Government Actuary's Department

Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2010

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Actuary's
Department

Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2010

Required by Section 166 of the Social Security Administration Act 1992 to be laid before Parliament

Presented to Parliament pursuant to 166(5) of the Social Security Administration Act 1992 as amended by the Social Security Contributions (Transfer of Functions, etc) Act 1999

Date: 17 July 2014

Author: Trevor Llanwarne, Government Actuary

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To

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

David Gauke MP, Financial Secretary to the Treasury

Sirs

In accordance with the terms of section 166 of the Social Security Administration Act 1992, I have reviewed the operation, during the period 6 April 2005 to 5 April 2010, of:

a) Parts I to VI of the Social Security Contributions and Benefits Act 1992 (except Part I of Schedule 8)

b) the provisions of the Jobseekers Act 1995 relating to contribution-based Jobseeker's Allowance

c) the provisions of Part 1 of the Welfare Reform Act 2007 relating to contributory Employment and Support Allowance, and

d) the Social Security Administration Act 1992, Chapter II of Part I of the Social Security Act 1998 and Part II of the Social Security Contributions (Transfer of Functions etc) Act 1999, so far as they relate to a) to c) above.

The objective of the review as set out in section 166 (4) of the Social Security Administration Act 1992 is

'to determine the extent to which the level at which the National Insurance Fund stands from year to year may be expected in the longer term to bear a proper relation to demands in respect of payments of benefit; and for this purpose the Actuary shall take into account:

a) current rates of contributions

b) the yield to be expected from contributions in the longer term; and

c) such other matters as he considers to be relevant as affecting the present and future level of the Fund.'

My conclusions are given in the attached report prepared by staff in the Government Actuary's Department.

Trevor Llanwarne, FIA CB

Government Actuary

17 July 2014

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1 Executive summary

This section contains a brief summary of:

- the background to this review
- the results on the base-case and variant assumptions, which ignore the effects of the Pensions Act 2014
- results showing the impact of the Pensions Act 2014
- the main conclusions of this review

Background to the review

1.1 Under the Social Security Administration Act 1992 Chapter 5 (Section 166), the Government Actuary is required to review the operation of the National Insurance Fund of Great Britain (the 'Fund') at least every five years. The present review does this as at an effective date of 5 April 2010. It takes account of events including legislative changes after the effective date, including the Pensions Act 2014 (although in a less detailed manner), and contains projections for years 2010 to 2075.

1.2 The previous review, as at April 2005, was published in March 2010, and took account of data, legislation and events up to a few years after that date[1].

1.3 As the Pensions Act 2014 had not received Royal Assent by the time most of the work on this review had been carried out, the base case is based on the legislative position of the Fund excluding the measures contained in the Pensions Act 2014. However, we have also carried out, albeit in a less detailed way, projections of the impact of the provisions of the Pensions Act 2014.

1.4 In view of the fact that we have not been able to undertake the analysis building in the Pensions Act 2014 changes at the same level of detail as undertaken for the base case, while we have good confidence in the overall picture being presented, and given that it would seem inappropriate to do so under the legislative framework for this review, we conclude that more detailed analysis should be undertaken.

1.5 This review presents results on base-case and variant assumptions in terms of:

- projections of income and expenditure and the balance of the Fund and of when the balance in the Fund may reach zero (Fund 'exhaustion')
- projections the level of National Insurance contributions required to make the annual income equal to expenditure ('break-even contribution rates'), and
- consideration of the impact on the Fund's projected financial position of possible changes that, together with the Pensions Act 2014, might ensure, on the base-case assumptions, that Fund exhaustion occurs after 2060 ('BCA sustainability').

[1] https://www.gov.uk/government/publications/government-actuarys-quinquennial-review-of-the-national-insurance-fund-as-at-april-2005

The National Insurance Fund

1.6 The Fund was established in 1948. The main benefits currently paid by the Fund, where individuals meet the contribution and other qualifying conditions, are:

> State pension (basic and additional)

> Incapacity Benefit/Employment and Support Allowance (contributory only)

> Bereavement Benefits

> Jobseeker's Allowance (contributory only)

> Maternity Allowance.

Generally, benefits paid from the Fund are not means-tested.

1.7 The funds required for meeting the cost of these benefits are generally met from National Insurance contributions which are generally collected from employees, their employers and the self-employed but also in some cases by HM Revenue and Customs (HMRC). HMRC also record the contributions against individuals' contribution records which determine entitlement to benefits. The Department for Work and Pensions (DWP) has overall responsibility for the award and payment of most benefits payable from the Fund. The Social Security Contributions and Benefits Act 1992 sets out the conditions governing entitlement to most benefits and the basis for assessing liability to pay National Insurance contributions.

1.8 The Fund is financed in such a way that the bulk of contributions paid in a year are used to meet benefit expenditure in the year, so it can be considered to operate broadly on a pay as you go (PAYG) basis. No substantial Fund has been built up. However, as the Fund has no borrowing powers, a working balance is necessary to guard against unexpected falls in contribution income or increases in outgo. The Government Actuary has recommended since at least 2000 that the minimum level necessary to ensure a reasonable working balance in the Fund is 1/6th of annual benefit expenditure. In addition, a Treasury Grant of up to 17% of estimated benefit expenditure in any year may be paid into the Fund.

