Report by the Government Actuary on the draft Social Security Benefits Up-rating Order 2010 and on the determination not to lay a draft Social Security (Contributions) (Re-rating) Order 2010

GOVERNMENT ACTUARY'S DEPARTMENT

Report by the Government Actuary on the draft Social Security Benefits Up-rating Order 2010 and on the determination not to lay a draft Social Security (Contributions) (Re-rating) Order 2010

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

January 2010

London: The Stationery Office £14.35

ISBN: 9780108508905

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID P002345944 01/10

Printed on paper containing 75% recycled fibre content minimum.

To: The Right Hon. Yvette Cooper MP, Secretary of State for Work and Pensions

The Right Hon. Stephen Timms MP, Financial 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 2010 and on the determination not to lay a draft Social Security (Contributions) (Re-rating) Order 2010.

This report is made in accordance with sections 142(1) and 150(8) of the Social Security Administration Act 1992, as amended by the Social Security Contributions (Transfer of Functions, etc.) Act 1999. Section 142(1) of the act requires that, even where HM Treasury has determined not to lay a draft order amending Part I of the Contributions and Benefits Act 1992 dealing with National Insurance contributions, I make a report on that determination.

The report contains estimates for the National Insurance Fund of receipts and payments for the years 2009-10 to 2014-15. The estimates are based on a number of assumptions which are described in the report. Relevant assumptions disclosed in HM Treasury's Pre-Budget Report in December 2009 have been used. Otherwise, we have based our assumptions on the consensus view of values from independent forecasters.

On the basis of my estimates, the balance in the National Insurance Fund at 31 March 2011 is expected to be greater than 1/6th of the amount of benefit payments in 2010-11. 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 2010-11.

Trevor Llanwarne
Government Actuary
January 2010

Table of Contents

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 2010 (the Up-rating Order)

> the determination by HM Treasury not to lay a draft Social Security (Contributions) (Re-rating) Order 2010 (the Re-rating Order).

This report also includes the effects on the National Insurance Fund of the changes proposed in the draft Social Security (Contributions) (Amendment) Regulations 2010 and the draft Social Security Pensions (Low Earnings Threshold) Order 2010.

1.2 Estimates of National Insurance Fund income and outgo have been made for 2009-10 to 2014-15. Detailed figures are given for 2010-11, along with updated figures for 2009-10.

1.3 The updated estimates of benefit payments and contribution receipts in 2009-10 are £75.7 billion and £78.1 billion, respectively. Some provisional data from HM Revenue & Customs suggest that contribution receipts may be somewhat lower than this estimate.

1.4 The financial effects of the draft orders on projected benefit payments and contribution receipts for 2010-11 (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 2010. The standard rate of retirement pension would increase by 2.5% from £95.25 a week to £97.65 a week. Estimated benefit payments excluding redundancy payments in 2010-11 would increase by £1.4 billion from £76.8 billion to £78.2 billion as a result of the order.

> The determination by HM Treasury not to lay a draft Re-rating Order leaves rates of National Insurance contributions unchanged. Projected receipts of National Insurance contributions with no changes to rates and limits are £80.0 billion.

> The proposed Social Security (Contributions) (Amendment) Regulations 2010 would increase the lower earnings limit from £95 to £97 a week and leave the upper earnings limit unchanged at £844 a week. The primary and secondary thresholds for Class 1 National Insurance contributions would also be unchanged, both at £110 a week. It is estimated that these changes would increase net contribution receipts to the National Insurance Fund in 2010-11 by £32 million, leaving it at £80.0 billion after rounding. This is because the changes work to decrease contracted-out rebates, while leaving gross contributions unchanged. This includes the effects of the Social Security Pensions (Low Earnings Threshold) Order 2010 on contracted-out rebates.

1.5 The balance in the fund at 31 March 2011 is estimated at £50.2 billion, or 63.8% of the estimated benefit payments (including redundancy payments) of £78.7 billion in the year 2010-11.

1.6 The balance in the fund at 31 March 2011 is expected to be comfortably above the recommended level of 1/6th of annual benefit expenditure, and would remain so even if the estimated balance at 31 March 2010 was reduced by up to 15% as a result of lower contribution receipts. Therefore no Treasury grant is expected to be needed during the year 2010-11.

1.7 In 2010-11, the deficit is forecast to be £520 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, to use the same assumptions as those adopted by HM Treasury for the Pre-Budget Report on 9 December 2009. Where it is not HM Treasury policy to disclose assumptions, we have based our assumptions on the consensus view of values from independent forecasters, as published by HM Treasury in December 2009. 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 26.8 million in 2009-10 and 26.7 million in 2010-11

> the number unemployed and claiming benefit in Great Britain is assumed to be 1.72 million on average in 2009-10 and 1.91 million in 2010-11, and

> the increase in average earnings is assumed to be 1.4% over the year 2009-10 and 2.4% over the year 2010-11.

