



Report by the Government Actuary
on the draft Social Security Benefits
Up-rating Order 2011 and the
draft Social Security (Contributions)
(Re-rating) Order 2011



GOVERNMENT **ACTUARY'S** DEPARTMENT



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Report by the Government Actuary on the draft Social Security Benefits Up-rating Order 2011 and the draft Social Security (Contributions) (Re-rating) Order 2011

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 likely effects on the National Insurance Fund of the proposed Social Security Benefits Up-rating Order 2011 and the proposed Social Security (Contributions) (Re-rating) Order 2011.

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 likely effect on the National Insurance Fund of the changes proposed in the National Insurance Contributions Bill currently before the UK parliament, the draft Social Security (Contributions) (Amendment) Regulations 2011 and the draft Social Security Pensions (Low Earnings Threshold) Order 2011.

The report contains estimates for the National Insurance Fund of receipts and payments for the years 2010-11 to 2015-16. The estimates are based on a number of assumptions which are described in the report. The principal economic assumptions used correspond with those adopted in the Office for Budget Responsibility's Economic and fiscal outlook.

On the basis of my estimates, the balance in the National Insurance Fund at 31 March 2012 is expected to be greater than 1/6th of the amount of benefit payments in 2011-12. This exceeds the minimum level that has been recommended for the last 15 years 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 2011-12.

Trevor Llanwarne
Government Actuary
February 2011



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1 Executive summary

- 1.1 This report has been prepared under the Social Security Administration Act 1992 (SSA92). It considers the expected effects on the National Insurance Fund of:
- > the draft Social Security Benefits Up-rating Order 2011 (the Up-rating Order)
 - > the draft Social Security (Contributions) (Re-rating) Order 2011 (the Re-rating Order).

This report also includes the likely effect on the National Insurance Fund of the changes proposed in the National Insurance Contributions Bill currently before the UK parliament, the draft Social Security (Contributions) (Amendment) Regulations 2011 and the draft Social Security Pensions (Low Earnings Threshold) Order 2011.

- 1.2 Estimates of National Insurance Fund income and outgo have been made for 2010-11 to 2015-16. Detailed figures are given for 2011-12, along with updated figures for 2010-11.
- 1.3 The updated estimates of benefit payments and contribution receipts in 2010-11 are £78.0 billion and £77.6 billion, respectively. These estimates make use of some data on receipts and payments in the year to date.
- 1.4 The financial effects of the draft orders on projected benefit payments and contribution receipts for 2011-12 (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 proposed Up-rating Order would increase the rates at which some benefits are paid from April 2011. The standard rate of retirement pension would increase by 4.6% from £97.65 a week to £102.15 a week. Estimated benefit payments excluding redundancy payments in 2011-12 would increase by £3.2 billion from £79.1 billion to £82.3 billion as a result of the order.
 - > The proposed Re-rating Order would alter the rates of Class 2 and 3 contributions, the small earnings exception for Class 2 and the band of earnings on which Class 4 contributions are paid. Together these changes would decrease estimated contribution receipts to the National Insurance Fund in 2011-12 by £1 million, leaving it at £82.3 billion after rounding.
 - > The proposed Social Security (Contributions) (Amendment) Regulations 2011 would increase the lower earnings limit from £97 to £102 a week and reduce the upper earnings limit from £844 to £817 a week. The primary threshold would increase from £110 to £139 a week and the secondary threshold would increase from £110 to £136 a week. It is estimated that these changes would decrease net contribution receipts to the National Insurance Fund in 2011-12 by £5.4 billion, from £85.6 billion to £80.2 billion. This is because the changes work to decrease gross contributions although this is offset slightly by reduced contracted-out rebates. This includes the effects of the Social Security Pensions (Low Earnings Threshold) Order 2011 on contracted-out rebates.
 - > The National Insurance Bill currently before the UK parliament would increase the rates of Class 1 and Class 4 contributions, while ensuring that the NHS allocation from contributions is unchanged. It is estimated that the change in the contribution rates would increase contribution receipts to the National Insurance Fund in 2011-12 by £7.8 billion, from £72.4 billion to £80.2 billion. The Bill also introduces a regional scheme to exempt up to £5,000 of new business Class 1 employers' contributions for the first ten employees hired in

their first year of business. It is estimated that this change would decrease National Insurance Fund contribution receipts in 2010-11 by £50 million and 2011-12 receipts by £310 million.

- 1.5 The balance in the fund at 31 March 2012 is estimated at £40.4 billion, or 48.9% of the estimated benefit payments (including redundancy payments) of £82.6 billion in the year 2011-12.
- 1.6 The balance in the fund at 31 March 2012 is expected to be comfortably above the recommended level of 1/6th of annual benefit expenditure. Therefore no Treasury grant is expected to be needed during the year 2011-12.
- 1.7 In 2011-12, the deficit is forecast to be £3,696 million. The surplus or deficit generated in a year is the difference between receipts and payments. As these are two large numbers, comparatively small changes in these numbers will produce a proportionally large change in the surplus or deficit.
- 1.8 The key assumptions underlying these estimates are those for employment and unemployment levels, and the rate of increase in earnings. In order to consider what assumptions to use, I felt it appropriate, where possible, for the base assumptions to be consistent with the assumptions used by the Office for Budget Responsibility for its Economic and fiscal outlook, published on 29 November 2010. In summary, the principal assumptions I have adopted are:
 - > the number of jobs in the UK, including the armed forces but excluding the self-employed, is assumed to be 26.6 million in both 2010-11 and 2011-12
 - > the number unemployed and claiming benefit in Great Britain is assumed to be 1.47 million on average in 2010-11 and 1.49 million in 2011-12, and
 - > the increase in average earnings is assumed to be 2.1% over each of the years 2010-11 and 2011-12.
- 1.9 Varying these assumptions would change the estimates for benefit payments and contribution receipts, and in turn the estimated fund balance. The effects of this are shown in Section 8 of this report. However, only an extreme change in the assumptions would affect the conclusion that the fund balance at the end of 2011-12 will be above 1/6th of benefit expenditure in the year.
- 1.10 Estimates for the period up to 2015-16, based on the assumptions mentioned in paragraph 1.8, suggest that the National Insurance Fund will start to grow again after 2012-13, reaching over 50% of estimated annual benefit payments before 31 March 2016, with no Treasury grant required during this period.
- 1.11 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 SSA92 in respect of the Up-rating Order, and by HM Treasury under section 142(1) in respect of the Re-rating Order.
- 1.12 This report is confined to the National Insurance Fund in Great Britain. It does not consider the separate Northern Ireland National Insurance Fund.

