



**Report by the Government Actuary  
on the draft Social Security Benefits Up-rating  
Order 2013 and the draft Social Security  
(Contributions) (Re-rating) Order 2013**



GOVERNMENT **ACTUARY'S** DEPARTMENT



**Report by the Government Actuary on the draft Social Security Benefits Up-rating Order 2013 and the draft Social Security (Contributions) (Re-rating) Order 2013**

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

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To: The Right Hon. Iain Duncan Smith MP, Secretary of State for Work and Pensions  
David Gauke MP, Exchequer 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 2013 and the draft Social Security (Contributions) (Re-rating) Order 2013.

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

This report also includes the potential effect on the National Insurance Fund of the proposed changes in the draft Social Security (Contributions) (Limits and Thresholds) (Amendment) Regulations 2013.

The report contains estimates for the National Insurance Fund of receipts and payments for the years 2012 – 13 to 2017 – 18. The estimates are based on a number of assumptions which are described in the report.

On the basis of my estimates, the balance in the National Insurance Fund at 31 March 2014 is expected to be greater than 1/6<sup>th</sup> of the amount of benefit payments in 2013 – 14. This exceeds the minimum level that has been recommended to ensure that a reasonable working balance is maintained. In my view it should not therefore be necessary for any Treasury grant to be made to the National Insurance Fund in 2013 – 14.

Trevor Llanwarne  
Government Actuary  
January 2013

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## 1 Executive summary

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### *Legislative requirements*

- 1.1 This report has been prepared under sections 142(1), 150(8) and 150A(5) of the Social Security Administration Act 1992 (SSAA 92). It considers the potential effect on the National Insurance Fund (the Fund) of
- > the draft Social Security Benefits Up-rating Order 2013 (the Up-rating Order)
  - > the draft Social Security (Contributions) (Re-rating) Order 2013 (the Re-rating Order).
- 1.2 This report also includes the potential effect on the Fund of:
- > the draft Social Security (Contributions) (Limits and Thresholds) (Amendment) Regulations 2013 (the Limits and Thresholds Regulations);
  - > the Welfare Reform Act 2012 which will reduce the amount of contribution-based employment and support allowance paid from the Fund;
  - > draft legislation on the up-rating of working age benefits by 1% in 2014 – 15 and 2015 – 16.
- 1.3 This report is required to be laid by the Secretary of State for Work and Pensions before Parliament under sections 150(8) and 150A(5) of SSAA 92 in respect of the Up-rating Order, and by HM Treasury under section 142(1) of SSAA 92 in respect of the Re-rating Order.
- 1.4 This report is confined to the National Insurance Fund in Great Britain. It does not consider the separate Northern Ireland National Insurance Fund.
- 1.5 This report includes estimates of the Fund income and outgo for 2012 – 13 to 2017 – 18. It includes detailed figures for 2012 – 13 and 2013 – 14.

### *Results for 2012 – 13 and 2013 – 14*

- 1.6 The updated estimates of benefit payments and contribution receipts in 2012 – 13 are:

<b>£ billion</b>	<b>This review</b>	<b>Last year's estimates<sup>1</sup></b>
Contribution receipts	81.5	81.2
Benefit payments	86.8	86.3

- 1.7 The financial effects of the draft Orders on projected benefit payments and contribution receipts for 2013 – 14 (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:
- > The draft Up-rating Order would increase the rates at which some benefits are paid from April 2013. For example, the full basic State Pension would increase by 2.5%, from £107.45 a week to £110.15 a week and the amount of additional pension payable will increase in line with the CPI increase of 2.2%. Estimated benefit payments excluding redundancy payments in 2013 – 14 would increase by £2.1 billion from £86.6 billion to £88.7 billion as a result of the changes proposed in the Order.

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<sup>1</sup> See [http://www.gad.gov.uk/Documents/Social%20Security/GAD\\_Report\\_2012.pdf](http://www.gad.gov.uk/Documents/Social%20Security/GAD_Report_2012.pdf)

- > The draft Re-rating Order would alter the rates of Class 2 and Class 3 contributions, the small earnings exception level for Class 2 and the band of earnings on which Class 4 contributions are paid. Together these changes would reduce estimated contribution receipts to the National Insurance Fund in 2013 – 14 by £1.0 million.
- > The draft Limits and Thresholds Regulations would:
  - > increase the lower earnings limit from £107 to £109 a week;
  - > increase the primary threshold from £146 to £149 a week;
  - > increase the secondary threshold from £144 to £148 a week.

It is estimated that these changes would decrease net contribution receipts to the Fund in 2013-14 by £1.0 billion.

1.8 During 2013 – 14 payments out of the Fund are estimated to exceed receipts by £4.9 billion. The balance in the Fund at 31 March 2014 is estimated at £27.0 billion, or 30.3% of the estimated benefit payments (including redundancy payments) of £89.1 billion in the year 2013 – 14. The Fund is expected to be above the level of 1/6<sup>th</sup> of annual benefit expenditure that has been recommended to ensure that a reasonable working balance is maintained. Therefore no Treasury grant is expected to be needed during the year 2013 – 14.

#### *Five-year projection*

1.9 The following table shows the projected balance of the Fund, on the main assumptions, as a percentage of benefit payments at the end of each year up to 2017 – 18.

<b>Great Britain</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
Balance	46.7%	36.5%	30.3%	24.2%	20.1%	18.5%	19.1%

1.10 The Fund is projected to remain above 1/6<sup>th</sup> of benefit payments throughout the period to 2017 – 18 and therefore, on this projection, no Treasury grant should be required during this period.

1.11 In last year's report the Fund was projected to fall to 30% of benefit payments by the end of 2016 – 17 compared to 18.5% in this year's report. The main reason for this reduction is the change in contribution income and basic and additional state pension payments as a result of changes in assumptions between the 2011 and 2012 Autumn Statements.