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. Similarly, aligning the model results with the provisional contributions receipts data for 2009-10 would affect the estimated fund balance at the end of the year and at the end of 2010-11. However, only an extreme change in the assumptions would affect the conclusion that the fund balance at the end of 2010-11 will be above 1/6th of benefit expenditure in the year.

1.10 Using the assumptions adopted by HM Treasury in the Pre-Budget Report, the effects of the Up-rating Order and Contribution Amendment Regulations are:

> the proposed Up-rating Order would increase benefit payments in 2010-11 by £1.4 billion from £76.8 billion to £78.3 billion

> the Contribution Amendment Regulations would increase estimated contribution receipts to the National Insurance Fund in 2010-11 by £32 million, leaving it at £79.7 billion after rounding.

The projected balance in the National Insurance Fund at 31 March 2011 on this basis is £49.7 billion, or 63.2% of the estimated benefit expenditure, still comfortably above the recommended level.

1.11 Estimates for the period up to 2014-15, based on the assumptions mentioned in paragraph 1.8, suggest that the National Insurance Fund will start to grow again from 2011-12, reaching over 90% of estimated annual benefit payments by 31 March 2015, with no Treasury grant required during this period. On the assumptions used by HM Treasury for the Pre-Budget Report this result is broadly similar.

1.12 This report is required to be laid by the Secretary of State for Work and Pensions before Parliament under section 150(8) of SSA92 in respect of the Up-rating Order, and by HM Treasury under section 142(1) in respect of the determination not to lay a draft Re-rating Order.

1.13 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 of:

> the draft Social Security Benefits Up-rating Order 2010 (the Up-rating Order)

Section 150(8) 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 that section of the Act.

> the determination by HM Treasury not to lay a draft Social Security (Contributions) (Re-rating) Order 2010 (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 those sections of that Act, or with the report that HM Treasury is required under section 141(6) of the Act to lay before Parliament should it determine not to lay a draft order in a tax year.

2.2 This report also includes the effects on the National Insurance Fund of the changes proposed in the draft Social Security (Contributions) (Amendment) Regulations 2010 and the draft Social Security Pensions (Low Earnings Threshold) Order 2010.

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 6 April 2010. 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. In the 2001 Pre-Budget Report the Government pledged to increase the basic state retirement pension by the greater of the increase in RPI or 2.5% from April 2002 onwards.

3.2 The most significant benefits paid from the National Insurance Fund, in terms of benefit expenditure, are retirement pensions, incapacity benefit and contribution-based employment and support allowance and contribution-based jobseeker's allowance.

3.3 The annual percentage change in RPI in September 2009 was negative at -1.4%. The percentage increase in the Rossi index over the same period was 1.8%. The Up-rating Order proposes increasing the basic state retirement pension by 2.5% in April 2010, in line with the 2001 Pre-Budget Report statement, and contribution-based jobseeker's allowance, incapacity benefit and contribution-based employment and support allowance by 1.8%.

3.4 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 2009-10	**Proposed increase in weekly rate**	**Weekly rate proposed from 6 April 2010**
Retirement pension – person claiming on their own or their deceased spouse's NI contributions – standard rate	£95.25	£2.40	£97.65
Retirement pension – person claiming on their spouse's NI contributions – standard rate	£57.05	£1.45	£58.50
Contribution-based jobseeker's allowance single person over 25	£64.30	£1.15	£65.45
Incapacity benefit long-term main rate	£89.80	£1.60	£91.40
Employment and support allowance personal allowance age 25 or over including work-related activity component	£89.80	£1.60	£91.40

3.5 The Up-rating Order proposes increasing bereavement benefits by 2.5%, in line with the increase in the basic state retirement pension. Earnings-related additional pensions (under the State Earnings Related Pension Scheme (SERPS), State

Second Pension (S2P) and graduated retirement benefit) and additional pensions for those on incapacity benefit would not be increased.

3.6 The financial effects of the benefit up-ratings are shown in Appendix 4.

Re-rating and the Contributions Amendment Regulations

3.7 HM Treasury has determined not to lay a draft Re-rating Order in the 2009-10 tax year. This leaves the rates of National Insurance contributions unchanged in 2010-11, compared to 2009-10, for Classes 2, 3 and 4 for self-employed people and voluntary contributors, the small earnings exception for Class 2 contributions, and the lower and upper Class 4 profit limits.

3.8 The proposed Social Security (Contributions) (Amendment) Regulations 2010 would increase the lower earnings limit (LEL) for Class 1 contributions from £95 to £97 a week and leave the upper earnings limit unchanged at £844 a week. The proposed increase to the LEL is broadly in line with the proposed increase to the basic state retirement pension. There are no proposed changes to the primary and secondary thresholds, which remain at £110 a week for weekly-paid employees and £476 for monthly-paid employees.

3.9 The proposed Social Security Pensions (Low Earnings Threshold) Order 2010 would increase the low earnings threshold (LET) from £13,900 to £14,100 in 2010-11. 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.