2 Introduction

- 2.1 This report has been prepared under the Social Security Administration Act 1992. It considers the expected effects on the National Insurance Fund Receipts estimates for 2010-11 of:
- > the draft Social Security Benefits Up-rating Order 2011 (the Up-rating Order) Section 150(8) and 150A(5) of the Social Security Administration Act 1992 requires the Secretary of State for Work and Pensions to lay a report by the Government Actuary before Parliament with drafts of any orders which alter the rates of benefits made under those sections of the Act.
 - > the draft Social Security (Contributions) (Re-rating) Order 2011 (the Re-rating Order) Section 142(1) of the Social Security Administration Act 1992, as amended by the Social Security Contributions (Transfer of Functions, etc.) Act 1999, requires HM Treasury to lay a report by the Government Actuary before Parliament with drafts of any orders which alter the rates of contributions made under that section of the Act.
- 2.2 This report also includes the effects on the National Insurance Fund of the changes proposed in the National Insurance Contributions Bill currently before the UK parliament, the draft Social Security (Contributions) (Amendment) Regulations 2011 (the "Contributions Amendment Regulations") and the draft Social Security Pensions (Low Earnings Threshold) Order 2011 (the "Low Threshold Order").
- 2.3 This report is confined to the National Insurance Fund in Great Britain. It does not consider the separate Northern Ireland National Insurance Fund or the effects of the corresponding orders on that fund.

3 Proposed changes to benefits and contributions

Up-rating Order

- 3.1 The Up-rating Order proposes increasing the rates of some social security benefits paid from the National Insurance Fund, from the week beginning 11 April 2011. Increases in benefit rates have in past years generally been aligned to either the increase in the Retail Prices Index (RPI) or the Rossi index in the year to the previous September.
- 3.2 As part of the June 2010 Budget, the Government confirmed that the basic state retirement pension will be up-rated by a 'triple guarantee' of growth in average earnings, prices or 2.5%, whichever is highest. It was also announced that the Consumer Prices Index (CPI) will be used as the benchmark for prices growth for the purposes of up-rating most State benefits from 2011. However, the Government also gave a commitment that the basic State Pension would be increased in April 2011 by at least the amount it would have gone up by under the former prices link using the RPI.
- 3.3 The most significant benefit paid from the National Insurance Fund, in terms of benefit expenditure, is retirement pensions. The proposed Welfare Reform Bill is expected to reduce the amount of incapacity benefit and contribution-based employment and support allowance paid from the National Insurance Fund. Contribution-based jobseeker's allowance is already comparatively small.
- 3.4 The annual percentage changes in RPI and CPI in September 2010 were 4.6% and 3.1% respectively. The percentage increase in the Rossi index over the same period was 4.8%. The increase in the 3-month average of the Average Weekly Earnings statistic (AWE) over the year to May-July 2010 was 1.3%. The Up-rating Order proposes increasing the basic state retirement pension by 4.6% in April 2011, in line with the increase in the RPI, and contribution-based jobseeker's allowance, incapacity benefit and contribution-based employment and support allowance by 3.1%, in line with the increase in the CPI.
- 3.5 Table 1 below shows the proposed changes in the benefit rates for the most significant benefits. Appendix 1 details the principal rates of all benefits provided from the National Insurance Fund before and after the proposed changes.

Table 1 – Changes to the major benefits rates

	Weekly rate in 2010-11	Proposed increase in weekly rate	Weekly rate proposed from 11 April 2011
Retirement pension – person claiming on their own or their deceased spouse's NI contributions – standard rate	£97.65	£4.50	£102.15
Retirement pension – person claiming on their spouse's NI contributions – standard rate	£58.50	£2.70	£61.20
Contribution-based jobseeker's allowance single person over 25	£65.45	£2.05	£67.50
Incapacity benefit long-term main rate	£91.40	£2.85	£94.25
Employment and support allowance personal allowance age 25 or over including work-related activity component	£91.40	£2.85	£94.25

- 3.6 The 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) and bereavement benefits by 3.1%, in line with the increase in the CPI. Additional pensions for those on incapacity benefit would not be increased.
- 3.7 The financial effects of the benefit up-ratings are shown in Appendix 4.

Re-rating and the Contributions Amendment Regulations

- 3.8 The Re-rating Order would increase the rate of Class 2 contributions from £2.40 to £2.50 a week and the rate of Class 3 contributions from £12.05 to £12.60 a week. The Re-rating Order would also increase the small earnings exception from £5,075 to £5,315 a year.
- 3.9 For Class 4 contributions, the lower profits limit would increase from £5,715 to £7,225 a year and the upper profits limit would decrease from £43,875 to £42,475 a year. The upper profits limit is aligned with the higher rate income tax limit.
- 3.10 The proposed Social Security (Contributions) (Amendment) Regulations 2011 would increase the lower earnings limit (LEL) for Class 1 contributions from £97 to £102 a week and reduce the upper earnings limit from £844 to £817 a week. The primary threshold would increase from £110 to £139 a week and the secondary threshold would increase from £110 to £136 a week.
- 3.11 The proposed Social Security Pensions (Low Earnings Threshold) Order 2011 would increase the low earnings threshold (LET) from £14,100 to £14,400 in 2011-12. The LET affects the amount of State Second Pension being accrued and, for people in appropriate personal pensions (APPs) and contracted-out stakeholder pensions, the level of contracted-out rebates. The effects of this proposed order have been allowed for in this report as far as they are relevant.

National Insurance Contributions Bill currently before the UK parliament

- 3.12 The National Insurance Contributions Bill currently before the UK parliament would increase the main primary rate of Class 1 contributions from 11% to 12%, the additional primary rate (payable above the upper earnings limit) from 1% to 2%, and the secondary rate from 12.8% to 13.8%. The main Class 4 contribution rate would increase from 8% to 9% and the additional rate would increase from 1% to 2%.
- 3.13 The National Health Service (NHS) allocation of the additional rates would change from 100% to 50%. The effect of this is that 1% of primary earnings above the upper earnings limit and 1% of profits above the upper profits limit continue to be allocated to the NHS. The extra revenue raised from the increase in the additional primary rate would go to the National Insurance Fund, as would the extra revenue raised by the increases in the main primary rate, the secondary rate and the main and additional Class 4 rates.