1.12 As the Fund is projected to fall much closer to the 1/6<sup>th</sup> threshold than projected last year there is an increased risk that this threshold could be breached if experience differs from my main assumptions. As explained in section 6 below, this could happen, for example, if actual CPI increases in each year from 2014 – 15 were to be 0.35% higher than the main CPI assumptions shown in Table 3.1 and Table 3.2 with no change in the assumed increases in average earnings. Further examples of scenarios which could lead to the threshold being breached are given in section 6.

1.13 There is no immediate need to do anything to address the risk of the Fund falling below 1/6<sup>th</sup> of benefit payments as the Fund is projected to remain above 30% of benefit payments until at least the end of the 2013 – 14 financial year. However, given the results of our 5-year projections, it will be important to review carefully the situation in 12 months' time.

### *Assumptions*

- 1.14 The main assumptions used in my projections are, where appropriate, consistent with the central assumptions used by the OBR in its Economic and fiscal outlook (EFO) report published on 5 December 2012. Details of the key assumptions are given in section 3 below.
- 1.15 Varying the main assumptions would change the estimates for benefit payments and contribution receipts, and in turn the estimated balance of the Fund. Section 5 below shows the impact of using different economic assumptions. However, only very significant changes in the main assumptions, for example very significant reductions in the number of employed people and/or very high CPI in 2013 – 14 would affect the conclusion that the Fund balance at the end of 2013 – 14 will be above 1/6<sup>th</sup> of benefit expenditure in the year. Less significant changes could though cause the Fund balance at the end of later years to fall below 1/6<sup>th</sup> of benefit expenditure, as described in section 6 below.
- 1.16 No allowance has been made for the possible introduction of single tier state pensions.
- 1.17 I have not considered the effect of any changes in state pension age after 2017 – 18 as any such changes would not affect any of the figures in this report.
- 1.18 As the estimated payments and receipts are two large numbers, even relatively small changes in either or both of these numbers could produce a proportionally 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.
- 1.19 It is important to note that projections further into the future depend critically on the assumptions used, and small variations in experience from the assumptions adopted could mean that the actual outcome would be very different from that shown.



## 2 Proposed changes to benefits and contributions

### *Up-rating Order 2013*

2.1 The draft Up-rating Order proposes increasing the rates of some social security benefits paid from the Fund, from the week beginning 8 April 2013. The following table shows the proposed changes in the major benefit rates. Details of the proposed changes in other benefit rates are shown in Appendix 1.

**Table 1 – Changes to the major benefits rates**

	Weekly rate in 2012-13	Proposed increase in weekly rate	Weekly rate proposed from 8 April 2013
Retirement pension – person claiming on their own or their deceased spouse's NI contributions – standard rate	£107.45	£2.70	£110.15
Retirement pension – person claiming on their spouse's NI contributions – standard rate	£64.40	£1.60	£66.00
Contribution-based jobseeker's allowance single person 25 and over <sup>(1)</sup>	£71.00	£0.70	£71.70
Incapacity benefit long-term main rate	£99.15	£2.20	£101.35
Employment and support allowance personal allowance age 25 or over including work-related activity component	£99.15	£1.00	£100.15

(1) Contribution-based jobseeker's allowance and employment and support allowance

2.2 The most significant benefit paid from the National Insurance Fund, in terms of benefit expenditure, is retirement pensions.

2.3 The basic state pension is up-rated by the highest of growth in average earnings, prices (CPI) or 2.5%, the so-called "triple lock". The annual increase in the level of CPI to September 2012 was 2.2% and average earnings increase over the year to May – July 2012 was 1.6%. The result of the triple lock is, therefore, that it is proposed that the basic state pension will be up-rated by 2.5%. It is also proposed that other state benefits will be up-rated in line with the increase in CPI except for some working age benefits where it is proposed that they will increase by 1%. Details of the revised rates are shown in Appendix 1 below. Further details are available at:

<http://data.parliament.uk/DepositedPapers/Files/DEP2012-1830/ScheduleofproposedbenefitratesfromApril2013.pdf>

2.4 The draft Up-rating Order proposes increasing earnings-related additional pensions (under the state earnings-related pension scheme (SERPS), state second pension (S2P) and graduated retirement benefit) by 2.2%, in line with the increase in the CPI.

2.5 The draft order proposes increasing increments and lump-sum payments relating to the deferral of retirement pensions in line with the increase in the CPI.

2.6 The financial effects of the benefit up-ratings are shown in section 4 below.

*Re-rating Order 2013 and Limits and Thresholds Regulations*

2.7 The draft Re-rating Order proposes increasing some of the National Insurance contribution (NIC) rates payable to the Fund and the profits limits between and above which contributions are payable. The draft Limits and Thresholds Regulations propose increasing some of the earnings limits between and in some cases above which contributions are paid. The following table shows the changes in the major contribution rates and limits. Details of changes in other contribution rates and limits are shown in Appendix 2.

**Table 2 – Changes to the main limits and thresholds**

Item	2012-13	2013-14
	Per week	
Lower Earnings Limit for Class 1 NICs	£107	£109
Upper Earnings Limit for Employees' (Primary) Class 1 NICs	£817	£797
Upper accrual point <sup>(1)</sup>	£770	£770
Primary Threshold	£146	£149
Secondary Threshold	£144	£148
Rate of Class 2 NICs for Self- employed	£2.65	£2.70
	Per annum	
Small Earnings Exception Level for Class 2 NICs	£5,595	£5,725
	Per week	
Rate of (Voluntary) Class 3 NICs	£13.25	£13.55
	Per annum	
Class 4 NICs – Upper Profits Limit	£42,475	£41,450
Class 4 NICs - Lower Profits Limit	£7,605	£7,755

(1) The UAP was introduced from April 2009 by the National Insurance Contributions Act 2008 and remains fixed in cash terms at the level of the UEL in 2008 – 09 (£770 per week or £40,040 per annum)

2.8 Details of the revised rates are shown in Appendix 2 below. Further details are available at:

<http://www.hmrc.gov.uk/rates/nic.htm>

2.9 The financial effects of the changes in rates and limits proposed in the draft Re-rating Order and the draft Limits and Thresholds Regulations are shown in section 4 below.