3.10 The changes described in paragraphs 3.7 and 3.8 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 payments

4.1 The key assumptions underlying the estimates for receipts from contributions and payments of benefits are unemployment and employment levels, and the rate of increase in earnings. In order to consider what assumptions to use for these factors, I felt it appropriate for the base assumptions to be equivalent to the assumptions used by HM Treasury for the Pre-Budget Report on 9 December 2009, where these are disclosed.

4.2 Where HM Treasury's assumptions are not disclosed in the Pre-Budget Report, the estimates are based on the NAO-audited assumptions for claimant unemployment and industry-consensus assumptions for employment growth and earnings increases.

4.3 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 26.8 million in 2009-10 and 26.7 million in 2010-11

> the number unemployed and claiming benefit in Great Britain is assumed to be 1.72 million on average in 2009-10 and 1.91 million in 2010-11,

> the increase in average earnings is assumed to be 1.4% over the year to 2009-10 and 2.4% over the year to 2010-11.

4.4 Further details of the methods and assumptions used to estimate contribution income and benefit expenditure are provided in Appendix 3.

4.5 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 2010-11 along with the latest estimates for 2009-10. 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	2009-10		2010-11	
Receipts				
Contributions (as given in first part of App 6)	78,055		80,036	
Less recoveries of SSP	50		50	
Less recoveries of SMP, SPP and SAP (and abatements)	1,925		1,971	
Net contribution receipts		76,080		78,015
Treasury grant		0		0
Compensation from Consolidated Fund for SSP, SMP, SPP and SAP recoveries		1,966		2,013
Income from investments [1]		2,351		2,341
State scheme premiums		69		66
Other receipts [2]		49		52
Total receipts [3]		80,514		82,486
Payments				
Benefits At present rates (as given in App 4)		75,685	76,820	
Increase due to proposed changes			1,423	
Total				78,243
Personal and stakeholder pensions contracted-out rebates (as given in App 7)		2,442		2,228
Age-related rebates for contracted-out money-purchase schemes (as given in App 7)		226		204
Administration costs [2]		1,382		1,414
Redundancy fund payments (net) [2]		470		418
Transfer to Northern Ireland		135		400
Other payments		97		100
Total payments [3]		80,438		83,006
Statement of balances				
Balance at beginning of year [4]		50,631		50,707
Excess of receipts over payments		76		-520
Balance at end of year		50,707		50,187
Balance at end of year as percentage of annual benefit payments[5]		66.6%		63.8%

[1] 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.
[2] The figures for 2009-10 are provisional estimates supplied by other government departments on the basis of amounts received or paid so far this year.
[3] Figures may not sum to totals shown due to rounding.
[4] The balance at 31 March 2009 is taken from the accounts of the fund for the year 2008-09.
[5] 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 2010-11. It should be emphasised that there is uncertainty around such projections as the surplus generated each year is the difference between two large numbers and quite small percentage changes in either of them could result in a large percentage change in the surplus income, and hence in the projected fund balance.

5.3 The effects of the Up-rating Order on benefit payments in 2010-11 and of the Contributions Amendment Regulations on contribution receipts in 2010-11 are given in Section 7.

6 Estimates for 2009-10

6.1 The estimates shown above for 2009-10 may be compared with the estimates made a year ago, and published in my report in January 2009 (Cm 7537). The estimated surplus (that is, the excess of the receipts over payments) of £76 million for 2009-10 shown above differs from the surplus of £2.1 billion estimated in that report. The difference is mainly due to the lower contributions estimated to be paid than were projected in Cm 7537, which in turn is due to the lower increase in earnings and fewer jobs assumed now than were assumed for Cm 7537.

6.2 The latest in-year estimates for National Insurance Fund contribution for 2009-10 from HM Revenue & Customs indicate that contribution receipts may be somewhat lower than the estimate above of £78.1 billion. However, the balance in the fund would remain comfortably above the recommended level of 1/6th of annual benefit expenditure and would remain so even if the estimated balance reduced by up to 15% as a result of lower contribution receipts.

6.3 Estimates for National Insurance Fund benefits for 2009-10 are close to those made in Cm 7537 (£75.7 billion estimated now compared to £74.9 billion estimated a year ago).

6.4 Further details of the updated estimates are provided in Appendix 8.

7 Estimates for 2010-11

7.1 The extra benefit payments in 2010-11 as a result of the proposed increases in benefit rates from April 2010 are estimated to be £1,423 million, taking estimated total benefit payments from £76.8 billion to £78.2 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 3.7, 3.8 and 3.9 are given in Appendix 5. The combined effect of the changes is estimated to produce an increase in revenue to the National Insurance Fund of £32 million, leaving it at £80.0 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 On the assumptions used by HM Treasury for the Pre-Budget Report, the effect of the Up-rating Order on benefit expenditure in 2010-11 is an increase of £1.4 billion from £76.8 billion to £78.3 billion. The combined effect of the Contribution Amendment Regulations and the Lower Earnings Threshold Order is an increase in contribution receipts of £32 million leaving it at £79.7 billion after rounding.