- 3.14 The Bill would also introduce an employers' contribution holiday for new businesses set up between June 2010 and September 2013 in specified regions. This scheme will exempt new businesses from up to £5,000 of Class 1 employer contributions on the earnings they pay to the first ten employees hired in the first year of business. It is estimated that this change would decrease National Insurance Fund contribution receipts in 2010-11 by £50 million and 2011-12 receipts by £310 million, with contributions reduced by around £0.9 billion over the three years of the scheme.
- 3.15 The changes described in paragraphs 3.8 to 3.14 are shown in Appendix 2. The financial effects of these changes are shown in Appendix 5.

4 Assumptions and methods used to project receipts and payment

- 4.1 The key assumptions underlying the estimates for contribution receipts and benefit payments are those for employment and unemployment levels, and the rate of increase in earnings. In order to consider what assumptions to use, I felt it appropriate, where possible, for the base assumptions to be consistent with the assumptions used by the Office for Budget Responsibility for its Economic and fiscal outlook, published on 29 November 2010.
- 4.2 In summary, the principal assumptions I have adopted are:
- > the number of jobs in the UK, including the armed forces but excluding the self-employed, is assumed to be 26.6 million in both 2010-11 and 2011-12
 - > the number unemployed and claiming benefit in Great Britain is assumed to be 1.47 million on average in 2010-11 and 1.49 million in 2011-12, and
 - > the increase in average earnings is assumed to be 2.1% over each of the years 2010-11 and 2011-12.
- 4.3 Further details of the methods and assumptions used to estimate contribution income and benefit expenditure are provided in Appendix 3.
- 4.4 Section 8 of the report shows the broad impact on the results of using different assumptions.

5 Estimates of receipts, payments and fund balance

5.1 Table 2 below provides estimates of receipts and payments of the National Insurance Fund for 2011-12 along with the latest estimates for 2010-11. The format is similar to that used for the accounts of the National Insurance Fund. Redundancy payments are shown net of redundancy receipts.

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

Great Britain, £ million	2010-11	2011-12
Receipts		
Contributions (as given in first part of App 6)	77,648	82,311
Less recoveries of SSP	48	50
Less recoveries of SMP, SPP and SAP (and abatements)	2,034	2,066
Net contribution receipts	75,565	80,195
Treasury grant	0	0
Compensation from Consolidated Fund for SSP, SMP, SPP and SAP recoveries	2,072	2,106
Income from investments	254	358
State scheme premiums	79	77
Other receipts ⁽¹⁾	48	49
Total receipts ⁽²⁾	78,018	82,784
Payments		
Benefits At present rates (as given in App 4)	78,004	79,062
Increase due to proposed changes		3,233
Total		82,295
Personal and stakeholder pensions contracted-out rebates (as given in App 7)	2,152	2,011
Age-related rebates for contracted-out money-purchase schemes (as given in App 7)	203	195
Administration costs ⁽¹⁾	1,419	1,377
Redundancy fund payments (net) ⁽¹⁾	349	308
Transfer to Northern Ireland	125	157
Other payments	132	137
Total payments ⁽²⁾	82,385	86,480
Statement of balances		
Balance at beginning of year ⁽³⁾	48,457	44,089
Excess of receipts over payments	-4,367	-3,696
Balance at end of year	44,089	40,394
Balance at end of year as percentage of annual benefit payments ⁽⁴⁾	56.3%	48.9%

⁽¹⁾ The figures for 2010-11 are provisional estimates supplied by other government departments on the basis of amounts received or paid so far this year.

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

⁽³⁾ The balance at 31 March 2010 is taken from the accounts of the fund for the year 2009-10.

⁽⁴⁾ Percentages of benefit payments used here include net redundancy payments.

- 5.2 Table 2 shows that the balance in the fund is projected to fall as a percentage of benefit payments in 2011-12. It should be emphasised that there is uncertainty around such projections of fund balance, as the fund balance changes each year with any surplus or deficit of income over outgo. Since the surplus or deficit generated each year is the difference between two large numbers, quite small percentage changes in either of them could result in a large percentage change in the surplus or deficit.
- 5.3 The effects of the Up-rating Order on benefit payments in 2011-12 and of the Contributions Amendment Regulations on contribution receipts in 2011-12 are given in Section 7.

6 Estimates for 2010-11

- 6.1 The estimates shown above for 2010-11 may be compared with the estimates made a year ago, and published in my report in January 2010. The estimated deficit (that is, the excess of the payments over receipts) of £4,367 million for 2010-11 shown above differs from the deficit of £520 million estimated in that report. This difference is predominantly a result of reductions in estimates for receipts.
- 6.2 Receipts estimates for 2010-11 have reduced due to:
- > lower contributions estimated to be paid than were projected at this time last year, which in turn is due to the lower increases in earnings and fewer jobs assumed, combined with in-year experience data indicating that contributions receipts have been lower than expected in the year to date, and
 - > an earlier change in how assets of the National Insurance Fund are invested combined with low interest rates during the year.
- 6.3 Estimates for National Insurance Fund benefits for 2010-11 are close to those made in my report in January 2010 (£78.0 billion estimated now compared to £78.2 billion estimated a year ago).
- 6.4 Further details of the updated estimates are provided in Appendix 8.

7 Estimates for 2011-12

- 7.1 The extra benefit payments in 2011-12 as a result of the proposed increases in benefit rates from April 2011 are estimated to be £3,233 million, taking estimated total benefit payments from £79.1 billion to £82.3 billion. Details of these extra benefit payments and of the payments for individual benefits are given in Appendix 4. These estimates are based on the assumptions set out in Section 4 and detailed in Appendix 3.
- 7.2 The financial effects on contribution receipts and contracted-out rebates of the proposed changes set out in paragraphs 3.8 to 3.14 are given in Appendix 5. The combined effect of the changes is estimated to produce an increase in revenue to the National Insurance Fund in 2011-12 of £2,388 million, increasing it to £82.3 billion. Appendix 6 shows an analysis of the contribution receipts. These figures are based on the assumptions described in Section 4 and set out more fully in Appendix 3.