### 3 Assumptions and methods used to project receipts and payments

- 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. In considering what assumptions to use, I have, where appropriate, used the same assumptions as the central assumptions used by the Office for Budget Responsibility for its Economic and fiscal outlook, published on 5 December 2012.
- 3.2 The two tables below provide details of the key assumptions underlying the estimates, along with last year's equivalents. Table 3.1 includes the assumptions for earnings and CPI increases during the year indicated. Table 3.2 shows the earnings and CPI increases from the previous year which are used in calculating the triple lock uprating factor for the year indicated.

**Table 3.1 - Key assumptions<sup>(1)</sup>**

	Current year	Following year	< ----- Future projection ----- >			
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Number of employees (millions) <sup>(2)</sup></b>						
This year's report	25.4	25.4	25.6	25.7	26.0	26.2
Last year's report	24.8	25.0	25.2	25.5	25.7	-
<b>General earnings increase (%) <sup>(3)</sup></b>						
This year's report	2.6	2.2	3.0	3.9	4.0	4.0
Last year's report	2.1	3.5	4.4	4.5	4.5	-
<b>CPI increase (%)</b>						
This year's report	2.2	2.6	2.2	2.0	2.0	2.0
Last year's report	2.5	2.1	2.0	2.0	2.0	-
<b>Difference between earnings and CPI (%)</b>						
This year's report	0.4	-0.4	0.8	1.9	2.0	2.0
Last year's report	-0.4	1.4	2.4	2.5	2.5	-

- (1) These assumptions are consistent with those used by the OBR in its Economic and fiscal outlook published on 5 December 2012. The general earnings increases and CPI increases have been taken from the 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) 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 our projections we exclude Northern Ireland employees. In last year's report we showed the number of jobs; to facilitate comparison with this year's assumptions, approximate people-equivalents are provided. This change in presentation has no impact on the results of our projections.
- (3) This is the average earnings increase per employee from the previous financial year to the current financial year from Table 4.1 of OBR's Economic and fiscal outlook.

**Table 3.2 - Key assumptions for triple lock<sup>(1)</sup>**

	Current year	Following year	< ----- Future projection ----- >			
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Previous year's second-quarter earnings increase (%)</b>						
This year's report	2.9	1.6	2.0	2.6	3.7	4.0
Last year's report	1.7	2.1	3.5	4.4	4.5	-
<b>Previous year's September CPI increase (%)</b>						
This year's report	5.2	2.2	2.6	2.2	2.0	2.0
Last year's report	5.2	2.5	2.1	2.0	2.0	-
<b>Difference between earnings and CPI (%)</b>						
This year's report	-2.3	-0.6	-0.6	0.4	1.7	2.0
Last year's report	-3.5	-0.4	1.4	2.4	2.5	-
<b>Triple lock increase (%)</b>						
This year's report	5.2	2.5	2.6	2.6	3.7	4.0
Last year's report	5.2	2.5	3.5	4.4	4.5	-

(1) The triple lock increase in any year is the greater of the increase in CPI to the previous September, the increase in May-July average earnings on the previous year and 2.5%. As an approximation to the May to July average earnings increase OBR use the increase to April to June.

- 3.3 The estimates of future receipts and payments have used a 2010-based low migration population projection for Great Britain, derived from population projections issued by ONS in October 2011 as this is consistent with the average net-migration assumption used by the OBR in its December 2012 Economic and fiscal outlook.
- 3.4 Further details of the methods used to estimate benefit payments and contribution receipts are provided in Appendix 3.
- 3.5 Section 5 below shows the broad impact of using some different economic assumptions from those set out above.

## 4 Estimates of receipts, payments and fund balance

4.1 Table 4 below provides estimates of receipts and payments of the Fund for 2013 – 14 along with current latest estimates for 2012 – 13.

**Table 4 – Estimated receipts and payments and statement of balances of the National Insurance Fund**

Great Britain, £ million	2012-13	2013-14
<b>Receipts</b>		
Contributions (as given in App 4)	83,996	85,755
Less recoveries of SSP	48	49
Less recoveries of SMP, SPP, SAP and ASPP (and abatements)	2,412	2,470
Net contribution receipts	81,536	83,236
Treasury grant	0	0
Compensation from Consolidated Fund for SSP, SMP, SPP, SAP and ASPP recoveries	2,505	2,511
Income from investments	141	117
State scheme premiums	37	37
Other receipts <sup>(1)</sup>	45	47
<b>Total receipts <sup>(2)</sup></b>	<b>84,263</b>	<b>85,947</b>
<b>Payments</b>		
Benefits	86,752	86,615
At present rates (as given in Table 5)		
Increase due to proposed changes		2,055
Total		88,670
Personal and stakeholder pensions contracted-out rebates	1,936	41
Age-related rebates for contracted-out money purchase schemes <sup>(3)</sup>	293	6
Administration costs <sup>(1)</sup>	1,154	1,180
Redundancy fund payments (net) <sup>(1)(4)</sup>	390	450
Transfer to Northern Ireland	334	305
Other payments	154	158
<b>Total payments <sup>(2)</sup></b>	<b>91,012</b>	<b>90,809</b>
<b>Statement of balances</b>		
Balance at beginning of year <sup>(5)</sup>	38,594	31,844
Excess of receipts over payments	-6,750	-4,862
Balance at end of year	31,844	26,982
Balance at end of year as percentage of annual benefit payments <sup>(6)</sup>	36.5%	30.3%

<sup>(1)</sup> The figures for 2012 – 13 are provisional estimates supplied by other government departments on the basis of amounts received or paid so far in this year.

<sup>(2)</sup> Figures may not sum to totals shown due to rounding.

<sup>(3)</sup> Contracting-out on a defined-contribution basis ceased in April 2012. Payments in 2012 – 13 are due to 2011 – 12 payments being made in arrears.

<sup>(4)</sup> Redundancy payments are shown net of redundancy recoveries.