7.4 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 2011 is £50.2 billion. The possibility of lower contribution receipts in 2009-10 would also reduce the estimated balance of the fund at 31 March 2011. However, the estimated balance at 31 March 2011 substantially exceeds 1/6th of estimated benefit payments including redundancy payments (that is, 1/6th of £78.7 billion or £13.1 billion). It would remain comfortably above the recommended level of 1/6th of annual benefit expenditure even if the estimated balance in 2009-10 were to be reduced by up to 15%. 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 2010-11.

7.5 On the assumptions used by HM Treasury for the Pre-Budget Report, the estimate of the balance in the National Insurance Fund at 31 March 2011 is not materially different from the figures shown in paragraph 7.4 above, at £49.7 billion, and again it substantially exceeds 1/6th of estimated benefit payments in 2010-11 (£13.1 billion). So the same conclusion can be reached that a Treasury grant is not expected to be needed in 2010-11.

7.6 Appendix 9 shows the projected development of the fund up to 2014-15 using the assumptions detailed in Section 4 and Appendix 3 and, for comparison, the projected development of the fund using the same assumptions that underlie the Pre-Budget Report. The fund (as a proportion of annual expenditure) is projected to increase over this period from 63.8% in March 2010 to 94.8% in March 2015 under the assumptions set out in Section 4 and so improve its position as a buffer fund. Under the assumptions adopted by HM Treasury for the Pre-Budget Report, the projected fund balance in March 2015 is 96.4%.

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 most sensitive to assumptions for the level of earnings increases and levels of employment. Benefit payments are most sensitive to the assumptions for the level of unemployment.

Table 3 – Effect on receipts and payments of the National Insurance Fund in 2010-11 of variations in economic assumptions

Great Britain, £ million

Variation compared to assumptions given in Appendix 3, paragraph 28	Effect on receipts in 2010-11	Effect on payments in 2010-11
1% lower earnings increases over the year to 2009-10 and 2% lower over the year to 2010-11	-2,490	
1% higher earnings increases over the year to 2009-10 and 2% higher over the year to 2010-11	2,510	
Lower GB number of employees-in-employment by 200,000 in 2010-11	-540	
Higher GB number of employees-in-employment by 200,000 in 2010-11	+540	
Lower GB unemployment by 200,000 in 2010-11 (1)		-100
Higher GB unemployment by 200,000 in 2010-11 (1)		+100

(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 2009-10 and 2% lower over the year to 2010-11, the number of employees 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 2010-11 would be a loss of approximately £4.1 billion (compared to a deficit of £0.5 billion on the base projection). This would still not necessitate a Treasury grant in 2010-11, as the revised estimated balance in the fund, of around £46.1 billion, would be about 58% 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 2010-11. COMPS rebates above those deducted from contributions received will be paid by the National Insurance Contributions Office to the pension scheme after the end of the financial year. Similarly, appropriate personal pension (APP) and APP stakeholder pension rebates for 2010-11 will be paid by the National Insurance Contributions Office 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 2010-11. 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 2010

Great Britain, £ million

Variation in assumptions	Effect on rebates accruing in 2010-11	Effect on rebates paid or deducted from contributions paid in 2010-11
100,000 more COSRS members	+120	+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 2010, as set out in Table 2 of this report, is estimated to be £50.7 billion. This is lower than the estimate in my report in January 2009 (Cm 7537) of £54.8 billion. The difference is mainly due to the lower contributions estimated to be paid than were projected in Cm 7537, which in turn is due to the lower increase in earnings and fewer jobs assumed now than were assumed for Cm 7537.

9.2 The balance of the fund at 31 March 2011, allowing for the proposed increases in benefits and changes in contributions in 2010-11 that would arise from the draft Up-rating Order, the draft Contributions Amendment Regulations and the draft Low Earnings Threshold Order, is estimated to be £50.2 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 2015 is projected to be no lower than 63% of benefit payments in the preceding year. The projections made in Appendix 9 include the effects of the Pensions Act 2008, the National Insurance Contributions Act 2008 and the proposed increases in National Insurance contributions from April 2012.

9.4 As the estimated balance of the fund at 31 March 2011 of £50.2 billion substantially exceeds the recommended minimum level of at least 1/6th of benefit payments during the year (equivalent to £13.1 billion), it is most unlikely that payment of a Treasury grant will be required in 2010-11. Medium-term projections suggest that a Treasury grant will not be required during the period to 31 March 2015.

9.5 If economic conditions depart from the assumptions described in paragraph 4.1 the balance of the fund at 31 March 2011 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 below its current level. In particular, the same broad conclusions hold good if contribution receipts are lower than expected in 2009-10 or if assumptions as used by HM Treasury in the Pre-Budget Report were adopted instead of those outlined in Section 4 and given in detail in Appendix 3.