- 7.3 Table 2 shows that, on the assumptions in Section 4 and Appendix 3, the estimate of the balance in the National Insurance Fund at 31 March 2012 is £40.4 billion. This comfortably exceeds 1/6th of estimated benefit payments including redundancy payments (that is, 1/6th of £82.6 billion or £13.8 billion). It has been recommended for the last 15 years that a reasonable working balance in the fund would be 1/6th of annual benefit payments. Therefore it is not expected that a Treasury grant will be needed in 2011-12.
- 7.4 Appendix 9 shows the projected development of the fund up to 2015-16 using the assumptions detailed in Section 4 and Appendix 3. The fund (as a proportion of annual expenditure) is projected to increase after 2012-13, from 45.1% in March 2013 to 56.6% in March 2016.

8 Sensitivity of estimates

- 8.1 The surplus generated in a year is the difference between the National Insurance Fund receipts, largely contributions, and the fund payments, largely benefits. As these are both large numbers, comparatively small changes can result in significant changes in the surplus. The balance of the fund is essentially the accumulation of surpluses.
- 8.2 To provide an indication of the broad impact of alternative assumptions, Table 3 below shows the effects of changes in the critical assumptions on income and outgo for the National Insurance Fund. Contribution receipts are sensitive to assumptions for the level of earnings increases and levels of employment. Benefit payments are sensitive to the assumptions for the level of unemployment.

Table 3 – Effect on receipts and payments of the National Insurance Fund in 2011-12 of variations in economic assumptions

Great Britain, £ million

Variation compared to assumptions given in Appendix 3, paragraph 26	Effect on receipts in 2011-12	Effect on payments in 2011-12
1% lower earnings increases over the year to 2010-11 and 2% lower over the year to 2011-12	-2,710	
1% higher earnings increases over the year to 2010-11 and 2% higher over the year to 2011-12	+2,720	
Lower GB number of employees-in-employment by 200,000 in 2011-12	-540	
Higher GB number of employees-in-employment by 200,000 in 2011-12	+540	
Lower GB unemployment by 200,000 in 2011-12 ⁽¹⁾		-130
Higher GB unemployment by 200,000 in 2011-12 ⁽¹⁾		+130

⁽¹⁾ This assumes that the same proportion of additional claims are awarded contributory benefit as in the existing assumed caseload. This may or may not be the case, so care should be exercised when using these figures.

- 8.3 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.
- 8.4 The figures in Table 3 can be interpolated or extrapolated to assess the effects on contribution receipts, benefit payments and fund balance under different sets of assumptions. For example, if earnings increases were 1% lower over the year to 2010-11 and 2% lower over the year to 2011-12, the number of employees in 2011-12 were 500,000 lower, and the number unemployed 500,000 higher, then the total effect on the receipts net of payments of the National Insurance Fund in the year would be an addition to the projected deficit at the end of 2011-12 of approximately £4.4 billion (making the total deficit £8.1 billion). This would still not necessitate a Treasury grant in 2011-12, as the revised estimated balance in the fund, of around £36.0 billion, would be about 44% of benefit payments in the year. However, it should be noted that the emerging results become less reliable the further any extrapolation lies from the base scenario.
- 8.5 The National Insurance Fund cash flows are also sensitive to different levels or patterns of contracting out. Rebates in respect of contracted-out salary-related schemes (COSRS) and the flat-rate part of contracted-out money-purchase scheme (COMPS) rebates will be deducted from contributions received in 2011-12. COMPS rebates above those deducted from contributions received will be paid by the HM Revenue & Customs to the pension scheme after the end of the financial year. Similarly, appropriate personal pension (APP) and APP stakeholder pension rebates for 2011-12 will be paid by the HM Revenue & Customs to personal pension providers after the end of the financial year.
- 8.6 Table 4 shows the effect of different contracting out assumptions on the amounts of rebates paid or deducted from contributions in 2011-12. In all cases, the increased membership is assumed to have the same age, sex and earnings profile as that of the relevant contracting out group.

Table 4 – Effect on receipts and payments of the National Insurance Fund of variations in assumptions on contracting out from April 2011

Great Britain, £ million

Variation in assumptions	Effect on rebates accruing in 2011-12	Effect on rebates paid or deducted from contributions paid in 2011-12
100,000 more COSRS members	+110	+100
100,000 more COMPS members	+110	+50
100,000 more members of APPs or APP stakeholder pensions	+150	0

- 8.7 The figures in Table 4 can be scaled pro-rata to assess the effects of different assumptions of numbers of people contracting out.

9 Conclusion

- 9.1 The balance in the National Insurance Fund at 31 March 2011, as set out in Table 2 of this report, is estimated to be £44.1 billion. This is lower than the estimate in my report in January 2010 of £50.2 billion. The difference is largely due to the lower contributions estimated to be paid than were projected at this time last year, which in turn is due to the lower increase in earnings and fewer jobs assumed now than were assumed in my report last year, and lower estimates of investment income for the National Insurance Fund.
- 9.2 The balance of the fund at 31 March 2012, allowing for the proposed increases in benefits and changes in contributions in 2011-12 that would arise from the draft Up-rating Order, the draft Re-rating Order, the draft Contributions Amendment Regulations, the draft Low Earnings Threshold Order and the National Insurance Contributions Bill currently before the UK parliament, is estimated to be £40.4 billion. The assumptions underlying these estimates are set out in Section 4 of this report.
- 9.3 Appendix 9 shows that the balance in the fund at the end of each year up to 31 March 2016 is projected to be no lower than 45% of benefit payments in the year. The projections made in Appendix 9 include the effects of the Pensions Act 2008, the National Insurance Contributions Act 2008 and the National Insurance Contributions Bill currently before the UK parliament, as well as the proposed Welfare Reform Bill.
- 9.4 As the estimated balance of the fund at 31 March 2012 of £40.4 billion comfortably exceeds the recommended minimum level of at least 1/6th of benefit payments during the year (equivalent to £13.8 billion), it is most unlikely that payment of a Treasury grant will be required in 2011-12. Medium-term projections suggest that a Treasury grant will not be required during the period to 31 March 2016.
- 9.5 If economic conditions depart from the assumptions described in paragraph 4.1 the balance of the fund at 31 March 2012 will be different from that given above. The effect of variation in these assumptions is described in Section 8. 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.

