and work is now focussed on accessing data more quickly using new HMRC systems. In the meantime, estimates have been made based on the available data, which become final about 2 years after the end of the financial year in question.

*Other receipts*

8. The estimates given for receipts from state scheme premiums are based on information provided by HMRC.

9. 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 National Insurance Fund is expected to be close to the Official Bank of England Rate (Bank Rate) given that the assets of the National Insurance Fund are deposited with the Commissioners for the Reduction of National Debt. The assumed rate of investment return is based on the OBR's Economic and fiscal outlook (EFO) report published on 25 November 2015.

10. Estimates for the item called "Other receipts" in the accounts of the National Insurance Fund (mainly recoveries of damages in tort from benefits paid) are provided by the Department for Work and Pensions.

*Benefits*

11. Benefits are estimated separately for each of the contributory benefits, for the basic flat-rate element of state retirement pensions and for additional earnings related pensions (SERPS and S2P).

12. The estimate of basic retirement pension, by far the largest amount of benefit payable, uses a 2014-based principal population projection for Great Britain, derived from population projections issued by ONS, as a basis for the number of people over State Pension age. The estimates allow for different proportions of the population at different ages in any given year above State Pension age receiving basic retirement pension. Allowance is 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. Allowance has been made for the increases in female State Pension age during 2015-16 to 2019-20 and male State Pension age during 2018-19 to 2019-20.

14. The projections for 2016-17 allow for the effect of the introduction of new State Pension (nSP) from April 2016 at a rate of £155.65 a week in 2016-17.

15. For those people reaching SPa on or after April 2016 who will receive the nSP, I have used a database provided by DWP of anonymised data which included records on over 450,000 individuals who would be affected by the nSP transitional arrangements. This database showed past earnings and contribution record history. Based on this data I calculated, for each individual (a) their entitlement at the introduction of the new State Pension based on the pre-Pensions Act 2014 system, and (b) their entitlement assuming the new State Pension system had always been in place. The higher of these two amounts is the individual's 'starting amount'. If the starting amount is greater than the full rate of the nSP, the difference becomes the individual's protected payment and is payable alongside the new State Pension.

16. As the database provided by DWP included data just up to the end of the financial year 2011-12, I extrapolated the records up to 2016 assuming, where necessary, an allowance for mortality. I also assumed that each individual will receive a full qualifying year based on contributions or a credit for each year they survive between 2012 and 2016. The protected payments were projected for years after 2016 allowing for CPI up-rating and mortality before and after coming into payment. I allowed for inheritance of these amounts consistent with the rules regarding inheritance of additional State Pension.

17. The nSP entitlements excluding the protected payments were converted to an average proportion of the full amount that individuals would achieve on average at SPa. This took into account both the starting amounts as described in paragraph 15 above and qualifying years that individuals might accrue after 2016. In the long term I would expect this average proportion to stabilise close to but less than 100% of the full new State Pension. We have liaised with DWP to align our approach to setting an appropriate assumption by age and sex with DWP's emerging modelling. Forecasts assume the new State Pension will be up-rated in line with triple lock.

18. A separate model is used to estimate the amounts of retirement pension paid to pensioners overseas (and therefore not covered by the ONS's population projections). This model takes as starting points DWP data on the amounts of pension currently paid to pensioners overseas and an estimate of the amounts of contributions paid in past years by people under State Pension age who are believed to be currently overseas. These are then projected allowing for mortality, immigration and emigration, and awards of new pension for claims by those reaching State Pension age. Allowance is made for those overseas cases whose pension rate is frozen. Allowance is also made for the effects of the introduction of new State Pension for those reaching State Pension age from April 2016 in terms of different eligibility conditions, a different rate of benefit and the effects of transition provisions.