Trevor Llanwarne
Government Actuary

Fellow of the Institute of Actuaries
January 2010

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

All figures in £s	Weekly rate in 2009-10	Weekly rate proposed from 6 April 2010
Retirement pension, bereavement allowance, widow's pension and widowed parent's allowance		
Personal benefit (basic pension)	95.25	97.65
Wife or other adult dependant (retirement pension only)	57.05	58.50
Graduated retirement benefit (unit)	0.1153	0.1153
Bereavement payment (1)	2,000	2,000
Incapacity benefit long-term rate (2)		
Personal benefit	89.80	91.40
Transitional invalidity allowance higher rate	15.65	15.00
Transitional invalidity allowance middle rate	9.10	8.40
Transitional invalidity allowance lower rate	5.35	5.45
Wife or other adult dependant	53.10	53.10
Age increase higher rate (3)	15.65	15.00
Age increase lower rate (3)	6.55	5.80
Incapacity benefit short-term		
Personal benefit higher rate	80.15	81.60
Personal benefit lower rate	67.75	68.95
Wife or other adult dependant	41.35	41.35
Employment and support allowance (4)		
Personal allowance (age 25 or over)	64.30	65.45
Work-related activity component	25.50	25.95
Support component	30.85	31.40
Statutory sick pay	79.15	79.15
Jobseeker's allowance (contribution-based) (5)		
Personal benefit for those aged 18 to 24	50.95	51.85
Personal benefit for those aged 25 and over	64.30	65.45
Maternity allowance (6)	123.06	124.88
Statutory maternity pay		
Standard rate (6)	123.06	124.88
Guardian's allowance		
First child	14.10	14.30
Other children	14.10	14.30
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	8.20	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 uprated 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 October 2010 it is planned to begin gradually transferring recipients of incapacity benefits 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 2009-10	Rate proposed from April 2010
Class 1			
Lower earnings limit (LEL)		£95 a week	£97 a week
Upper earnings limit (UEL)		£844 a week	£844 a week
Upper accrual point (UAP)		£770 a week	£770 a week
Primary threshold		£110 a week or £476 a month	£110 a week or £476 a month
Secondary threshold		£110 a week or £476 a month	£110 a week or £476 a month
Contribution rates (NI Fund and NHS combined)			
Primary (employee)	On earnings between the primary threshold and UEL (1)	11.0%	11.0%
	On earnings above the UEL	1.0%	1.0%
	Reduced rate on earnings between the primary threshold and UEL, for married women and widow optants (2)	4.85%	4.85%
	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 (3) (4)	12.8%	12.8%
	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%	12.8%
NHS allocation included in above		1.9%	1.9%

Appendix 2 (cont)

	Rate in 2009-10	Rate proposed from April 2010
Class 2		
Flat-rate contribution	£2.40 a week	£2.40 a week
Small earnings exception	£5,075 a year	£5,075 a year
NHS allocation included in above (percentage of contribution)	15.5%	15.5%
Class 3		
Flat-rate contribution	£12.05 a week	£12.05 a week
NHS allocation included in above (percentage of contribution)	15.5%	15.5%
Class 4		
Lower profits limit (LPL)	£5,715 a year	£5,715 a year
Upper profits limit (UPL)	£43,875 a year	£43,875 a year
Contribution rate		
On profits between the LPL and UPL	8.0%	8.0%
On profits above the UPL	1.0%	1.0%
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 contracted-out rebate for primary contributions in 2009-10 and 2010-11 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.

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

(3) The contracted-out rebate for secondary contributions in 2009-10 and 2010-11 is 3.7% of earnings between the LEL and UAP for COSRS and 1.4% for COMPS.

(4) 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.

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 28 below. The gross contribution results are scaled in line with the assumed number of employees which are also given in paragraph 28. 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.

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. This data is 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 and allowing for the extra payments made after the delayed deficiency notices were sent out. 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, but the position has now improved and work on unresolved questions is continuing. In the meantime, estimates have been made based on the available data but it is still possible that figures for statutory payments might be amended in the future. Full allowance has been made for the recent policy changes on duration and entitlements.

Other receipts

5. The estimates given for receipts from state scheme premiums are based on data from the National Insurance Contributions Office on the receipts of these amounts in the recent past.

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.

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, etc.), for the basic flat-rate element of state retirement pensions, and for additional pensions (SERPS and S2P).

10. In general, for benefits where the rate is not based on past earnings, numbers of beneficiaries are estimated by taking the most recent data on beneficiaries and projecting these with allowance for awards and cessations in future years based on past experience and taking into account demographic factors. The average rate of benefit is calculated based on the rate projected for each year, making allowance for dependency and average amounts of benefit, based on past data and observed trends.

11. 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. A review of the assumptions used in the model has been carried out incorporating data from the Lifetime Labour Market Database (L2) to provide an indication of future entitlements to basic retirement pension.

12. Allowance has been made in the estimates for the basic retirement pension for the changes introduced by the Pensions Act 2007. 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 little effect in 2010-11, but increasing effect in later years.