Trevor Llanwarne
Government Actuary

Fellow of the Institute of Actuaries
February 2011

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

All figures in £s	Weekly rate in 2010-11	Weekly rate proposed from 6 April 2011
Retirement pension, widow's pension and widowed parent's allowance		
Personal benefit (basic pension)	97.65	102.15
Based on spouse/civil partner's contributions (retirement pension only)	58.50	61.20
Increase for spouse or other adult dependant (retirement pension only)	57.05	58.80
Bereavement benefit	97.65	100.70
Graduated retirement benefit (unit)	0.1153	0.1189
Bereavement payment ⁽¹⁾	2,000	2,000
Incapacity benefit long-term rate ⁽²⁾		
Personal benefit	91.40	94.25
Transitional invalidity allowance higher rate	15.00	13.80
Transitional invalidity allowance middle rate	8.40	7.10
Transitional invalidity allowance lower rate	5.45	5.60
Wife or other adult dependant	53.10	54.75
Age increase higher rate ⁽³⁾	15.00	13.80
Age increase lower rate ⁽³⁾	5.80	5.60
Incapacity benefit short-term		
Personal benefit higher rate	81.60	84.15
Personal benefit lower rate	68.95	71.10
Wife or other adult dependant	41.35	42.65
Employment and support allowance ⁽⁴⁾		
Personal allowance (age 25 or over)	65.45	67.50
Work-related activity component	25.95	26.75
Support component	31.40	32.35
Statutory sick pay	79.15	81.60
Jobseeker's allowance (contribution-based) ⁽⁵⁾		
Personal benefit for those aged 18 to 24	51.85	53.45
Personal benefit for those aged 25 and over	65.45	67.50
Maternity allowance ⁽⁶⁾	124.88	128.73
Statutory maternity pay		
Standard rate ⁽⁶⁾	124.88	128.73
Guardian's allowance		
First child	14.30	14.75
Other children	14.30	14.75
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 ⁽¹⁾	10.00	10.00

⁽¹⁾ Lump sum benefit.

⁽²⁾ The threshold for incapacity benefit and contributory employment and support allowance offset for occupational and personal pensions is £85 a week for both years.

⁽³⁾ 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 benefits to employment and support allowance. The aim is that the total benefit (personal benefit plus age increase) is up-rated by half the increase in the Rossi index.

⁽⁴⁾ 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. From spring 2011 it is planned to begin the nationwide transfer of incapacity benefits recipients to employment and support allowance, provided the work capability threshold is met. The cash level of benefit will be protected on transfer to employment and support allowance.

⁽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 meet the conditions for receiving any benefit receive non-contributory jobseeker's allowance.

⁽⁶⁾ The first 6 weeks of SMP is paid at 90% of the woman's average weekly earnings with no upper limit. Thereafter the remaining 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 2010-11	Rate proposed from April 2011
Class 1			
	Lower earnings limit (LEL)	£97 a week	£102 a week
	Upper earnings limit (UEL)	£844 a week	£817 a week ⁽¹⁾
	Upper accrual point (UAP)	£770 a week	£770 a week
	Primary threshold	£110 a week or £476 a month	£139 a week or £602 a month
	Secondary threshold	£110 a week or £476 a month	£136 a week or £589 a month
Contribution rates (NI Fund and NHS combined)			
Primary (employee)	On earnings between the primary threshold and UEL ⁽²⁾	11.0%	12.0%
	Reduced rate on earnings between the primary threshold and UEL for married women and widow optants ⁽³⁾	4.85%	5.85%
	On earnings above the UEL	1.0%	2.0%
	NHS allocation included in above		
	– percentage of earnings between the primary threshold and UEL	2.05%	2.05%
	– percentage of earnings above the UEL	1.0%	1.0%
Secondary (employer)	On all earnings above the secondary threshold ⁽⁴⁾⁽⁵⁾	12.8%	13.8%
	NHS allocation included in above (percentage of all earnings on which contributions are paid for employees earning above the secondary threshold)	1.9%	1.9%
Class 1A and Class 1B			
	Contribution rate (employer only)	12.8%	13.8%
	NHS allocation included in above	1.9%	1.9%

Appendix 2 (cont)

	Rate in 2010-11	Rate proposed from April 2011
Class 2		
Flat-rate contribution	£2.40 a week	£2.50 a week
Small earnings exception	£5,075 a year	£5,315 a year
NHS allocation included in above (percentage of contribution)	15.5%	15.5%
Class 3		
Flat-rate contribution	£12.05 a week	£12.60 a week
NHS allocation included in above (percentage of contribution)	15.5%	15.5%
Class 4		
Lower profits limit (LPL)	£5,715 a year	£7,225 a year
Upper profits limit (UPL)	£43,875 a year	£42,475 a year
Contribution rate		
On profits between the LPL and UPL	8.0%	9.0%
On profits above the UPL	1.0%	2.0%
NHS allocation included in above		
Percentage of profits between the LPL and UPL	2.15%	2.15%
Percentage of profits above the UPL	1.0%	1.0%

⁽¹⁾ The reduction in the UEL maintains the existing alignment with the point at which higher rate tax is to be paid in 2011-12.

⁽²⁾ The contracted-out rebate for primary contributions in 2010-11 and 2011-12 is 1.6% of earnings between the lower earnings limit (LEL) and upper accrual point (UAP) for contracted-out salary-related schemes (COSRS) and contracted-out money-purchase schemes (COMPS).

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).

⁽³⁾ Married women opting to pay contributions at the reduced rate earn no entitlement to contributory National Insurance benefits as a result of these contributions. No women have been allowed to exercise this option since 1977.

⁽⁴⁾ The contracted-out rebate for secondary contributions in 2010-11 and 2011-12 is 3.7% of earnings between the LEL and UAP for COSRS and 1.4% for COMPS in 2010-11.

⁽⁵⁾ Members of COMPS receive an age-related rebate (increasing with age) which is paid by HM Revenue & Customs direct to the scheme on receipt of the employer's end-of-year return. The age-related rebate is capped at 4.4% for both years, with a 3% rebate paid in the year. For holders of an appropriate personal pension or a stakeholder pension, the whole of the rebate is age-related and is paid by HM Revenue & Customs direct to the scheme on receipt of the employer's end-of-year return. The employee's share of the rebate is 1.6%.