19. Estimates are also made for amounts of additional pension paid, based on accrual up to 5 April 2016 for those reaching SPa before 6 April 2016. Estimates are derived from age-specific data on past earnings from data provided from DWP. For years where data are not yet available, earnings factors are derived from the output of the National Insurance Class 1 contributions model, with adjustments for the difference between earnings on which contributions are paid and earnings counting for accruals of

additional pension, and with allowance for different accrual rates on different bands of earnings in the State Second Pension (S2P). Allowance is also made for accruals of S2P-credited earnings from 2002-03 onwards, including the changes introduced by the Pensions Act 2007, based on information from DWP. Accrued earnings are projected to pension age based on population mortality rates from the ONS 2014-based population projections. At State Pension age, the projected accrued earnings are converted to amounts of awards of additional pension. These amounts of additional pension are projected forward using mortality rates based on the ONS's 2014-based population projection, with adjustment to allow for lighter mortality rates for amounts of additional pension than for lives in the population as observed in DWP data on benefit expenditure. Allowance is made for additional pension which is inherited by surviving widows and widowers after the death of a pensioner. A similar method is used for guaranteed minimum pensions and contracted-out deductions, with further adjustment made to the mortality rates to allow for generally lighter mortality for those contracted out.

20. The estimates of graduated retirement pension are based on the numbers of graduated units earned between 1961 and April 1975. An estimated adjustment was made to allow for units of deceased men inherited by their widows who were under State Pension age at April 1975 and which would not come into payment until the widow reached State Pension age. The units accrued up to April 1975 are projected using population mortality rates. Allowance is made for inheritance of graduated units by widows, widowers and bereaved civil partners. Units in respect of people under State Pension age are assumed to be paid on reaching State Pension age. The appropriate graduated rate is applied to the remaining units over State Pension age.

21. I have also allowed for DWP's projected estimates of the State Pension top up arising in future years from the introduction of Class 3A voluntary contributions.

22. The estimates of benefits for widows, bereavement, incapacity, employment and support, jobseekers, maternity, and Christmas bonus are based on information provided by the Department for Work and Pensions. Estimates for guardian's allowance are derived from recent data, adjusted in line with the projected number of children in the population.

23. Allowance has also been made for the impact of the Welfare Reform and Work Bill currently before the UK Parliament on working age benefits payable from the Fund.

*Other payments*

24. The administration costs for 2015-16 are based on estimates provided by HMRC. Future costs have been estimated as the 2015-16 costs increased in line with average earnings growth.

25. Redundancy payments estimates (net of redundancy receipts) are provided by the Department for Business, Innovation and Skills, and are based on the same economic assumptions as the other estimates.

26. 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 2.87% of the combined balance in the two funds. Estimates of transfers to or from Northern Ireland are made on this basis. This proportion is based on analysis of the working populations in Great Britain and Northern Ireland as provided in 2011 census.

27. 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.

## Appendix 4: Analysis of contribution receipts

| **Great Britain, £million** | | | **2015-16** | | **2016-17** | |
|---|---|---|---|---|---|---|
| **National Insurance Fund** | | | | | | |
| Class 1 [1] | Primary | Gross | 37,645 | | 39,518 | |
| | Contracted-out rebate [2] | | 1,625 | | 167 | |
| | | Net | | 36,021 | | 39,351 |
| | Secondary | Gross | 55,078 | | 58,081 | |
| | Contracted-out rebate [2] | | 3,945 | | 407 | |
| | | Net | | 51,133 | | 57,675 |
| | Total | Gross | 92,724 | | 97,600 | |
| | Contracted-out rebate [2] | | 5,570 | | 574 | |
| | | Net | | 87,154 | | 97,025 |
| Classes 1A and 1B | | | | 1,114 | | 1,161 |
| Class 2 | | | | 357 | | 210 |
| Class 3 | | | | 22 | | 20 |
| Class 3A | | | | 366 | | 366 |
| Class 4 | | | | 1,896 | | 1,954 |
| **Total National Insurance Fund contributions[3]** | | | | **90,909** | | **100,736** |
| **National Health Service** | | | | | | |
| Class 1 | Primary | | 8,662 | | 9,109 | |
| | Secondary | | 12,429 | | 12,963 | |
| | Total | | | 21,091 | | 22,072 |
| Classes 1A and 1B | | | | 178 | | 185 |
| Class 2 | | | | 65 | | 38 |
| Class 3 | | | | 4 | | 4 |
| Class 3A | | | | 67 | | 67 |
| Class 4 | | | | 748 | | 771 |
| **Total National Health Service contributions[4]** | | | | **22,153** | | **23,137** |