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 2006-based projection (which have the same long-term rates of mortality improvements as the rates for the 2008-based 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. Estimates of widows' benefits and bereavement benefits are based on an awards and survivorship model. This model is split between projecting the remaining pre-1988 widows who have full transitional protection and are subject to the pre-1988 rules for widows' benefit, projecting the remaining widows widowed between 1988 and 2001, and projecting a build up of widows, widowers and bereaved civil partners post-2001 who are subject to the rules for widows' benefits and bereavement benefits introduced by the Welfare Reform and Pensions Act 1999. Allowance is made for widowers with children who were widowed before April 2001 and who have received widowed parent's allowance since April 2001. Awards are based on recent data and are projected using numbers of new widows, widowers and bereaved civil partners from the latest marital condition projection (mid-2006 based adjusted). Termination and transfer rates by single age and type of benefit are derived from recent data.

16. The estimates of lump sum widows' payments/bereavement payment are derived from information provided by the Department for Work and Pensions.

17. The estimates of the amount of additional pension paid with widows' benefits and bereavement benefits are calculated in the retirement pension additional pension model. Accrued additional pension to people dying under pension age, and actual additional pension in payment to those dying over pension age are converted to give amounts of widows', widowers' and bereaved civil partners' additional pension, using assumptions on marital and civil partnership status and age of surviving spouse and civil partner taken from Office for National Statistics publications. The amount is split by type of benefit and survived using the main basic bereavement benefit model. Allowance is made for the changes which have applied since April 2001, under which additional pension will only be paid to widows, widowers and civil partners under pension age who receive widowed parent's allowance. Amounts of survived additional pension are transferred back to the main retirement pension model in respect of

widows, widowers and bereaved civil partners who reach pension age, including amounts which are not actually paid under pension age. A similar method is used for contracted-out deductions.

18. Estimates for the amounts of incapacity benefit and employment and support allowance are based on information provided by the Department for Work and Pensions.

19. The estimate of the cost of contribution-based jobseeker's allowance is based on the NAO-audited assumptions for the number of unemployed described in paragraph 28 of this appendix and set out in Section 4. The estimates are adjusted to convert them from accruals (resource) to a cost (encashment) basis.

20. 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.

21. The underlying estimates of payments for all benefits are aligned to recent data on payments for 2009-10 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

22. Estimates of payments to providers of appropriate personal pensions (APPs) and stakeholder pensions are made using the method for calculating contracted-out rebates which was described in paragraph 2 of this appendix. Virtually all the rebates in respect of contributions paid in one financial year are paid in the following financial year.

23. 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.

24. 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.

25. The administration costs for 2009-10 are based on estimates supplied to us by HM Revenue & Customs. Future costs have been estimated as the 2009-10 costs increased in line with inflation.

26. 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

27. 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.

28. The table below provides details of the assumptions underlying the estimates.

Key assumptions

	Number of jobs (millions)	Numbers unemployed (millions)	Earnings increase	RPI increase	Rossi increase
2009-10	26.8	1.72	1.40%	-1.50%	1.75%
2010-11	26.7	1.91	2.40%	3.00%	3.00%
2011-12	26.8	1.94	3.00%	3.25%	1.50%
2012-13	27.1	1.94	3.50%	3.25%	2.00%
2013-14	27.4	1.94	4.00%	3.25%	2.25%
2014-15	27.6	1.94	4.50%	3.00%	2.50%

29. The assumptions for the increase in the level of earnings are based on consensus forecasts. Similarly, the assumptions for employment levels are based on consensus forecasts for employment growth. It is not HM Treasury policy to disclose their assumptions for these measures in the Pre-Budget Report.

30. The assumptions for the increase in earnings and employment for the years 2009-10 and 2010-11 are the average assumptions detailed in the "Forecasts for the UK economy: a comparison of independent forecasts" document available on the HM Treasury website. The earnings increase assumptions have been extended for the projections provided in Appendix 9 bearing in mind the effects of recent economic events on GDP, expectations for future inflation, and likely long-term real earnings growth. The employment growth assumptions have been extended taking account of ONS population projections and the HM Treasury estimate of the trend employment rate as detailed in the Pre-Budget Report.

31. The assumptions for unemployment are the NAO-audited assumptions for claimant unemployment, which are also derived from an average of independent forecasts, as detailed in the Pre-Budget Report. The RPI and Rossi increase assumptions are those provided in the Pre-Budget Report.

32. 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 2010-11

Great Britain, £ million [1]	Estimated total payments in 2009-10	Estimated total payments in 2010-11	Estimated extra payments in 2010-11 as a result of the draft Up-rating Order
Retirement pensions – basic [2]	53,650	55,929	1,282
Retirement pensions – additional pensions	12,821	13,332	0
Widows'/bereavement benefits – basic	546	513	10
Widows'/bereavement benefits – additional pensions	105	89	0
Incapacity benefit – basic	5,940	5,248	86
Incapacity benefit – additional pensions	180	155	0
Employment and support allowance	903	1,553	25
Contribution-based jobseeker's allowance	1,059	933	15
Maternity allowance	348	355	5
Guardian's allowance	2	2	0
Christmas bonus	132	134	0
Total [3]	75,685	78,243	1,423
Redundancy payments (net) [3]	470	418	0

(1) Payments include those made to beneficiaries residing outside Great Britain.
(2) Includes payments of gradated retirement benefit.
(3) Figures from these lines appear in Table 2 in the main report.