Appendix 3: Methods and assumptions

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. Estimates for the current year, 2010-11, 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 rebates are made using an earnings distribution based on the Annual Survey of Hours and Earnings produced by the Office for National Statistics, projected in line with the earnings increases shown in paragraph 26 below. The gross contribution results are scaled in line with the assumed number of employees which are also given in paragraph 26. The estimates of amounts of contracted-out rebates are made in a similar way, using an assumption of the numbers contracted out based on the Lifetime Labour Market Database (L2) maintained by the Department for Work and Pensions and HM Revenue & Customs, and allowing for the continuation of the trend in the proportions of employees contracted out into occupational schemes observed in recent years. Estimates of the effect of the National Insurance Contribution holiday, to be introduced by the National Insurance Contributions Bill, have been provided by HM Revenue & Customs.
3. Other classes of National Insurance contributions, which generate substantially lower revenues than Class 1, are estimated using simpler models. Class 1A and Class 1B contributions are estimated using data 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 in order to estimate the contributions paid. Class 3 contributions are estimated by adjusting the contributions paid in earlier years for the changes in the contribution rate. 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 year 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. 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. 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 return on the National Insurance Fund is estimated by applying an assumed rate of return to the average balance in the fund during the year. The assumed rate of investment return is based on estimates of future interest rates derived from forward rates, given that the assets of the National Insurance Fund are deposited with the Commissioners for the Reduction of National Debt and earn interest at a rate which tracks the Bank of England base rate.
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 1/6th of 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 benefit 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 example, retirement pension, incapacity benefit and employment and support allowance, and so on), for the basic flat-rate element of state retirement pensions, and for additional pensions (SERPS and S2P).
10. The estimates of basic retirement pension, by far the largest benefit, use the 2008-based population projection as a basis for the numbers over pension age. They allow for gradual changes in the proportion of that population receiving basic retirement pension, as well as for an increasing trend in the numbers of overseas residents receiving pension. Allowance is 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 by extrapolating trends from past data.
11. Allowance has been made in the estimates for the basic retirement pension for the changes introduced by the Pensions Act 2007 which impact expected expenditure in the years to 2015-16. These are:
 - > the increase in state pension age for women from age 60, which applies to women born before 6 April 1950 and who reach state pension age before 6 April 2010, to age 65, for women born on or after 6 April 1955 but before 6 April 1959 and who will reach state pension age on or after 6 April 2020
 - > a change in the qualifying conditions for retirement pension, which reduce the number of qualifying years needed for a full-rate pension from 44 for men and 39 for women to 30 for both sexes for people reaching state pension age from April 2010, and certain other changes concerning how periods when contributions are not paid are treated for qualifying year purposes.

Both these changes have only a small effect in 2010-11 and 2011-12, but an increasing effect in later years. The proposed changes to state pension age announced in November 2010, increasing the state pension age for both men and women to age 66 by April 2020, and meaning that women's state pension age will increase more quickly to 65 between April 2016 and November 2018, do not affect the National Insurance Fund during the period covered by these projections. These

proposals are not yet law and will require the approval of Parliament.

12. A separate model estimates the amounts of retirement pension paid to pensioners overseas (and therefore not covered by the population projections). This model takes as starting points data on the amounts of pension currently paid to pensioners overseas and estimates of the amounts of contributions paid in past years by people under state pension age who are currently overseas, and projects them allowing for mortality, immigration and emigration, and awards of new pension for those reaching state pension age. Allowance is made for those overseas 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 L2. For future years, earnings factors are derived from the output of the 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. Accrued earnings are survived to pension age using adjusted population mortality rates. At pension age the accrued survived earnings are converted to amounts of additional pension awarded, and survived using the mortality rates from the 2008-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 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 pension age at April 1975 and which would not come into payment until the widow reached pension age. The units at April 1975 are survived 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 pension age are assumed to be put into payment on reaching pension age. The appropriate graduated rate is applied to the survived units over pension age.
15. The estimates of widows' benefits and bereavement benefits and lump sum widows' payments/bereavement payment are derived from information provided by the Department for Work and Pensions.
16. Estimates for the amounts of incapacity benefit and employment and support allowance are based on information provided by the Department for Work and Pensions. GAD has been working with the Department for Work and Pensions on the department's modelling of incapacity benefit and employment and support allowance.
17. The estimates of the cost of contribution-based jobseeker's allowance are based on information provided by the Department for Work and Pensions and are based on the OBR claimant unemployment assumptions as set out in paragraph 26 of this appendix and referenced in Section 4.

18. Estimates for maternity allowance are based on recent data on awards and benefits in receipt, varied in line with numbers of births from the latest population projection. Full allowance has been made for the recent policy changes on duration and entitlements. Estimates for guardian's allowance are derived from recent data, varied in line with numbers of children in the population and with an allowance for recent trends. Estimates for the lump-sum Christmas bonus are derived from numbers assumed to be entitled to the qualifying benefits (retirement pension, widow's pension, widowed parent's allowance and long-term incapacity benefit) with allowance for those cases not entitled to the Christmas bonus.
19. The underlying estimates of payments for all benefits are aligned to recent data on payments for 2010-11 to ensure that account is taken of more recent changes in factors affecting benefit payments than are incorporated in data on numbers of beneficiaries.

Other payments

20. Estimates of payments to providers of appropriate personal pensions (APPs) and stakeholder pensions are made using the method for calculating contracted-out rebates described in paragraph 2 above. Virtually all the rebates in respect of contributions paid in one financial year are paid in the following financial year.
21. 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.
22. 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 Northern Ireland are made on this basis. The amount in the current year (2010-11) is fixed as the amount estimated last year, and any necessary adjustments as at the end of the current year are included in the transfer estimated for the next year (2011-12).
23. The administration costs for 2010-11 are based on estimates supplied to us by HM Revenue & Customs. Future costs have been estimated as the 2010-11 costs increased in line with inflation and allowing for a phased-in 25% reduction in real costs by 2014-15.
24. The figures for "Other payments" are based on an extrapolation of amounts shown in the accounts of the National Insurance Fund for this item in previous years.

Economic assumptions

25. The estimates for contribution receipts are sensitive to the assumptions for the rate of increases in earnings and employment in future years. The estimates of benefit payments are sensitive to the assumptions for the level of unemployment.
26. The table below provides details of the assumptions underlying the estimates.