## Appendix 4 (cont)

| Great Britain £million | | | 2015-16 | | 2016-17 | |
|---|---|---|---|---|---|---|
| **All contributions** | | | | | | |
| Class 1 (1) | Primary | Gross | 46,307 | | 48,627 | |
| | Contracted-out rebate (2) | | 1,625 | | 167 | |
| | | Net | | 44,683 | | 48,460 |
| | Secondary | Gross | 67,508 | | 71,044 | |
| | Contracted-out rebate (2) | | 3,945 | | 407 | |
| | | Net | | 63,562 | | 70,638 |
| | Total | Gross | 113,815 | | 119,672 | |
| | Contracted-out rebate (2) | | 5,570 | | 574 | |
| | | Net | | 108,245 | | 119,097 |
| Classes 1A and 1B | | | | 1,291 | | 1,346 |
| Class 2 | | | | 422 | | 248 |
| Class 3 | | | | 26 | | 24 |
| Class 3A | | | | 433 | | 433 |
| Class 4 | | | | 2,644 | | 2,725 |
| **Total contributions (4)** | | | | **113,062** | | **123,873** |

(1) All figures are gross of recoveries by employers of Statutory Maternity Pay, Statutory Paternity Pay including Additional Statutory Paternity Pay and Statutory Adoption Pay, and, for births due after April 2015, Statutory Shared Parental Pay, as well as residual recoveries of Statutory Sick Pay in respect of periods of sickness absence before April 2014.

(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 4.1 in the main report.

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

## Appendix 5: Comparison of the 2015-16 cash flow estimates in this report with those in last year's report

The table below compares the 2015-16 estimates in this report with those in last year's report.

| Great Britain<br><br>£ million | | 2015-16 current estimates, on the assumptions in Section 4 and detailed in Appendix 3 | | 2015-16 estimates in last year's Report |
|---|---|---|---|---|
| **Receipts** | | | | |
| Contributions[(1)] | 90,909 | | 89,330 | |
| Less recoveries of statutory payments (and abatements) | 2,515 | | 2,553 | |
| Net contribution receipts[(3)] | | 88,394 | | 86,777 |
| Treasury Grant | | 9,600 | | 0 |
| Compensation from Consolidated Fund for statutory payments recoveries | | 2,634 | | 2,545 |
| Income from investments | | 114 | | 109 |
| State scheme premiums | | 33 | | 49 |
| Other receipts | | 22 | | 34 |
| **Total receipts**[(3)] | | **100,796** | | **89,514** |
| **Payments**[(2)] | | | | |
| Benefits | | 95,100 | | 95,746 |
| Administration costs | | 830 | | 939 |
| Redundancy fund payments (net) | | 263 | | 330 |
| Transfer to Northern Ireland | | 690 | | 401 |
| Other payments | | 167 | | 175 |
| **Total payments**[(3)] | | **97,050** | | **97,591** |
| Excess of receipts over payments[(3)] | | 3,746 | | -8,077 |

(1) The increase of £1.6 billion in contributions is due to an upward revision in assumed earnings growth for 2015-16 and updates to contribution modelling using more recent information sources. When the expected receipt of Treasury Grants of £9.6 billion in 2015-16 is also taken into account, there is a net increase in receipts of around £11.2 billion. Adding in the small net decrease in payments of around £0.5 billion results in a net increase in cash flow to the fund of around £11.7 billion.