<sup>(5)</sup> The balance at 31 March 2012 is taken from the draft accounts (version 3.2) of the Fund for the year 2011 – 12.

<sup>(6)</sup> Percentages of benefit payments used here include net redundancy payments.

*Estimates for 2012 – 13*

- 4.2 The estimates shown in Table 4 above for 2012 – 13 may be compared with the estimates for the same period included in my Up-rating report of January 2012. A full comparison is included in Appendix 5.
- 4.3 In my 2012 report I estimated that payments during the year 2012 – 13 would exceed receipts by £6.5 billion. My updated estimate for the excess of payments over receipts during the year 2012 – 13 is £6.8 billion as shown in Table 4 above.
- 4.4 The main reasons for this difference in the revised estimates are that
- > We have applied a revised approach to aligning our projected benefit payments with the forecast actual payments provided by DWP. This increased our projected payments by around £0.6 billion.
  - > Total Fund income is projected to be £0.4 billion higher for 2012 – 13 in my latest projections compared to the Fund income for 2012 – 13 shown in last year's report. This is primarily due to the impact of a revised earnings distribution used in the projection of Gross Class 1 contributions. The revised earnings distribution had an increase in the proportion of employees at the higher earnings levels and a consequent reduction in the proportion of employees at the lower earnings levels. As a result, the projected level of secondary Class 1 contributions increased while the projected level of primary Class 1 contributions decreased. As the secondary contributions are paid at the full secondary contribution rate for all earnings above the secondary threshold the increase in secondary contributions was larger than the reduction in the primary contributions.
  - > Incapacity Benefit plus Employment and Support Allowance payments are higher than previously projected by £0.2bn. This is mainly due to higher than expected numbers of cases remaining on Incapacity Benefit. More cases have remained on Incapacity Benefit partly due to a longer lag between an Incapacity Benefit case having a Work Capability Assessment (WCA) and leaving the benefit than previously assumed. The increase in Incapacity Benefit is not totally offset by Employment and Support Allowance decreases because fewer people are being allocated to the Work Related Activity Group, meaning that time-limiting is having less impact than previously expected.
  - > Jobseekers allowance is lower than previously projected by around £0.3bn. This is mainly due to lower than expected unemployment outturn in 2012 – 13, a lower OBR unemployment assumption than at Autumn 2011, fewer redundancies and a switch between contributory and non-contributory spending on JSA.

*Estimates for 2013 – 14*

- 4.5 The size of the Fund as a percentage of benefit payments is projected to fall from 36.5% at the end of 2012 – 13 to 30.3% at the end of 2013 – 14. The Fund's expenditure in 2013 – 14 is projected to be greater than its income and hence the Fund will continue to decline. This is in spite of a very slight fall of 0.2% in the Fund's total expenditure and a 2.0% increase in the Fund's income.
- 4.6 The Fund's income is projected to increase broadly in line with future average earnings and increases in employment. The Fund's expenditure is projected to increase broadly in line with increases to benefit rates, for example 'triple lock' for the basic state pension, and changes in the size and structure of the retired population.
- 4.7 Also, although the Fund's total expenditure is projected to fall (from £91.0 billion to £90.8 billion), benefit expenditure including redundancy costs is increasing (from £87.1 billion to £89.1 billion). Hence we have a situation of a reducing Fund being measured

against an increasing level of benefit expenditure which causes the Fund as a percentage of benefit expenditure to reduce quite significantly. Section 6 below shows how the Fund as a percentage of benefit expenditure is projected to develop over the period to 2017 – 18.

*Effects of the draft Up-rating order*

4.8 I estimate that the potential increase in benefit payments in 2013 – 14 as a result of the proposed measures in the draft Up-rating Order will be £2.1 billion, taking estimated total benefit payments from £86.6 billion to £88.7 billion. A breakdown of the £2.1 billion is shown in the final column of Table 5.

**Table 5 - Estimated payments from the National Insurance Fund for benefits, and the effect of benefit up-rating on payments in 2013 – 14**

<b>Great Britain, £ million <sup>(1)</sup></b>	<b>Estimated total payments in 2012-13</b>	<b>Estimated total payments in 2013-14</b>	<b>Estimated extra payments in 2013-14 as a result of the draft Up-rating Order<sup>(2)</sup></b>
Retirement Pensions – Basic <sup>(3)</sup>	63,984	66,563	1,512
Retirement Pensions – Additional Pensions	15,683	16,576	488
Widows'/Bereavement Benefits – Basic	531	489	0
Widows'/Bereavement Benefits – Additional Pensions	67	60	1
Incapacity Benefit – Basic <sup>(4)</sup>	3,099	850	17
Incapacity Benefit – Additional Pensions	79	19	0
Employment and Support Allowance <sup>(5)</sup>	2,156	2,853	26
Contribution-based Jobseeker's Allowance	638	713	7
Maternity Allowance	389	419	4
Guardian's Allowance	2	2	0
Christmas Bonus	125	126	0
<b>Total <sup>(6) (7)</sup></b>	<b>86,752</b>	<b>88,670</b>	<b>2,055</b>
<b>Redundancy payments (net)</b>	<b>390</b>	<b>450</b>	<b>0</b>

<sup>(1)</sup> Payments include those made from the Fund to beneficiaries residing outside Great Britain.

<sup>(2)</sup> Compared to the position without any up-rating in 2013 – 14.

<sup>(3)</sup> Includes payments of Graduated Retirement Benefit.

<sup>(4)</sup> The reassessment of Incapacity Benefit recipients and potential transition to Employment and Support Allowance is currently ongoing.

<sup>(5)</sup> The fall in Incapacity Benefit is larger than the increase in Employment and Support Allowance, reflecting that some Incapacity Benefit recipients will cease to receive contributory benefits as a result of the application of the work capability assessment.

<sup>(6)</sup> Figures from this line appear in Table 4.