1.9 Significant pieces of recent legislation or policy which affect the Fund are

> The Pensions Act 2011 which brought forward from 2020 to 2018 the equalisation, to age 65, of State Pension age (SPA) for men and women, and brought forward the increase in SPA to 66 for both sexes to 2020

> The introduction of triple lock increases which are applied to the basic State Pension. This measure, introduced in April 2012, ensures that increases applied to the basic State Pension each year will be set as the maximum of 2.5%, average earnings or CPI growth over the previous year. It has been assumed that triple lock increases will continue to apply in the long term, for consistency with the OBR's 2013 FSR

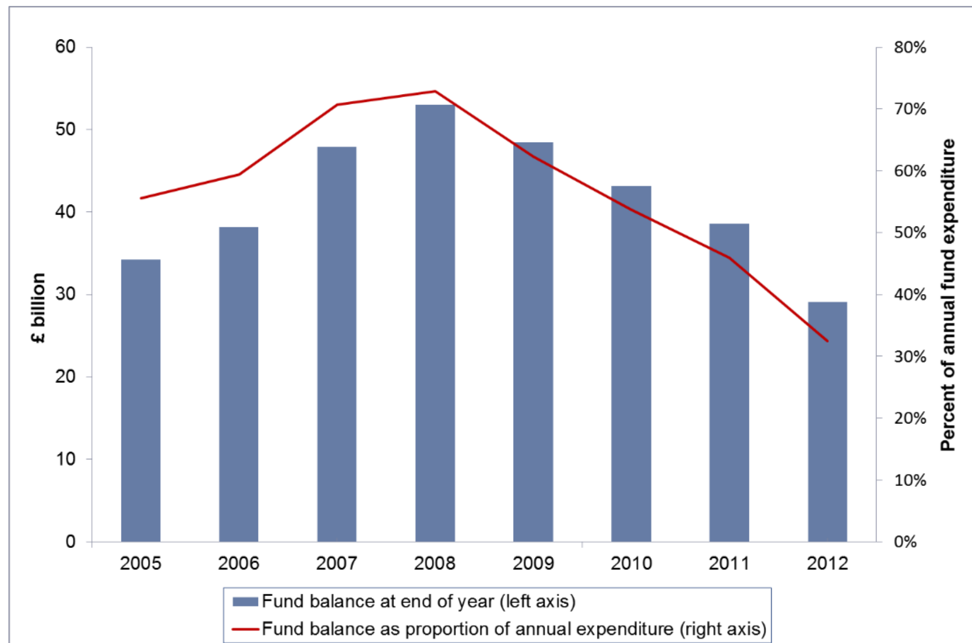
> The Welfare Reform Act 2012 which reduced the amount of contribution-based Employment and Support Allowance and Jobseeker's Allowance paid from the Fund, and

> The Pensions Act 2014 (see paragraphs 1.24 to 1.27 below).

The development of the Fund since the previous review and data used

1.10 The following chart shows the value of the Fund at the end of each year from 2005-06 to 2012-13, the last year when actual Fund accounts are available.

Figure 1.1: Actual Fund balance and Fund as a proportion of annual expenditure over the period 6 April 2005 to 6 April 2012 (cash terms)



1.11 This chart shows that there has been a steady decline in the balance in the Fund over recent years, with an apparent exhaustion of the Fund in a few years if the trend continues. This actual outcome contrasts with that shown in the 2005 review, which showed that, on the then base-case assumptions, the Fund was projected not to be exhausted before 2070, the end of that review's projection period. The Fund had been projected to increase until the 2050s but then start to decline in size both in absolute terms and relative to expenditure by 2070. Under the current review, the Fund is projected to be exhausted in 2027 (2035 under the projections allowing for the effect of the Pensions Act 2014). There are a number of reasons for this which are discussed further in section 10.

Data for the review

1.12 In this review we have used Fund accounts up to and including the accounts for 2012-13. Our projections therefore start from the year 2013-14.

1.13 Population data has been taken from the Office for National Statistics' (ONS's) 2012-based population projections. It is estimated that at mid-2012, the base year for these projections, there were 61.9mn people in Great Britain at mid-2012 of whom 11.6mn were aged between 0 and 15, 38.3mn were aged between 16 and SPA and 11.9mn aged SPA or older. The projection of overseas pensions is based on data provided by the Department for Work and Pensions (DWP) on the amounts of pension

currently paid to pensioners overseas and an estimate of the amounts of contributions paid in past years by people under SPA who are currently overseas.

1.14 The main source of data for benefit expenditure was information provided by the DWP, covering both numbers of and average amounts for recipients by age and sex. DWP also provided data including past contributions paid from which accrued rights can be calculated. Total benefit expenditure was around £90bn in the last year for which accounts of the Fund were available, of which about £80bn related to pensions (the largest other item was Incapacity Benefit/Employment and Support Allowance).

1.15 The contribution projections were mainly based on information from the ONS's Labour Force Survey and the Annual Survey of Hours and Earnings, supplemented by information provided by DWP, HMRC and labour market modelling from the Office for Budget Responsibility. In 2013 there were around 30mn employees (including self-employed people), with about 1.7mn people unemployed, and contributions in 2012-13 were around £79bn, of which £76bn came from employees and their employers (contribution classes 1, 1A and 1B).