The figures in the table above are calculated on the assumptions set out in Section 4. On the assumptions used by HM Treasury for the Pre-Budget Report, the extra payments as a result of the Up-rating Order are £15 million in respect of contribution-based jobseeker's allowance.

Appendix 5: Estimated effects of the determination not to lay a draft Re-rating Order and of the Contribution Amendment Regulations on contribution receipts in 2010-11

HM Treasury has determined, on the basis of a review of the general level of earnings in Great Britain, not to lay a draft Re-rating Order in the 2009-10 tax year to alter the levels of Class 2, 3 or 4 National Insurance contributions from April 2010.

The table below sets out the principal changes arising from the draft Social Security (Contributions) (Amendment) Regulations 2010 and the draft Social Security Pensions (Low Earnings Threshold) Order 2010.

Great Britain, £ million **National Insurance Fund effects**	**Contributions estimated as due for 2010-11**	**Contributions estimated to be received in 2010-11** [1]
Increase in Class 1 lower earnings limit		
Effect on contribution receipts from gross contributions [2]	0	0
Effect on contracted-out rebates	-35	-32
Net effect	+35	+32

[1] The balance of contributions for 2010-11 will not be received until after 31 March 2011, whereas the "Contributions estimated as due" column shows all contributions based on earnings or profits in 2010-11, regardless of when they are received.

[2] Figures are gross of statutory sick pay, statutory maternity pay, statutory paternity pay and statutory adoption pay.

The figures in the table above are calculated on the assumptions set out in Section 4. On the assumptions used by HM Treasury for the Pre-Budget Report, the combined effect of the Contributions (Amendment) Regulations and the Lower Earnings Threshold Order on contributions estimated to be received in 2010-11 is an increase of £32 million in respect of lower contracted-out rebates.

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

Great Britain, £ million				2009-10		2010-11
National Insurance Fund						
Class 1 (1)	Primary	Gross	33,299		33,978	
		Contracted-out rebate (2)	2,387		2,308	
		Net		30,912		31,670
	Secondary	Gross	49,173		50,221	
		Contracted-out rebate (2)	5,353		5,177	
		Net		43,821		45,044
	Total	Gross	82,472		84,199	
		Contracted-out rebate (2)	7,740		7,486	
		Net		74,732		76,714
Classes 1A and 1B				1,080		1,086
Class 2				298		299
Class 3 (3)				93		90
Class 4				1,852		1,848
Total National Insurance Fund contributions(4)				**78,055**		**80,036**
National Health Service						
Class 1	Primary		8,560		8,736	
	Secondary		11,276		11,469	
	Total			19,836		20,205
Classes 1A and 1B				188		189
Class 2				55		55
Class 3 (3)				17		16
Class 4				864		854
Total National Health Service contributions				**20,961**		**21,319**

Appendix 6 (cont)

Great Britain, £ million				2009-10		2010-11
All contributions						
Class 1 [1]	Primary	Gross	41,859		42,714	
		Contracted-out rebate [2]	2,387		2,309	
		Net		39,472		40,406
	Secondary	Gross	60,449		61,689	
		Contracted-out rebate [2]	5,353		5,177	
		Net		55,097		56,512
	Total	Gross	102,309		104,404	
		Contracted-out rebate [2]	7,740		7,486	
		Net		94,569		96,918
Classes 1A and 1B				1,268		1,275
Class 2				353		354
Class 3 [3]				110		106
Class 4				2,716		2,702
Total contributions [5]				**99,016**		**101,356**

(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 include an allowance for extra payments made after the delayed deficiency notices are sent out.

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

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

The corresponding figures on the assumptions used by HM Treasury in the Pre-Budget Report are:

Great Britain, £ million	2009-10	2010-11
National Insurance Fund	**77,934**	**79,708**
National Health Service	**20,935**	**21,256**
Total contributions	**98,868**	**100,964**

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		**2009-10**		**2010-11**
Personal and stakeholder pension rebates				
Primary contracted-out rebates	482		435	
Secondary contracted-out rebates	1,961		1,792	
Total [1]		2,442		2,228
Age-related rebates for members of contracted-out money-purchase schemes [1]		226		204
All payments in respect of personal pensions and age-related rebates to contracted-out money-purchase schemes [2]		2,668		2,432

[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.