<sup>(7)</sup> Figures may not sum to totals due to rounding



*Effects of the draft Re-rating order and draft Limits and Thresholds Regulations*

4.9 I estimate that the effect of the measures proposed in the draft Re-rating Order and the draft Limits and Thresholds Regulations will be a reduction in contribution receipts to the Fund in 2013 – 14 of £1.0 billion. A breakdown of this is shown in Table 6.

**Table 6 - Estimated effects of the draft Re-rating Order and Limits and the draft Limits and Thresholds Regulations on contribution accruals and receipts in 2013 – 14**

Great Britain, £ million	Contributions estimated as due for 2013-14 (i.e. accrual amounts)	Contributions estimated to be received in 2013-14 <sup>(1)</sup> (i.e. cash paid)
<b>National Insurance Fund effects</b>		
<i>Social Security (Contributions) (Re-rating) Order 2013</i>		
Increase in Class 2 contribution rate	4	4
Increase in Class 2 small earnings exception	-4	-4
Increase in Class 3 contribution rate	1	0
Change in Class 4 profits limits	-30	-1
Total	-29	-1
<i>Social Security (Contributions) (Limits and Thresholds) (Amendment) Regulations 2013</i>		
Change in Class 1 thresholds and earnings limits		
Effect on gross contributions	-1,161	-993
Effect on contracted-out rebate	-26	-23
Total <sup>(2)</sup>	-1,135	-970
Net effect of all measures <sup>(3)</sup>	-1,163	-971

<sup>(1)</sup> The balance of contributions for 2013 – 14 will not be received until after 31 March 2014, whereas the “Contributions estimated as due” column shows all contributions based on earnings or profits in 2013 – 14, regardless of when they are received.

<sup>(2)</sup> As the contracted-out rebates are deducted from the amount of Gross Class 1 contributions when calculating the Fund’s income one needs to deduct the effect on contracted out rebates from the effect on gross contributions to derive the total effect of the changes in thresholds and limits.

<sup>(3)</sup> Figures may not sum to totals shown due to rounding.

4.10 The main reason for the reduction in receipts as a result of the draft Re-rating Order and the draft Limits and Thresholds Regulations is that the upper earnings limit has reduced from £817 to £797 per week as the Class 1 Upper Earnings Limit and the Class 4 Upper Profits Limit are aligned with the point at which the higher rate tax rate becomes payable and this will reduce from £42,475 in 2012 – 13 to £41,450 in 2013 – 14.



*Fund balance*

4.11 I estimate that the balance in the Fund at 31 March 2014, allowing for the measures proposed in the draft Up-rating and Re-rating Orders and the draft Limits and Thresholds Regulations will be £27.0 billion. This exceeds 1/6<sup>th</sup> of estimated benefit payments including redundancy payments (that is, 1/6<sup>th</sup> of £89.1 billion or £14.9 billion). It has been recommended that a reasonable working balance in the fund would be 1/6<sup>th</sup> of annual benefit payments. Therefore I do not expect that a Treasury grant will be needed in 2013 – 14.

## 5 Sensitivity of estimates to economic assumptions

5.1 To provide an indication of the broad impact of alternative assumptions, Table 7 below shows the effects of changes in two of the key economic assumptions on Class 1 contribution receipts for the National Insurance Fund. Contribution receipts are sensitive to assumptions for the level of earnings increases and levels of employment. We have only shown the impact on Class 1 receipts as these make up over 90% of the net of rebate contributions.

**Table 7 – Effect on Class 1 receipts of the National Insurance Fund in 2013 – 14 of variations in economic assumptions**

<b>Variation £ million</b>	<b>Effect on receipts in 2013-14</b>
1% lower employee earnings increases	-1,920
1% higher employee earnings increases	1,930
Lower GB number of employees by 200,000 in 2013 – 14	-680
Higher GB number of employees by 200,000 in 2013 – 14	680

- 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 treated as additive.
- 5.3 The figures in Table 7 can be interpolated or extrapolated to assess the effects on contribution receipts, benefit payments and fund balance under different sets of assumptions. However, it should be noted that the emerging results become less reliable the further any extrapolation lies from the base scenario.
- 5.4 Receipts and payments into and out of the Fund are also sensitive to different levels or patterns of contracting-out. Rebates in respect of contracted-out salary-related schemes (COSRS) are deducted from contributions received in 2013 – 14.

## 6 Projections beyond April 2014

### Main assumptions

- 6.1 Table 8 below shows projected receipts and payments for the National Insurance Fund for the years up to 2017 – 18 along with the resulting Fund size based on the main assumptions which are, where appropriate, consistent with the central assumptions used by the Office for Budget Responsibility for its Economic and fiscal outlook, published on 5 December 2012.
- 6.2 Increases in benefit rates, contribution rates and earnings limits and alterations to benefits paid from the National Insurance Fund after 2013 – 14 are estimated in line with current and draft legislation. The Fund projection assumes no further changes to benefits, contributions or contracting-out.
- 6.3 No allowance has been made in these projections for the possible introduction of single tier state pensions.

**Table 8 – Five-year projection of the Fund**

Great Britain, £ million	2011- 12 <sup>(1)</sup>	2012- 13	2013- 14	2014- 15	2015- 16	2016- 17	2017- 18
Income <sup>(2)</sup>	81,704	84,263	85,947	88,638	93,112	98,642	104,486
Payments	86,274	91,012	90,809	93,440	96,269	99,559	103,215
Excess of receipts over payments	-4,570	-6,750	-4,862	-4,803	-3,157	-917	1,271
Balance in Fund at end of year <sup>(3)</sup>	38,594	31,844	26,982	22,180	19,023	18,105	19,376
Balance at end of year as a percentage of benefit payments <sup>(4)</sup>	46.7%	36.5%	30.3%	24.2%	20.1%	18.5%	19.1%

<sup>(1)</sup> From the draft Fund accounts (version 3.2) for 2011 – 12.

<sup>(2)</sup> This includes investment income.

<sup>(3)</sup> This uses the book value of the fund as at 31 March 2012 and is in accordance both with the accounts and with past practice.

<sup>(4)</sup> This is based on benefit payments; the payments figures in the table also include personal pension and COMP rebates and administration costs.