(2) The relatively small difference of £0.5 billion is due largely to revised assumptions and modelling of benefits decreasing projected costs together with a number of differences between the projections including lower ESA payments and lower administration costs and redundancy payments offset to an extent by higher IB and bereavement benefits and an increase in transfers to Northern Ireland.

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

## Appendix 6: Projections beyond April 2017

1. This section includes the results of 5-year projections on my central assumptions. Even relatively short term projections of the Fund are highly sensitive to the assumptions made and therefore need to be treated with caution. To illustrate the level of sensitivity of the results to the assumptions, this section also includes a second set of projections on varying assumptions for future earnings growth (the "earnings variants").

*Assumptions*

2. I have assumed that decisions regarding future increases in contribution limits and rates and increases in benefits from 2017-18 onwards are made in line with the same policies and approaches as used for the increases for 2016-17.

3. Unless otherwise stated the methods and assumptions used for these projections are the same as the methods and assumptions used for the results shown earlier in this report. In particular CPI, earnings growth and triple lock assumptions are based on Table 4.1 in OBR's 25 November 2015 Economic and fiscal outlook.

4. The earnings variants assume in turn that earnings increases are 1% higher than assumed each year, 1% lower each year than assumed and that the past five years of earnings increases and CPI (2010-11 to 2014-15) repeat over the next five years (2016-17 to 2020-21). It should be noted that these are purely illustrations of sensitivity of the results to the earnings increase assumption and that future actual experience could be completely different.

**Employees**[(1)]

| Financial year | UR2015 people-based (millions) | UR2016 people-based (millions) | Change (millions) |
|---|---|---|---|
| 2014-15 | 26.3 | 26.3 | nil |
| 2015-16 | 26.7 | 26.7 | nil |
| 2016-17 | 26.8 | 27.0 | +0.2 |
| 2017-18 | 26.9 | 27.1 | +0.2 |
| 2018-19 | 27.0 | 27.3 | +0.3 |
| 2019-20 | 27.1 | 27.4 | +0.3 |
| 2020-21 | N/A | 27.5 | N/A |

(1) Separately, section 5 discusses the impact in 2016-17 of a 200,000 increase and reduction in employee numbers.

**Annual increase in September CPI**

| Year | UR2015 % | UR2016 % | Change % |
|---|---|---|---|
| 2014 | 1.2 (actual) | 1.2 (actual) | nil |
| 2015 | 1.2 | -0.1 (actual) | -1.3 |
| 2016 | 1.8 | 1.0 | -0.8 |
| 2017 | 2.0 | 1.8 | -0.2 |
| 2018 | 2.0 | 1.9 | -0.1 |
| 2019 | 2.0 | 2.0 | nil |
| 2020 | N/A | 2.0 | N/A |

**Earnings growth[1] from one financial year to the next**

| Financial year | UR2015 | UR2016 | | | | | |
|---|---|---|---|---|---|---|---|
| | % | Central % | Change % | +1% earnings variant | -1% earnings variant | Past earnings variant | CPI for past earnings variant |
| 2014-15 | 1.8 | 1.5 | -0.3 | 1.5 | 1.5 | 1.5 | 1.2 |
| 2015-16 | 2.1 | 2.9 | +0.7 | 3.9 | 1.9 | 2.9 | -0.1 |
| 2016-17 | 3.3 | 3.5 | +0.2 | 4.5 | 2.5 | 1.1 | 3.1 |
| 2017-18 | 4.0 | 3.7 | -0.3 | 4.7 | 2.7 | 0.5 | 5.2 |
| 2018-19 | 3.9 | 3.7 | -0.2 | 4.7 | 2.7 | 1.3 | 2.2 |
| 2019-20 | 3.8 | 3.7 | -0.1 | 4.7 | 2.7 | 1.7 | 2.7 |
| 2020-21 | N/A | 4.0 | N/A | 5.0 | 3.0 | 1.5 | 1.2 |