Base-case assumptions

1.16 In our review we have used a base-case set of assumptions which we consider are a reasonable combination of short-term and long-term economic and demographic assumptions for a central scenario against which to judge a range of projections.

1.17 The base-case assumptions are described in detail in section 4 and in Appendices D, E and F. In summary, we have used the following key assumptions:

> ONS's 2012-based low migration population projections for Great Britain[2]. These show that the ratio of the working age population to the population over SPA drops from around 3.2 in 2010 to around 2.4 in 2075. Section 4 provides further detail

> Short-term and long-term economic assumptions which are consistent with those used by the Office for Budget Responsibility (OBR) in its March 2014 Economic and fiscal outlook (EFO2014)[3] and 2013 Fiscal Sustainability Report (FSR2013)[4] and as shown in Tables 1.2 and 1.3 below. The investment return assumption is set by GAD. Having reviewed these assumptions we consider that they are a reasonable set of short-term and long-term assumptions for the purpose of the base case

[2] http://www.ons.gov.uk/ons/rel/npp/national-population-projections/2012-based-projections/stb-2012-based-npp-principal-and-key-variants.html#tab-Variant-Population-Projections
[3] http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2014/
[4] http://budgetresponsibility.org.uk/wordpress/docs/2013-FSR_OBR_web.pdf

- Up-rating of benefit rates in line with legislation or current practice, for example, triple lock increases to basic State Pension (BSP) based on the greater of 2.5%, CPI and earnings growth. We have assumed, for the base case, that up-rating of the BSP by triple lock will continue indefinitely although it has only been guaranteed for the term of this (UK) Parliament. We have prepared variant projections which show the impact of moving away from triple lock
- Re-rating of limits in line with legislation and current practice. For the short term this is generally in line with CPI. In the long term re-rating of limits is generally in line with earnings where this is considered more appropriate to avoid 'fiscal drag', that is, to avoid contribution income increasing simply as a result of contribution earnings limits increasing at a slower rate than earnings growth[5] (consistent with the OBR's approach), and
- Labour market assumptions based on the merging of OBR's short-term employment projections from the EFO2014 and the long-term projections from its cohort employment model.

The long-term economic assumptions, which apply to the projections from 2019-20 onwards, and short-term economic assumption which apply up to and including 2018-19 are summarised in Tables 1.2 and 1.3 below.

Table 1.2: Key long-term economic assumptions

Item	Basis	Long-term assumption
Price inflation[1]	Long-term view of CPI increases	2.00% a year[2]
General earnings growth		4.45% a year (CPI and 2.4%)
Triple lock		4.75% pa (earnings growth plus 0.30%[3])
Investment return	CPI plus 1.15%	3.15% pa

1 The long-term price inflation assumption as, well as being a reference point for comparing a number of the other economic assumptions, is used for up-rating Additional State Pension and other benefits as described in Table C3.
2 Consistent with the Bank of England's target.
3 The long-term triple lock assumption is set as earnings growth plus 0.30% to allow for the impact of years when earnings growth is lower than 2.5% or CPI.

[5] See section 3.26 of the OBR's FSR 2013 http://budgetresponsibility.org.uk/wordpress/docs/2013-FSR_OBR_web.pdf

Table 1.3: Key short-term economic assumptions

Financial Year	Earnings increases	CPI (September)	Triple lock as applied in FY[1]
2013-14	2.6%	*2.7%*[2]	*2.5%*[2]
2014-15	2.4%	*1.8%*	*2.7%*[2]
2015-16	3.3%	2.0%	2.5%
2016-17	3.7%	2.0%	3.3%
2017-18	3.7%	2.0%	3.6%
2018-19	3.8%	2.0%	3.7%

1 The triple lock increase is not equal to the highest of 2.5% and the equivalent earnings growth and CPI figures shown. Triple lock increases for a year are based on the earnings growth and CPI as at the previous July and September respectively.

2 These values are already known as at the date of this report as they have been used to set the level of the basic State Pension and other benefits.

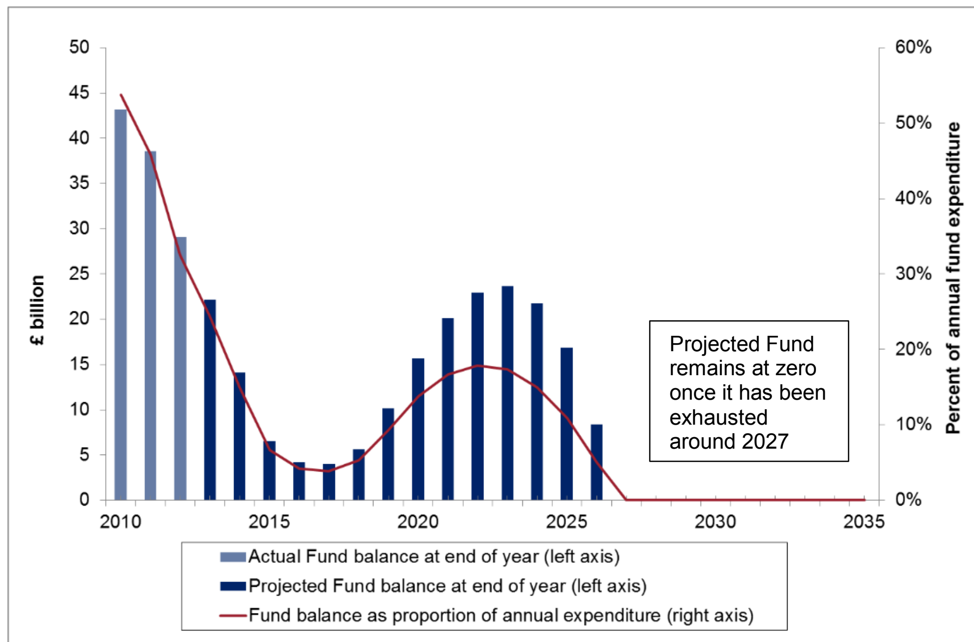
1.18 The main changes in assumptions between the previous and current reviews are:

- The previous review used only long-term economic assumptions but the current review uses the OBR's short-term economic assumptions from the EFO2014 for the period to 2018-19 and then OBR's long-term assumptions from FSR2013
- In the 2005 review we assumed RPI of 2.87%. RPI is no longer relevant for most up-rating and re-rating of benefits and earnings limits, having been replaced by CPI or triple lock. The 2010 review CPI long-term assumption is 2.0%
- General earnings growth in the 2005 review was 4.87%. In the current review earnings growth is assumed to be 4.45% in the long term.

Results using base-case assumptions and no allowance for Pensions Act 2014

1.19 Figure 1.4 shows the projected development of the Fund over the projection period using our base-case assumptions ignoring the Pensions Act 2014 provisions. On our base-case assumptions, and without any Treasury Grant, we project that the Fund will be exhausted around 2027. However, it can be seen that the recent trend, as shown in Figure 1.1, does reverse in 2017, in considerable part as a result of the increases in SPA for both women and men to 66 by 2020, before turning down again as a result of demographic pressure in the early 2020s.

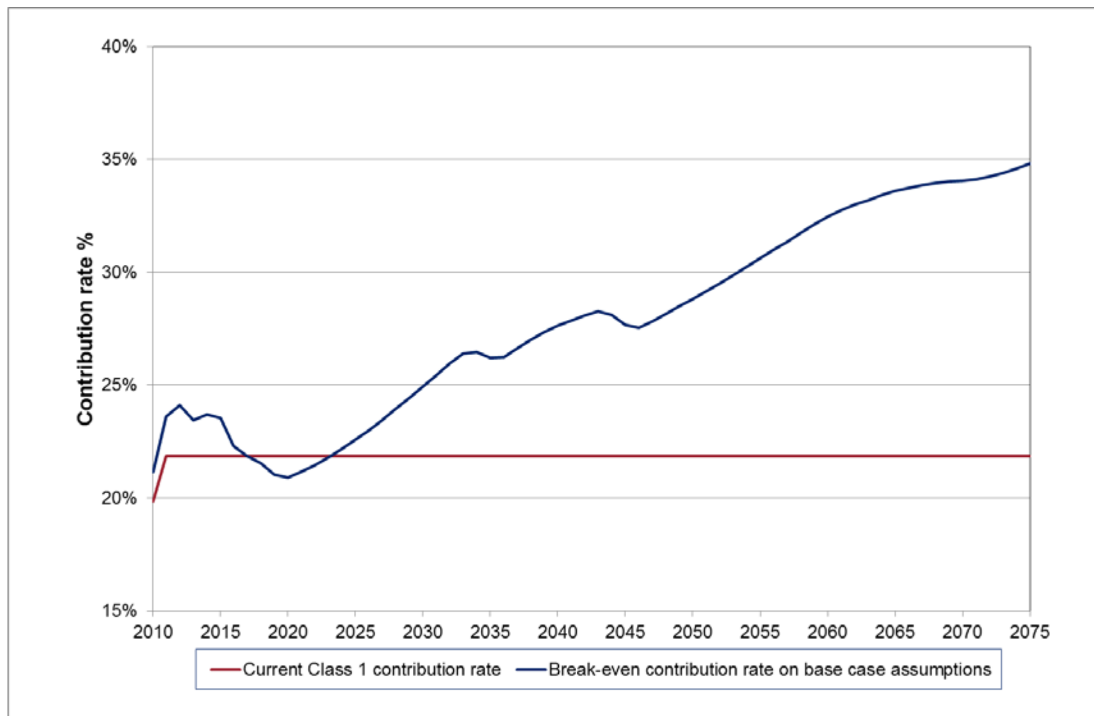
Figure 1.4: Actual (to 2012) and projected Fund balance and Fund as a proportion of annual expenditure on the base-case assumptions, ignoring Pensions Act 2014 provisions and with no Treasury Grants



1.20 Treasury Grants, which are payments made under the Social Security Act 1993 into the National Insurance Fund out of money provided by Parliament (other general taxation receipts) can be made, up to 17% of benefit expenditure, to supplement the income to the Fund. These could therefore be used to keep the Fund at or above zero for a number of years after 2027. However, without changes to contributions, benefits or the cap on the amount of the Treasury Grant (see paragraph 3.8) the Fund will eventually be exhausted well within the projection period.