6.4 It can be seen from the above table that the balance of the fund, as a percentage of benefit payments declines fairly rapidly to 2015 – 16 and then stabilises.

6.5 Obviously, the principal reason for the decline is that the Fund's income is lower than the benefit payouts and other expenditure. However, over the years, benefit payments are projected to increase broadly in line with a mixture of CPI and average earnings. Whereas contribution receipts increase at a faster rate due to increases in average earnings and employment growth.

## Comparison to last year's report

6.6 The results as shown above, in particular the percentages shown in the final row, differ significantly from the percentages shown in the same table in last year's report, as shown in the table below.

**Table 9 - Size of Fund as a percentage of benefit payments according to last year's and this year's reports**

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
UR2012	54.8%	47.2%	37.3%	32.2%	29.0%	28.1%	29.6%	
UR2013		46.7%	36.5%	30.3%	24.2%	20.1%	18.5%	19.1%

6.7 Although the figures in Table 9 depend on a large variety of assumptions, the principal reason for the major reduction is that, as shown in section 3 above, OBR's assumptions for the difference between general earnings increases and CPI increases (see Table 3.1 above) has reduced by between 0.5% and 1.8% over the period 2013 – 14 to 2017 – 18 and for the difference between the earnings increases and CPI increases used in setting the triple lock (see Table 3.2 above) has reduced by between 0.2% and 2%. As explained in paragraph 6.5 above, this change reduces the growth of contribution income which principally depends on earnings (although CPI increases relative to earnings also have an effect as they are used to increase the primary and secondary thresholds) relative to the growth in benefit payments which depends on a mixture of CPI increases and earnings increases.

## Alternative scenarios

6.8 As the Fund is projected to fall to 18.5% of benefit payments during the projection period compared to a low of 28.1% in last year's report, there is an increased risk of the Fund falling below 1/6<sup>th</sup> of the benefit payments. This could happen during the projection period (assuming no policy changes are introduced to offset the effects and no other changes to other assumptions) due to changes in any of the key assumptions.

- > Relatively small but sustained differences in some of the assumptions from 2014 – 15 onwards could cause the 1/6<sup>th</sup> threshold to be breached during the projection period. For example:
  - > 0.6% lower number of employees in all years;
  - > around 0.35% higher CPI increases (to both the general CPI increase assumption and the assumptions used for setting triple lock) which, with no change in earnings increases, would reduce the gap between earnings and CPI increases by 0.35% in all years.
- > A significant and sudden change in 2014 – 15 only which causes the 1/6<sup>th</sup> threshold to be breached before the end of projection period due to a lasting impact of the change on the Fund. For example:
  - > 2% lower number of employees in 2014 – 15 than expected; or
  - > around 0.5% higher CPI increase (to both the general CPI increase assumption and the assumptions used for setting triple lock) in 2014 – 15 than expected which, with no change in earnings increases, would reduce the gap between earnings and CPI increases by 0.5%.

## 7 Conclusion

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- 7.1 The balance in the National Insurance Fund at 31 March 2013, as set out in Table 4 of this report, is estimated to be £31.8 billion. This is £0.5 billion lower than my estimate in my report in January 2012.
- 7.2 I estimate the balance of the Fund at 31 March 2014, allowing for the proposed increases in benefits and changes in contributions in 2013 – 14 that would arise from the proposed Up-rating Order, Re-rating Order and Limits and Thresholds Regulations, to be £27.0 billion.
- 7.3 As the estimated balance of the fund at 31 March 2014 of £27.0 billion significantly exceeds the recommended minimum level of at least  $1/6^{\text{th}}$  of benefit payments during the year (equivalent to £14.9 billion), it is unlikely that payment of a Treasury grant will be required in 2013 – 14.
- 7.4 If economic conditions depart from the assumptions used, the balance of the Fund at 31 March 2014 could be different from that given above. The effect of variations in these assumptions is described in section 5. This analysis suggests that even quite substantial alterations in economic conditions should not cause the balance of the fund at that date to fall significantly toward the level where a Treasury grant would be required for 2013 – 14.
- 7.5 The five-year projections imply that no Treasury Grant will be required during the period to 2017 – 18. However, the Fund is projected to get very close to breaching the  $1/6^{\text{th}}$  threshold and the risk of this occurring has increased since last year. This is primarily due to the changes in some of OBR's assumptions. I do not consider that any immediate action needs to be taken but it will be important to review carefully the situation in 12 months' time.

Trevor Llanwarne  
Government Actuary  
January 2013

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

All figures in £s	Weekly rate in 2012-13	Weekly rate proposed from April 2013
Basic State Pension, widow's pension and widowed parent's allowance		
Personal benefit (basic pension)	107.45	110.15
Based on spouse/civil partner's contributions (retirement pension only)	64.40	66.00
Increase for spouse or other adult dependant (retirement pension only)	61.85	63.20
Bereavement benefit	105.95	108.30
Graduated retirement benefit (unit)	0.1251	0.1279
Bereavement payment (lump sum)	2,000.00	2,000.00
Incapacity benefit long-term rate <sup>(1)</sup>		
Personal benefit	99.15	101.35
Transitional invalidity allowance higher rate	11.70	10.70
Transitional invalidity allowance middle rate	5.90	6.00
Transitional invalidity allowance lower rate	5.90	6.00
Wife or other adult dependant	57.60	58.85
Age increase higher rate <sup>(2)</sup>	11.70	10.70
Age increase lower rate <sup>(2)</sup>	5.90	6.00
Incapacity benefit short-term		
Personal benefit higher rate	88.55	90.50
Personal benefit lower rate	74.80	76.45
Wife or other adult dependant	44.85	45.85
Employment and support allowance <sup>(3)</sup>		
Personal allowance (age 25 or over)	71.00	71.70
Work-related activity component	28.15	28.45
Support component	34.05	34.80
Statutory sick pay	85.85	86.70
Jobseeker's allowance (contribution-based) <sup>(4)</sup>		
Personal benefit for those aged 18 to 24	56.25	56.80
Personal benefit for those aged 25 and over	71.00	71.70
Maternity allowance <sup>(5)</sup>		
Statutory maternity pay		
Standard rate <sup>(5)</sup>	135.45	136.78
Guardian's allowance		
First child	15.55	15.55
Other children	15.55	15.55
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	8.10	8.10
Other children	11.35	11.35
Christmas bonus to pensioners (lump sum)	10.00	10.00