**Triple Lock[1]**

| Date from which triple lock increase applicable | UR2015 | UR2016 | | | | |
|---|---|---|---|---|---|---|
| | % | Central % | Change % | +1% earnings variant | -1% earnings variant | Past earnings variant |
| 1 April 2015 | 2.5 (actual) | 2.5 (actual) | nil | 2.5 (actual) | 2.5 (actual) | 2.5 (actual) |
| 1 April 2016 | 2.5 | 2.9 (proposed) | +0.4 | 3.9 (proposed) | 2.5 (proposed) | 2.9 (proposed) |
| 1 April 2017 | 3.0 | 3.2 | +0.2 | 4.2 | 2.5 | 3.1 |
| 1 April 2018 | 3.8 | 3.7 | -0.1 | 4.7 | 2.7 | 5.2 |
| 1 April 2019 | 4.0 | 3.6 | -0.4 | 4.6 | 2.6 | 2.5 |
| 1 April 2020 | 3.9 | 3.7 | -0.2 | 4.7 | 2.7 | 2.7 |

*Projections*

5. The variants shown here focus on the impact of changes in earnings growth as the size of the Fund is particularly sensitive to changes in this assumption. Changes in earnings growth have a direct impact on the level of contributions received. However the impact of changes in earnings growth on benefit payments – where this reduces to below CPI or 2.5% – will be limited due to the Basic State Pension triple lock mechanism. Figures for 2014-15 are from the National Insurance Fund accounts.

*Tables of results*

6. I project the Fund and the 'Fund as a percentage of benefit payments', allowing for any transfers to the Northern Ireland National Insurance Fund estimated to be required in order to keep the balance in the Northern Ireland National Insurance Fund at 2.87% of the combined balance in the two funds. I also show separately the Treasury Grant required to ensure that the Fund does not fall below one-sixth of benefit payments.

[1] As shown on page 10, there are different earnings increase measures for general earnings increases and for triple lock.

7. The relative improvement in Fund level in comparison with last year is mainly due to a combination of more optimistic economic assumptions, payment of Treasury Grant, a downward revision in contributory ESA and updates to contribution modelling using more recent information sources.

**Central Assumptions – Fund value from 2015-2021**

| Great Britain, £ million | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|---|---|
| Income(1) | 91,323 | 100,796 | 100,933(2) | 106,514 | 111,608 | 116,977 | 122,830 |
| Payments | 93,584 | 97,050 | 99,286 | 102,186 | 105,423 | 107,520 | 111,126 |
| Excess of receipts over payments(1) | -2,261 | 3,746 | 1,647 | 4,329 | 6,185 | 9,458 | 11,703 |
| Balance in fund at end of year(1) | 20,935 | 24,682 | 26,328 | 30,657 | 36,841 | 46,299 | 58,002 |
| Balance at end of year as a percentage of benefit payments(1) | 22.8% | 25.9% | 27.0% | 30.5% | 35.6% | 43.8% | 53.1% |
| Treasury Grants required to maintain Fund at one-sixth of benefit payments(3) | N/A | N/A | 0 | 0 | 0 | 0 | 0 |

(1) Ignoring the effect of any Treasury Grants, apart from those (to be) paid in 2014-15 and 2015-16.
(2) There is a substantial increase in National Insurance contributions projected from 2016-17 onwards, as a result of the abolition of salary-related contracting-out from April 2016. This effect is, however, obscured in comparing 2015-16 with 2016-17 due to the £9.6 billion Treasury Grant.
(3) This row is separate from the others. This row shows the Treasury Grants that would be needed in successive years in order to ensure that the Fund is always at least one-sixth of benefit payments.