1.21 Figure 1.5 overleaf shows the level of 'break-even contribution rates' required under the base-case assumptions, ignoring the Pensions Act 2014 provisions. Break-even contribution rates have been calculated as the rate of Class 1 contributions, employer and employee combined, that would be required to make the amount of income, excluding investment income, equal to the amount of benefit expenditure and administration expenses. No changes in benefits have been allowed for in the calculation of the break-even contribution rates. All the break-even rates shown, and the stated current rate, exclude the part of the National Insurance contributions allocated to the NHS.

Figure 1.5: Actual (to 2012) and projected break-even contribution rates on the base-case assumptions ignoring Pensions Act 2014 provisions



1.22 Figure 1.5 shows the effect of the increases in male and female SPA to 66 between 2018 and 2020 and the increases in SPA to 67 between 2034 and 2036 and to 68 between 2044 and 2046 in legislation prior to the Pensions Act 2014. The underlying trend, as a result of the ageing of the population of Great Britain and the rate of increase in the level of pension benefits, for example, due to triple lock, compared to increases in contribution income, is for break-even contribution rates gradually to increase after 2020.

1.23 The National Insurance Contributions Act 2011 legislated for a 1% increase in the primary Class 1 contribution rates and a 1% increase in the secondary Class 1 contribution rates from 2011-12 and these are shown in the chart above. The break-even contribution rate increased by a similar amount because the primary and secondary thresholds above which NICs are payable were increased quite significantly in that year as a result of the Social Security (Contributions) (Re-rating) Order 2011 and this offset, in effect, much of the impact of the increase in contribution rate.

Impact of the Pensions Act 2014

1.24 The Pensions Act 2014 will directly and potentially materially affect the Fund through:

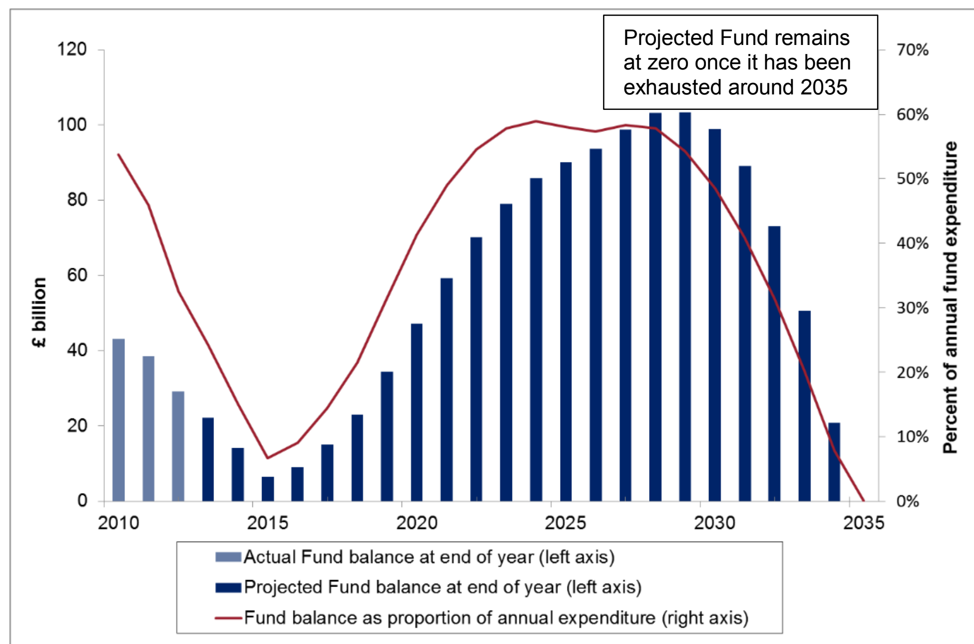
- the introduction of the new State Pension, including the increase in the number of qualifying years for a full pension to 35 and a minimum qualifying period of 10 qualifying years to receive any pension
- the cessation of contracting-out and hence the ending of contracting-out rebates

> the acceleration of the increase of SPA to 67 between 2026 and 2028, and
> periodic reviews by the Secretary of State for Work and Pensions of the rules about pensionable age.

Further details of these provisions are provided in section 5 and Appendix G.

1.25 Figure 1.6 below shows the projected development of the Fund over the projection period using the base-case assumptions but allowing for the changes being introduced by the Pensions Act 2014, primarily the introduction of the new State Pension, cessation of contracting out, and the increase in SPA to 67 between 2026 and 2028. They do not allow for any further changes in SPA except for the increase to 68 currently legislated to happen between 2044 and 2046.