Key assumptions

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Number of jobs (millions)	26.6	26.6	26.8	27.1	27.3	27.5
Numbers unemployed (millions)	1.47	1.49	1.41	1.30	1.21	1.10
Earnings increase	2.1%	2.1%	2.6%	4.1%	4.4%	4.4%
CPI increase	3.1%	3.1%	1.8%	2.0%	2.0%	2.0%
RPI increase	4.6%	3.5%	3.0%	3.0%	3.3%	3.6%

27. These assumptions are consistent with those adopted by the Office for Budget Responsibility for its Economic and fiscal outlook published on 29 November 2010.
28. The effects of variations in these assumptions are given in Section 8.

Appendix 4: Estimated payments from the National Insurance Fund for benefits, and the effect of benefit up-rating on payments in 2011-12

Great Britain, £ million ⁽¹⁾	Estimated total payments in 2010-11	Estimated total payments in 2011-12	Estimated extra payments in 2011-12 as a result of the draft Up-rating Order
Retirement pensions – basic ⁽²⁾	56,327	59,631	2,426
Retirement pensions – additional pensions	13,352	14,370	581
Widows'/bereavement benefits – basic	521	506	12
Widows'/bereavement benefits – additional pensions	84	76	2
Incapacity benefit – basic ⁽³⁾	5,359	4,144	118
Incapacity benefit – additional pensions	157	117	0
Employment and support allowance ⁽⁴⁾	990	2,025	58
Contribution-based jobseeker's allowance	745	947	27
Maternity allowance	341	351	10
Guardian's allowance	2	2	0
Christmas bonus	126	127	0
Total ⁽⁵⁾	78,004	82,295	3,233
Redundancy payments (net) ⁽⁵⁾	418	448	0

⁽¹⁾ Payments include those made to beneficiaries residing outside Great Britain.

⁽²⁾ Includes payments of graduated retirement benefit.

⁽³⁾ The nationwide reassessment of incapacity benefit recipients is scheduled to start from Spring 2011.

⁽⁴⁾ 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.

⁽⁵⁾ Figures from these lines appear in Table 2 in the main report.

Appendix 5: Estimated effects of the draft Re-rating Order on contribution receipts in 2011-12

The table below sets out the principal changes arising from the draft Social Security (Contributions) (Re-rating) Order 2011, the draft Social Security (Contributions) (Amendment) Regulations 2011, the draft Social Security Pensions (Low Earnings Threshold) Order 2011 and the proposed National Insurance Contributions Act 2010.

Great Britain, £ million	Contributions estimated as due for 2011-12	Contributions estimated to be received in 2011-12 ⁽¹⁾
National Insurance Fund effects		
Social Security (Contributions) (Re-rating) Order 2011		
Increase in Class 2 contribution rate	+12	+9
Increase in Class 2 small earnings exception	-5	-4
Increase in Class 3 contribution rate	+2	0
Change in Class 4 profits limits	-193	-7
Total	-185	-1
Social Security (Contributions) (Amendment) Regulations 2011		
Change in Class 1 primary and secondary thresholds and lower and upper earnings limits		
Effect on contribution receipts from gross contributions ⁽²⁾	-6,367	-5,447
Effect on contracted-out rebate	-103	-74
Total net effect	-6,264	-5,373
National Insurance Contributions Bill currently before the UK parliament ⁽²⁾		
Increase in Class 1 contribution rate ⁽³⁾	+9,021	+7,709
Increase in Class 4 contribution rate	+443	+53
Total all measures	+9,464	+7,762
Net effect of all measures ⁽⁴⁾	+3,015	+2,388

⁽¹⁾ The balance of contributions for 2011-12 will not be received until after 31 March 2012, whereas the "Contributions estimated as due" column shows all contributions based on earnings or profits in 2011-12, regardless of when they are received.

⁽²⁾ The effect of the regional employers' contribution holiday for new businesses is not included here. It is estimated that the scheme will reduce contributions in 2011-12 by £310 million.

⁽³⁾ Figures are gross of statutory sick pay, statutory maternity pay, statutory paternity pay and statutory adoption pay.

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

Appendix 6: Analysis of contribution receipts and occupational pension scheme contracted-out rebates by fund and contributor class

Great Britain, £ million			2010-11	2011-12
National Insurance Fund				
Class 1 ⁽¹⁾	Primary	Gross	32,933	34,943
		Contracted-out rebate ⁽²⁾	2,215	2,160
		Net	30,718	32,783
	Secondary	Gross	48,910	51,183
		Contracted-out rebate ⁽²⁾	4,962	4,842
		Net	43,948	46,341
Total		Gross	81,843	86,126
		Contracted-out rebate ⁽²⁾	7,177	7,002
		Net	74,666	79,125
Classes 1A and 1B			984	1,032
Class 2			279	288
Class 3			75	62
Class 4			1,644	1,805
Total National Insurance Fund contributions⁽³⁾			77,648	82,311
National Health Service				
Class 1	Primary		8,483	8,140
	Secondary		11,130	11,288
	Total		19,612	19,427
Classes 1A and 1B			172	177
Class 2			51	53
Class 3			14	11
Class 4			760	769
Total National Health Service contributions			20,608	20,437

Appendix 6 (cont)

Great Britain, £ million			2010-11	2011-12
All contributions				
Class 1 ⁽¹⁾	Primary	Gross	41,416	43,083
		Contracted-out rebate ⁽²⁾	2,215	2,160
		Net	39,201	40,923
	Secondary	Gross	60,040	62,471
		Contracted-out rebate ⁽²⁾	4,962	4,842
		Net	55,078	57,629
Total		Gross	101,455	105,554
		Contracted-out rebate ⁽²⁾	7,177	7,002
		Net	94,278	98,552
Classes 1A and 1B			1,156	1,208
Class 2			330	341
Class 3			89	74
Class 4			2,403	2,574
Total contributions ⁽⁴⁾			98,256	102,749

⁽¹⁾ All figures are gross of recoveries by employers of statutory sick pay, statutory maternity pay, statutory paternity pay and statutory adoption pay.

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

⁽³⁾ These figures appear in Table 2 in the main report.

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

Appendix 7: Estimated contracted-out rebates

The table below details the estimated payments in respect of appropriate personal pensions and age-related rebates in respect of contracted-out money-purchase schemes, on the basis of the assumptions set out in Section 4 and given in more detail in Appendix 3.