For comparison, the projected balance in the Fund at the end of each year in last year's report was:

| Great Britain, £ million | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|
| Balance in Fund at end of year(1) | 19,609 | 11,531 | 8,684 | 7,810 | 8,535 | 10,622 |

(1) Ignoring the effect of any Treasury Grants.

**Earnings variant 1% higher increases in each year - Fund value from 2015-2021**

| Great Britain, £ million | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|---|---|
| Income(1) | 91,323 | 101,779 | 103,217(2) | 110,192 | 116,796 | 123,814 | 131,473 |
| Payments | 93,584 | 97,057 | 99,303 | 102,857 | 106,861 | 109,753 | 114,253 |
| Excess of receipts over payments(1) | -2,261 | 4,722 | 3,914 | 7,334 | 9,935 | 14,061 | 17,220 |
| Balance in fund at end of year(1) | 20,935 | 25,657 | 29,572 | 36,906 | 46,841 | 60,902 | 78,122 |
| Balance at end of year as a percentage of benefit payments(1) | 22.8% | 26.9% | 30.3% | 36.5% | 44.6% | 56.5% | 69.6% |
| Treasury Grants required to maintain Fund at one-sixth of benefit payments(3) | N/A | N/A | 0 | 0 | 0 | 0 | 0 |

**Earnings variant 1% lower increases in each year - Fund value from 2015-2021**

| Great Britain, £ million | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|---|---|
| Income[(1)] | 91,323 | 99,814 | 98,653[(2)] | 102,876 | 106,510 | 110,289 | 114,438 |
| Payments | 93,584 | 97,042 | 99,268 | 101,725 | 104,235 | 105,559 | 108,327 |
| Excess of receipts over payments[(1)] | -2,261 | 2,772 | -614 | 1,151 | 2,275 | 4,730 | 6,111 |
| Balance in fund at end of year[(1)] | 20,935 | 23,707 | 23,093 | 24,244 | 26,519 | 31,250 | 37,361 |
| Balance at end of year as a percentage of benefit payments[(1)] | 22.8% | 24.9% | 23.7% | 24.2% | 26% | 30% | 35% |
| Treasury Grants required to maintain Fund at one-sixth of benefit payments[(3)] | N/A | N/A | 0 | 0 | 0 | 0 | 0 |

**Earnings variant repeating past earnings increases (and CPI) in future – Fund value from 2015-2021**

| Great Britain, £ million | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|---|---|
| Income[(1)] | 91,323 | 100,821 | 98,409[(2)] | 98,997 | 99,661 | 101,633 | 102,914 |
| Payments | 93,584 | 97,050 | 99,267 | 102,610 | 107,736 | 109,250 | 112,249 |
| Excess of receipts over payments[(1)] | -2,261 | 3,772 | -858 | -3,613 | -8,075 | -7,618 | -9,335 |
| Balance in fund at end of year[(1)] | 20,935 | 24,707 | 23,849 | 20,237 | 12,161 | 4,544 | 0[(4)] |
| Balance at end of year as a percentage of benefit payments[(1)] | 22.8% | 25.9% | 24.4% | 20.0% | 11.5% | 4.2% | 0.0% |
| Treasury Grants required to maintain Fund at one-sixth of benefit payments[(3)] | N/A | N/A | 0 | 0 | 5,473 | 7,685 | 9,478 |

Notes to the three tables above:

(1) Ignoring the effect of any Treasury Grants, apart from those (to be) paid in 2014-15 and 2015-16.

(2) There is a substantial increase in National Insurance contributions projected from 2016-17 onwards, as a result of the abolition of salary-related contracting-out from April 2016. This effect is, however, obscured in comparing 2015-16 with 2016-17 due to the £9.6 billion Treasury Grant.

(3) This row is separate from the others. This row shows the Treasury Grants that would be needed in successive years in order to ensure that the Fund is always at least one-sixth of benefit payments.

(4) Reflected as zero as the Fund is projected to be in deficit.

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