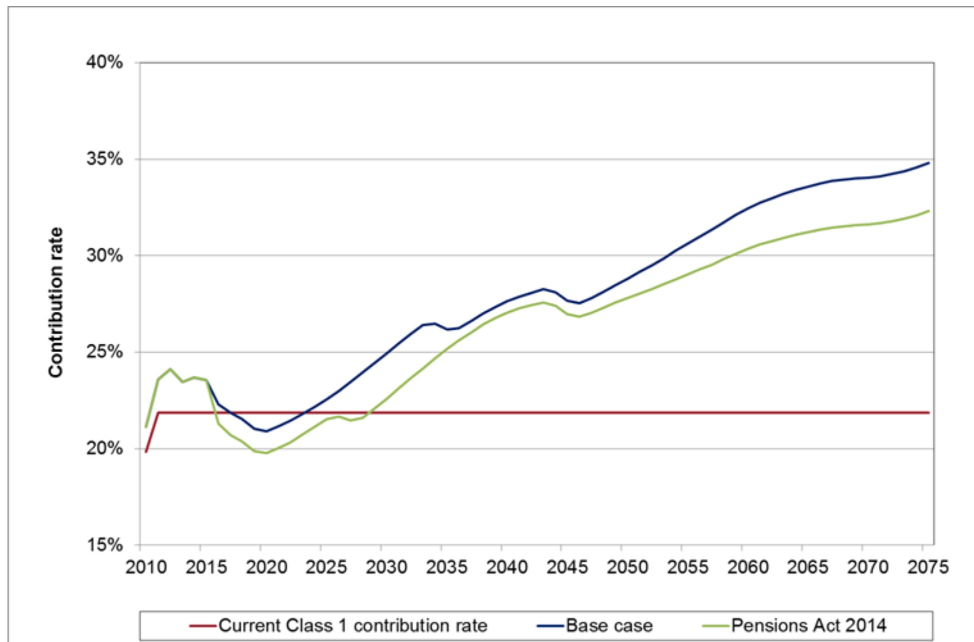
Figure 1.6: Actual (to 2012) and projected Fund balance and Fund as a proportion of annual expenditure allowing for the Pensions Act 2014 (new State Pension, cessation of contracting out and increase in SPA to 67 between 2026 and 2028)



1.26 As stated in paragraph 1.20, Treasury Grants can be made, up to 17% of benefit expenditure, to supplement the income to the Fund. These could therefore be used to keep the Fund at or above zero for a number of years after 2035. However, as with the pre-Pensions Act 2014 projections, without changes to contributions, benefits or the cap on the amount of the Treasury Grant eventually the Fund will be exhausted well within the projection period.

1.27 Figure 1.7 below shows how the changes to be introduced by the Pensions Act 2014 are projected to affect the break-even contribution rates.

Figure 1.7: Actual (to 2012) and projected break-even contribution rates including and excluding the provisions of the Pensions Act 2014 (new State Pension, cessation of contracting out and increase in SPA to 67 2026-2028)



Results allowing for alternative assumptions and scenarios

1.28 This report considers a wide range of projections on different assumptions including, for example, future population trends, levels of earnings growth, unemployment, inflation and approaches to up-rating. In order to have a simple way to compare each alternative, a single measure which can represent the long-term picture, namely the year the Fund becomes exhausted under each scenario, is used. Fund exhaustion dates arising from the different scenarios range between 2024-25 and 2031-32.

1.29 We have prepared the analysis in Table 1.8 overleaf which shows a range of different assumptions on future economic outcomes on both the base case (scenarios 1 to 5) and allowing for the Pensions Act 2014 (scenarios 6 to 8). It can be seen that none of these imply long-term BCA sustainability as defined in paragraph 1.5. Therefore, in order to illustrate how BCA sustainability could be achieved we have selected a sample of the types of changes involving key variables under the government's control (albeit requiring legislative change). These are chosen purely to illustrate the point without expressing any view on policy or making suggestions or recommendations. The projected effects of many other options could be provided if BCA sustainability is to be investigated further.

Table 1.8: Year in which the Fund is exhausted under alternative projections (assuming no Treasury Grant is paid in any year)

Alternative Scenario	Year	Comments
1. Base Case - central assumptions with special short term - ignores 2014 Pensions Act - indefinite triple lock	2027	If variant long-term assumptions are used, the year of exhaustion is between 2024 and 2031
2. Base case adjusted for 2014-20 – 'as if long-term' - short-term assumptions to 2020 replaced by long-term assumptions (Table 1.2) throughout, otherwise as above	2029	The short-term (central) assumptions are those used by OBR; so this takes an optimistic view
3. Base case adjusted for 2014-20 – 'upside shock' - earnings growth to 2020 changed to CPI + 3.5% pa otherwise as above	2033	
4. Base case adjusted for 2014-20 – 'downside shock' - earnings growth to 2020 changed to CPI + 0% pa, otherwise as above	2016	
5. Higher (im)migration - ONS central migration variant for population rather than low migration, otherwise as above	2028	
6. Pensions Act 2014 changes incorporated – partial - only new State Pension, cessation of contracting out, and rise in SPA to 67 between 2026 and 2028 - excludes further potential increases to SPA - using base-case central assumptions - indefinite triple lock	2035	If variant long-term assumptions used, the estimated exhaustion year ranges from 2031-2038
7. Pensions Act 2014 changes incorporated – incl. SPA increases to 68 in 2036 and to 69 in 2049 (in line with Autumn Statement 2013 and OBR FSR2014)	2036	As assumed increases in SPA fall after 2035, projected Fund exhaustion date is almost unchanged
8. Pensions Act 2014 as 7 above, but triple lock ceases in 2020 with up-ratings assumed to revert to just earnings link from 2020 (that is, from CPI+2.75% to CPI and 2.45% real earnings)	2040	
Examples of more radical changes to 8 to give sustainability to 2060 (see paragraph 1.31)		
9. National Insurance contribution increases - from 21.85% to 23.5% (Class 1 excluding NHS allocation) from 2020, otherwise as scenario 8	2060	Sustainability taken as Fund exhaustion in 2060 or later ('BCA sustainability')
10. Reduce pension increases each year - from triple lock (CPI+2.75%) to CPI+2.10% (or earnings – 0.3%), otherwise as scenario 8	2062	