Great Britain, £ million	2010-11	2011-12
Personal and stakeholder pension rebates		
Primary contracted-out rebates	421	406
Secondary contracted-out rebates	1,731	1,604
Total ⁽¹⁾	2,152	2,011
Age-related rebates for members of contracted-out money-purchase schemes ⁽¹⁾	203	195
All payments in respect of personal pensions and age-related rebates to contracted-out money-purchase schemes ⁽²⁾	2,355	2,206

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

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

Appendix 8: 2010-11 estimates – current and January 2010 estimates

Great Britain, £ million	2010-11 current estimates, on the assumptions in Section 4 and detailed in Appendix 3	2010-11 estimates – January 2010
Receipts		
Contributions ⁽¹⁾	77,648	80,036
Less recoveries of SSP ⁽²⁾	48	50
Less recoveries of SMP, SPP and SAP, and SMP, SPP and SAP abatement ⁽²⁾	2,034	1,971
Net contribution receipts ⁽³⁾	75,565	78,015
Treasury grant	0	0
Compensation from Consolidated Fund for SSP and SMP recoveries	2,072	2,013
Income from investments ⁽⁴⁾	254	2,341
State scheme premiums	79	66
Other receipts	48	52
Total receipts ⁽³⁾	78,018	82,486
Payments		
Benefits ⁽⁵⁾	78,004	78,243
Personal and stakeholder pensions contracted-out rebates ⁽⁶⁾	2,152	2,228
Age-related rebates for contracted-out money-purchase schemes	203	204
Administration costs ⁽⁷⁾	1,419	1,414
Redundancy fund payments (net)	349	418
Transfer to Northern Ireland ⁽⁸⁾	125	400
Other payments	132	100
Total payments ⁽³⁾	82,385	83,006

The principal assumptions underlying the two sets of estimates are set out in the table below.

	2010-11 current estimates, on the assumptions in Section 4 and detailed in Appendix 3	2010-11 estimates in the January 2010 Up-rating Report
Number of employees in employment (UK, including HM Forces, excluding self-employed) (millions)	26.6	26.7
Increase in average earnings on one year earlier (%)	2.1	2.4
Average number of unemployed (GB) (millions)	1.47	1.91

⁽¹⁾ The estimates of contributions are lower than last year due to the lower increases in earnings and fewer jobs assumed this year compared to last year, combined, for Class 1 contributions, with in-year experience data indicating that contributions receipts have been lower than expected in the year to date. Receipts of classes of contributions other than Class 1 are historically volatile.

⁽²⁾ Estimates of SSP, SMP, SPP and SAP are similar to estimates made last year. There are still some unresolved questions in relation to the data and therefore there is the possibility of revisions to these estimates in the future when these problems are resolved. However, the position concerning data has improved considerably in recent years.

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

⁽⁴⁾ The estimate of investment income for the National Insurance Fund is lower than was made last year due to an earlier change in how the assets of the National Insurance Fund are invested, combined with low interest rates during the year.

⁽⁵⁾ The estimate of total benefit payments for 2010-11 is lower than that shown in last year's report. The main reasons for this are the lower cost of employment and support allowance, reflecting fewer claimants than expected satisfying the work capability assessment, and the lower cost of jobseeker's allowance due to the assumed number unemployed being lower, as shown in the comparison of assumptions above.

⁽⁶⁾ Payments of minimum contributions to appropriate personal pension (APP) providers (including APP stakeholder pensions) are now estimated to be lower than was estimated last year. This is in line with more recent data on the amounts that have been paid.

⁽⁷⁾ Estimates of the administration costs are broadly similar to those in the January 2010 Up-rating Report.

⁽⁸⁾ The 2010 report incorrectly stated the 2010-11 transfer to Northern Ireland. HM Revenue & Customs were informed of the correct amount shortly after publication.

Appendix 9: Projections of the National Insurance Fund to 2015-16

1. The table overleaf shows projected receipts and payments for the National Insurance Fund for the years up to 2015-16 based on assumptions consistent with those used by the Office for Budget Responsibility for its Economic and fiscal outlook, published on 29 November 2010. Increases in benefit rates, contribution rates and earnings limits and alterations to benefits paid from the National Insurance Fund after 2011-12 are estimated in line with current and proposed legislation.
2. It can be seen from the last row of the table that there is projected to be a steady increase in the balance of the National Insurance Fund as a percentage of benefit expenditure after 2012-13.
3. The main reasons for the improving position of the balance of the fund after 2012-13 are:
 - > the increase in state pension age for women from 60 to 65 which started in 2010
 - > the increase of 1% in Class 1 and Class 4 National Insurance contributions from April 2011, 0.5% of which was announced in the 2008 Pre-Budget Report and the further 0.5% increase in the 2009 Pre-Budget Report
 - > the net reductions in contracted-out rebates and accrual of additional pension as a result of the introduction of the upper accrual point and its fixing in cash terms from April 2009
 - > the introduction of employment and support allowance with its associated help in getting recipients back to work, and the further changes to be introduced in the Welfare Reform Bill which serve to limit the duration of contributory employment and support allowance paid from the National Insurance Fund.
4. These increases in receipts more than offset the expected increases in benefit expenditure from the National Insurance Fund, which are expected as a result of:
 - > the change in qualifying conditions for retirement pension for people reaching state pension age from April 2010
 - > the move to the 'triple guarantee' of earnings, prices or 2.5%, whichever is highest, for the up-rating of the basic retirement pension from April 2012

The fund projection assumes no further changes to benefits, contributions or contracting-out.
5. In looking at the numbers in the following tables, 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 can mean that the actual outcome will be very different from that shown.

Balance in National Insurance Fund at the end of successive financial years based on the assumptions set out in Section 4 and detailed in Appendix 3

Great Britain, £ million	2009-10 (1)	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Receipts	75,857	78,018	82,784	86,246	90,925	96,616	102,605
Payments	80,447	82,385	86,480	88,495	88,304	91,565	95,430
Excess of receipts over payments	-4,590	-4,367	-3,696	-2,248	2,622	5,050	7,175
Balance in fund at end of year (2)	48,457	44,089	40,394	38,145	40,767	45,817	52,992
Balance at end of year as a percentage of benefit payments (3)	63.8	56.3	48.9	45.1	47.2	51.0	56.6

(1) From the National Insurance Fund accounts for 2009-10.

(2) This uses the book value of the fund as at 31 March 2010 and is in accordance both with the accounts and with past practice.

(3) This is based on benefit payments; the payments figures in the table also include personal pension and COMP rebates and administration costs.



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