- (1) 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.
- (2) The Employment and Support Allowance (Up-rating Modification) (Transitional) Regulations 2008 permit the modification to the rates of age additions, as part of the transition from incapacity benefit to employment and support allowance (ESA). The aim is that the total benefit (personal benefit plus age increase) is up-rated by no more than half the increase in CPI.
- (3) Employment and Support Allowance replaced Incapacity Benefit for new claims from 27 October 2008. The benefit contains many allowances depending 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 transferred to ESA.
- (4) 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.
- (5) The first 6 weeks of Statutory Maternity Pay is paid at 90% of the woman's average weekly earnings with no upper limit. Thereafter the remaining 33 weeks are paid at the standard rate or, if lower, 90% of her 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 2012-13	Rate proposed from April 2013
<b>Class 1</b>			
	Lower earnings limit (LEL)	£107 a week	£109 a week
	Upper earnings limit (UEL)	£817 a week	£797 a week
	Upper accrual point (UAP) <sup>(1)</sup>	£770 a week	£770 a week
	Primary threshold	£146 a week	£149 a week or £646 a month
	Secondary threshold	£144 a week	£148 a week or £641 a month
<b>Contribution rates (NI Fund and NHS combined)</b>			
Primary (employee)	On earnings between the primary threshold and UEL	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 <sup>(2)</sup>	13.80%	13.80%
	NHS allocation included in above (percentage of all earnings for employees earning above the primary threshold)	1.90%	1.90%
<b>Class 1A and Class 1B</b>			
	Contribution rate (employer only)	13.80%	13.80%
	NHS allocation included in above	1.90%	1.90%



## Appendix 2 (cont)

	Rate in 2012-13	Rate proposed from April 2013
<b>Class 2</b>		
Flat-rate contribution	£2.65 a week	£2.70 a week
Small earnings exception	£5,595 a year	£5,725 a year
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
<b>Class 3</b>		
Flat-rate contribution	£13.25 a week	£13.55 a week
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
<b>Class 4</b>		
Lower profits limit (LPL)	£7,605 a year	£7,755 a year
Upper profits limit (UPL)	£42,475 a year	£41,450 a year
<b>Contribution rate</b>		
On profits between the LPL and UPL	9.00%	9.00%
On profits above the UPL	2.00%	2.00%
<b>NHS allocation included in above<sup>(3)</sup></b>		
Percentage of profits between the LPL and UPL	2.15%	2.15%
Percentage of profits above the UPL	1.00%	1.00%

<sup>(1)</sup> The UAP was introduced from April 2009 by the National Insurance Contributions Act 2008, and remains fixed in cash terms at the level of the UEL in 2008-09 (£770 a week or £40,040 a year).

<sup>(2)</sup> The contracted-out rebate for secondary contributions in 2012 – 13 and 2013 – 14 is 3.4% of earnings between the LEL and UAP for COSRS and has been abolished for COMPS.

<sup>(3)</sup> 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.

## Appendix 3: Methods

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### *Contributions*

1. Contributions are estimated separately for each class of National Insurance contribution. Actual known receipts in recent years are used to adjust modelled estimates for future years. The modelled estimates for the current year, 2012 – 13, are aligned with HM Revenue & Customs estimates, based on contributions received in the year to date.
2. Estimates of Class 1 contributions are made separately for gross contributions and amounts of contracted-out rebates. Estimates of gross contributions and COSR rebates 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. 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 HM Revenue & Customs on contributions paid in previous years. Estimates of Class 2 and Class 4 contributions are estimated using data on the earnings of the self-employed received from HM Revenue & Customs, 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 HM Revenue & Customs assumptions.
4. Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP) 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, rates of benefit, and, for earnings-related SMP, the average earnings of women and number of births. 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. 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. Statutory Paternity Pay (SPP) and Statutory Adoption Pay (SAP) are estimated in a similar way. Additional Statutory Paternity Pay (ASPP) was introduced from April 2011. Historically there were problems with the data for statutory payments. The position has improved and work on resolving remaining issues is continuing. In the meantime, estimates have been made based on the available data but it is still possible that figures for statutory payments may be amended in the future.

### *Other receipts*

5. The estimates given for receipts from state scheme premiums are based on receipts data from HM Revenue & Customs in the recent past and on estimated amounts of contracted-out rebates.
6. 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 Bank of England's conditioned path for the Bank Rate as used in its quarterly inflation reports.

7. The amount of the Treasury grant, if any, for a year is estimated as that amount needed to ensure that the estimate of the Fund balance at the end of that year is at least 1/6<sup>th</sup> of projected benefit payments (including redundancy fund payments) in the year.
8. 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 Strategy Directorate of the Department for Work and Pensions.

*Benefits*

9. 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).
10. The estimate of basic retirement pension, by far the largest benefit, uses a 2010-based low migration 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 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.
11. Allowance has been made in the estimates of the basic retirement pension for the changes introduced by the Pensions Act 2007 and Pensions Act 2011 which impact expected expenditure in the years to 2016-17, namely:

- > For women born on or after 6 April 1950 the current state pension age has started increasing from 60 to 65 from April 2010. Under the Pensions Act 2011 women's state pension age will increase more quickly to 65 between April 2016 and November 2018.

These changes have only a small effect in 2011-12 and 2012-13, but an increasing effect in later years. Increasing women's state pension age more quickly to 65 between April 2016 and November 2018 will affect the final two years covered by the projections. The increase in state pension age for both women and men to age 66 by April 2020 contained in the Pensions Act 2011, does not affect the Fund during the period covered by these projections.