The corresponding figures on the assumptions used by HM Treasury in the Pre-Budget Report are:

Great Britain, £ million	**2009-10**	**2010-11**
All payments in respect of personal pensions and age-related rebates to contracted-out money-purchase schemes	2,668	2,430

Appendix 8: 2009-10 estimates – current and in Cm 7537 (January 2009)

Great Britain, £ million		**2009-10 current estimates, on the assumptions in Section 4 and detailed in Appendix 3**		**2009-10 estimates in Cm 7537**
Receipts				
Contributions [1]	78,055		79,036	
Less recoveries of SSP [2]	50		51	
Less recoveries of SMP, SPP and SAP, and SMP, SPP and SAP abatement [2]	1,925		1,945	
Net contribution receipts [3]		76,080		77,040
Treasury grant		0		0
Compensation from Consolidated Fund for SSP and SMP recoveries		1,966		1,988
Income from investments		2,351		2,495
State scheme premiums		69		78
Other receipts		49		48
Total receipts [3]		**80,514**		**81,649**
Payments				
Benefits [4]		75,685		74,877
Personal and stakeholder pensions contracted-out rebates [5]		2,442		2,313
Age-related rebates for contracted-out money-purchase schemes		226		228
Administration costs [6]		1,382		1,301
Redundancy fund payments (net)		470		359
Transfer to Northern Ireland		135		395
Other payments		97		64
Total payments [3]		**80,438**		**79,537**

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

	2009-10 current estimates, on the assumptions in Section 4 and detailed in Appendix 3	**2009-10 estimates in Cm 7537**
Number of employees in employment (UK, including HM Forces, excluding self-employed) (millions)	26.8	27.0
Increase in average earnings on one year earlier (%)	1.4	3.2
Average number of unemployed (GB) (millions)	1.72	1.31

(1) The estimates of contributions are lower than last year because Class 1 contributions are estimated to be lower due to lower earnings increases and fewer jobs than were assumed last year (as shown above). Receipts of other classes of contributions are historically volatile but in this case the differences are immaterial.

(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 has improved considerably in recent years.

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

(4) The estimate of total benefit payments for 2009-10 is higher than that shown in last year's report. The main reasons for this are the higher cost of jobseeker's allowance due to rising unemployment, as shown in the comparison of assumptions above, and a higher cost for incapacity benefit and employment and support allowance.

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

(6) Estimates of the administration costs are higher than those in Cm 7537.

Appendix 9: Projections of the National Insurance Fund to 2014-15

1. The tables overleaf show projected receipts and payments for the National Insurance Fund for the years up to 2014-15. The estimates in the first table are based on the assumptions as set out in Section 4 and given in more detail in Appendix 3. The second table gives results based on the assumptions used by HM Treasury for the Pre-Budget Report in December 2009. Increases in benefit rates, contribution rates and earnings limits after 2010-11 are estimated in line with current and proposed legislation.

2. It can be seen from the last row of the first table overleaf that there is projected to be a steady increase in the balance of the National Insurance Fund as a percentage of benefit expenditure after 2010-11.

3. The main reasons for the improving position of the balance of the fund are:

   > the increase in state pension age for women from 60 to 65 which starts in 2010

   > the increase of 0.5% in Class 1 and Class 4 National Insurance contributions from April 2011 as announced in the Pre-Budget Report on 24 November 2008 and the further 0.5% increase in National Insurance contributions for these classes announced in the Pre-Budget Report on 9 December 2009. These are both due to be effective from April 2011

   > 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.

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 up-rating basic retirement pension in line with earnings rather than prices, due to be introduced from April 2012, and the floor on up-ratings of basic retirement pension of 2.5% a year until that time.

   The fund projection assumes no further changes in the law on benefits or contributions.

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	**2008-09** (1)	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Receipts	78,192	80,514	82,486	91,948	97,764	103,301	109,911
Payments	75,434	80,438	83,006	86,420	89,608	91,658	96,302
Excess of receipts over payments	2,758	76	-520	5,528	8,156	11,643	13,610
Balance in fund at end of year (2)	50,631	50,707	50,187	55,715	63,871	75,514	89,124
Balance at end of year as a percentage of benefit payments (3)	71.4	66.6	63.8	67.8	74.9	84.5	94.8

(1) From the National Insurance Fund accounts for 2008-09.

(2) This uses the book value of the fund as at 31 March 2009 and is in accordance both with the accounts and with past practice. However, it is not consistent with the fund projections made in my predecessor's latest Quinquennial Review of the National Insurance Fund, which used market values.

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

Balance in National Insurance Fund at the end of successive financial years based on the assumptions used by HM Treasury for the Pre-Budget Report in December 2009

	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Balance at end of year as a percentage of benefit payments (3)	71.4	66.4	63.2	67.0	74.4	85.0	96.4

information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square
London SW1A 2JX
Telephone orders/General enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http://www.bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents

Customers can also order publications from:
TSO Ireland
16 Arthur Street, Belfast BT1 4GD
Tel 028 9023 8451 Fax 028 9023 5401

GOVERNMENT ACTUARY'S DEPARTMENT
Finlaison House 15-17 Furnival Street London EC4A 1AB

Fax: +44 (0)20 7211 2630/2660
Switchboard: +44 (0)20 7211 2601
Email enquiries: enquiries@gad.gov.uk
Web: www.gad.gov.uk

ISBN 978-0-10-850890-5