1.30 What the analysis above and the experience over the last five years show is that, without any changes to the structure of benefits, three important drivers of Fund sufficiency and long-term sustainability are:

> the impact of short-term shocks, particularly where earnings increases are below the historical trend of being above inflation (if earnings growth is lower than inflation, growth in contribution receipts falls relative to benefit payments)

> the rate of National Insurance contributions, and

> the rate of increases to pensions over the long-term.

1.31 It could be that there may be a short-term upside 'shock', before the next Quinquennial Review (QR) that is, the next few years turn out to be more positive than the current OBR assumptions. This would make the longer-term prognosis healthier. However, in the absence of a significant such shock, the policy options for the longer-term BCA sustainability of the Fund would appear to be any one or combination of:

> paying more, either by a direct increase in National Insurance contributions, or by a restructuring of the financing of Fund benefits to be less ring-fenced to National Insurance contributions (with an assumption of direct financing from the general tax proceeds through either tax increases or other spending reductions)

> working longer, and

> lowering benefits by, for example, reducing the future benefits increase rate.

These are, of course, not inconsistent with the options described in the First Report of the Pensions Commission published in 2004 on the adequacy of private pension saving in the UK[6].

1.32 In considering the implications of the results in Table 1.8 above, it is important to bear in mind that what happens, whether due to policy changes or other causes, between now and 2020 is, because of practicalities over effecting radical further change before 2020, and the positive impact of the changes that have been put in place over the last five years, unlikely to have much impact in the longer term. This can be seen from the projected path of the Fund as shown in Figure 1.6. What happens from 2020 onwards, short of any major shocks before then, is the key determinant of the longer-term performance of the Fund.

1.33 Table 1.8 shows only a small selection out of a whole range of scenarios and we do not believe this is sufficient to come to a proper view on the full range of options, nor on the scale of what might be appropriate for the 2020s and beyond. But it does give some strong pointers as to the direction in which the Fund is going and a feel for some of the interventions that matter and those that are less effective.

1.34 Faced with this set of scenarios, and the many more options that could be modelled and considered for stability, acceptability and so on, it is clear that more work should be done but this report is not the appropriate place.

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6 http://webarchive.nationalarchives.gov.uk/20070801230000/http:/www.pensionscommission.org.uk/publications/2004/annrep/fullreport.pdf

1.35 Accordingly, the conclusion of this analysis is that, on the base-case assumptions as applied to a post-Pensions Act 2014 situation, the Fund would remain with a positive balance for the duration of the next Parliament from 2015. However, before 2020 some further analysis, using more up-to-date data and trends than are available in 2014, should be conducted, taking on board the options set out in paragraph 1.31 above and more, on how to put the Fund into a sustainable position (with a view as to what that means) for many years ahead. If small changes are not made during the 2020s, before the break-even costs start to exceed the contributions at the end of that decade, bigger and more dramatic changes risk being needed later.

Comparison of results of the 2005 and 2010 reviews

1.36 As described in paragraph 1.11 our 2005 review showed that, on the then base-case assumptions, the Fund would not be exhausted before 2070, which was the end of the projection period for that review. The Fund had, though, started to decline in size both in absolute terms and relative to expenditure by that year. Under the current review the Fund is projected to be exhausted in 2027 on the pre-Pensions Act 2014 base case, which is the most suitable comparator for the present review.

1.37 Further details are provided in section 10.

1.38 This difference in when the Fund is projected to be exhausted is due to:

Differences between actual experience and the projections from the previous review for the years 2009-10 to 2012-13

1.39 The Fund balance at the end of 2012-13 according to the actual Fund accounts was £29.1bn. In our 2005 review we had projected that the Fund balance at the end of 2012-13, assuming 2% real earnings growth, would be £103.3bn. The difference of £74.2bn was mainly made up of:

- £68.4bn lower contributions
- £12.5bn lower investment income
- only partly offset by £3.5bn lower benefit payments, and
- £2.4bn restatement of the 2008-09 accounts.

Legislative and policy changes affecting benefit payments

1.40 The main benefit changes between QR2005 and the 2010 review, excluding the Pensions Act 2014 changes, are (see Table 10.6 for the impact of major items):

- the introduction of triple lock up-rating from April 2011
- the Pensions Act 2011 brought forward the planned increase in SPA to 66 from the mid-2020s to between 2018 and 2020 for men and women, and
- the capping of increases in some benefits at 1% a year between 2013 and 2015.

Changes in assumptions

1.41 A number of changes have been made to the projection assumptions, the most significant of which was changes in economic assumptions and assumptions about employment numbers and earnings distributions.