12. A separate model estimates the amounts of retirement pension paid to pensioners overseas (and therefore not covered by the ONS's population projections). This model takes as a starting point the 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 those reaching state pension age. Allowance is made for those overseas cases whose pension rate is frozen.
13. Estimates of amounts of additional pension paid with retirement pension are derived from age-specific data on past earnings from the L2 dataset. For future years, 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 2010-based population projections. At state

pension age, the projected accrued earnings are converted to amounts of additional pension awarded, and projected using the mortality rates from the ONS's 2010-based population projection. 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 adjustment made to the mortality rates to allow for generally lighter mortality for those contracted out.

14. 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 allowing 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.
15. The estimates of benefits for widows, bereavement, incapacity, employment and support, jobseekers, maternity, and Christmas bonus are derived from 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.
16. Allowance has also been made for the impact of the Welfare Reform Act on working age benefits payable from the Fund. We have not allowed for the impact of any capping of benefit payments as we have assumed that any such capping would not affect the payments made from the Fund.

*Other payments*

17. The administration costs for 2012 – 13 are based on estimates provided by HM Revenue & Customs. Future costs have been estimated as the 2012 – 13 costs increased in line with average earnings growth.
18. 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.
19. 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 2.84% of the combined balance in the two funds. Estimates of transfers to or from Northern Ireland are made on this basis.
20. 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 by fund and contributor class

Great Britain, £ million			2012-13	2013-14
<b>National Insurance Fund</b>				
Class 1 <sup>(1)</sup>	Primary	Gross	35,408	35,855
		Contracted-out rebate <sup>(2)</sup>	1,769	1,666
		Net	33,639	34,189
	Secondary	Gross	51,731	52,931
		Contracted-out rebate <sup>(2)</sup>	4,241	4,045
		Net	47,490	48,886
	Total	Gross	87,139	88,786
		Contracted-out rebate <sup>(2)</sup>	6,010	5,711
		Net	81,129	83,075
			1,098	1,126
			223	223
			57	51
			1,489	1,280
<b>Total National Insurance Fund contributions<sup>(3)</sup></b>			<b>83,996</b>	<b>85,755</b>
<b>National Health Service</b>				
Class 1	Primary		8,094	8,251
	Secondary		11,461	11,766
	Total		19,556	20,017
			175	180
			41	41
			11	9
			599	512
<b>Total National Health Service contributions<sup>(4)</sup></b>			<b>20,381</b>	<b>20,759</b>

## Appendix 4 (cont)

Great Britain, £ million			2012-13	2013-14
<b>All contributions</b>				
Class 1 <sup>(1)</sup>	Primary	Gross	43,502	44,106
		Contracted-out rebate <sup>(2)</sup>	1,769	1,666
		Net	41,733	42,440
	Secondary	Gross	63,192	64,697
		Contracted-out rebate <sup>(2)</sup>	4,241	4,045
		Net	58,951	60,652
	Total	Gross	106,694	108,803
		Contracted-out rebate <sup>(2)</sup>	6,010	5,711
		Net	100,684	103,092
Classes 1A and 1B			1,273	1,306
Class 2			264	264
Class 3			68	60
Class 4 <sup>(5)</sup>			2,088	1,792
<b>Total contributions <sup>(4)</sup></b>			<b>104,377</b>	<b>106,514</b>

<sup>(1)</sup> All figures are gross of recoveries by employers of statutory sick pay, statutory maternity pay, statutory paternity pay and statutory adoption pay. No allowance has been made for recoveries relating to ASPP.

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

<sup>(3)</sup> These figures appear in Table 4 in the main report.

<sup>(4)</sup> Figures may not sum to totals shown due to rounding.

<sup>(5)</sup> The Class 4 contributions are projected to reduce between 2012 – 2013 and 2013 – 14 due, among other reasons, to the impact of an increase in the lower profit limit and no change in the upper profit limit in 2012 – 13; there is a lag in receipts which is why the effect is seen in 2013 – 14.

## Appendix 5: 2012 – 13 estimates – current and January 2012 estimates

See paragraph 4.2 and the notes following the table below for reasons for the differences shown in the following table.

Great Britain, £ million	2012-13 current estimates, on the current assumptions	2012-13 estimates in the January 2012 Up-rating Report
<b>Receipts</b>		
Contributions <sup>(1)</sup>	83,996	83,653
Less recoveries of SSP	48	51
Less recoveries of SMP, SPP, SAP and ASPP (and abatements)	2,412	2,370
Net contribution receipts <sup>(3)</sup>	81,536	81,233
Treasury grant	0	0
Compensation from Consolidated Fund for SSP, SMP, SPP and ASPP recoveries	2,505	2,409
Income from investments	141	128
State scheme premiums	37	49
Other receipts	45	45
<b>Total receipts <sup>(3)</sup></b>	<b>84,263</b>	<b>83,863</b>
<b>Payments</b>		
Benefits <sup>(2)</sup>	86,752	86,318
Personal and stakeholder pensions contracted-out rebates	1,936	1,843
Age-related rebates for contracted-out money-purchase schemes	293	185
Administration costs	1,154	1,171
Redundancy fund payments (net)	390	347
Transfer to Northern Ireland	334	335
Other payments	154	161
<b>Total payments <sup>(3)</sup></b>	<b>91,012</b>	<b>90,360</b>
<b>Excess of receipts over payments <sup>(3)</sup></b>	<b>-6,750</b>	<b>-6,497</b>

<sup>(1)</sup> The current estimates of contributions for 2012 – 13 are higher than the projected 2012 – 13 contributions shown in last year's report by about £0.3 billion. See paragraph 4.4 for an explanation for this difference.

<sup>(2)</sup> The difference of £0.4bn is the net effect of the revision in the approach to projecting pension payments, a number of differences between the projected Incapacity Benefit, contributory ESA and contributory JSA along with a number of small differences between the projected basic state pension and additional pension. Details of these latter differences are given in paragraph 4.4.

<sup>(3)</sup> Figures may not sum to totals due to rounding.



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