Main conclusions

1.42 The Fund has remained sufficient to cover 1/6th of annual benefit expenditure up until the financial year 2012-13 and was projected, in our recent up-rating report[7] to continue to do so in 2013-14. However, our up-rating report projected that the Fund could fall below 1/6th of annual benefit expenditure during 2014-15 and would require a Treasury Grant[8]. On our base-case assumptions, which ignores the changes made by the current Government in the Pensions Act 2014 and any actual payments of Treasury Grant, the Fund is projected to be exhausted in 2027-28.

1.43 With the changes brought in by the Government in the Pensions Act 2014, the Fund will be exhausted 8 years later, that is, in 2035-36, than it would have been without these changes.

1.44 It should be noted that we do not have the same detailed level of insight into the position allowing for Pensions Act 2014 changes as we have for the base case on the previous legislation, nor do we believe it would be appropriate or consistent with the legislative requirement to conduct such a comprehensive review as at 2010. Nevertheless, because the impact of the changes resulting from the 2014 Act results in a significant improvement on the position, we felt it wrong to ignore the effects and are confident that our estimates allowing for the changes give a good idea of the trends and impacts allowing for such changes. The rest of this conclusion should be read with this in mind.

1.45 The break-even contribution rates (that is, the rates of National Insurance contributions for each year sufficient to finance that year's benefit expenditure) are expected to increase steadily over the projection period due to population ageing as this increases the number of pensioners relative to those of working age contributing through National Insurance. The rate of increase is then critically dependent on how the amount of benefit expenditure increases each year relative to the increase in contribution income. The break-even rate is expected to exceed the current levels of contributions before 2030.

1.46 Without changes to contribution rates or limits, changes to benefits, or the payment of further Treasury Grants, or unexpected changes in economic or demographic factors, the Fund is likely to be exhausted within 25 years of the effective date of this review, that is, within 25 years of 2010.

1.47 We feel that, with the work we have done, it is important to give a flavour of the relative impact of differing options that some raise as addressing long-term sustainability. We have considered the three particular options listed below against BCA sustainability. The figures for each option start from the position of full incorporation of all the Pensions Act 2014 provisions, that is, new State Pension, cessation of contracting out and actual changes to SPA in line with future increases in longevity.

[7] https://www.gov.uk/government/publications/report-to-parliament-on-the-2014-re-rating-and-up-rating-orders

[8] The Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2014

1.48 With this in mind, options considered for long-term base-case assumptions sustainability are:

> Pay more – in which case an increase in combined Class 1 National Insurance contributions to 23.5% from 2020 would be projected to prevent Fund exhaustion by 2060

> Reduce the rate of annual pension increases after 2020 from triple-lock to a small fraction below earnings, although still remaining significantly in excess of prices (which could be with or without the underpin of a minimum annual percentage increase). There could always be the possibility of higher discretionary increases if experience is sufficiently positive under this option. As an example, increases at CPI + 2% a year would also be projected to have the same effect as the contribution increase above in delivering a BCA sustainable Fund to 2060 (and in this instance potentially beyond)

> Work longer; unfortunately this does not have any real impact, over and above the changes already in train, because the reduction of the Fund to zero arises before any realistic years for making any further increases to SPA, and

> Combinations could be considered from a partial use of each of the above to deliver sustainability.

Care is necessary with any of the above to test the resilience of the Fund following any of these changes to shocks or different experience from that assumed, rather than to assume that any particular change or combination of changes will guarantee to deliver sustainability.

1.49 Of course, this is not the full picture. First, there are many more options. Second, the trajectory of the Fund over the period to 2020 could follow a better course than our base-case scenario. Importantly, and thirdly, the position for State Pensions cannot be looked at in isolation from the overall framework for pensions including private sector provision. In this latter case the changes taking place that will have an important impact before 2020 include auto-enrolment, the Budget changes for annuities and the proposed changes to introduce Defined Ambition Plans. The combined effect of these private provision changes could be to increase retirement saving and this in turn could open up consideration of phasing options starting in 2020 for securing greater sustainability of State Pensions.

1.50 In view of the fact that we have not been able to undertake a detailed analysis building in the Pensions Act 2014 changes at the level of detail we have been able to undertake for the base case, whilst having good confidence in the overall picture being presented, we conclude that more detailed analysis should be undertaken. One option is to commission such analysis at a suitable time after mid-2015 with a view to implementing any changes from 2020 and well before the annual costs start exceeding the Fund's income towards the end of the 2020s decade. Such an analysis can, if desired, consider a more rounded and detailed analysis of the situation in the light of the facts and outlook prevailing at the time. It should be possible to consider the options in this report (for example, as in paragraph 1.31) and many more, all with a view to reaching a sustainable State pension framework for current and future generations of pensioners.

2 Introduction and scope of the review

This section:

> sets out the legislative background and scope of the review
> describes the contents of the review
> comments on compliance with relevant standards

Legislative background

2.1 Under the Social Security Administration Act 1992 Chapter 5 (Section 166), the Government Actuary is required to review the operation of the National Insurance Fund of Great Britain (the 'Fund') at least every five years. The object of this review as set out in that Act is:

'to determine the extent to which the level at which the National Insurance Fund stands from year to year may be expected in the longer term to bear a proper relation to demands in respect of payments of benefit; and for this purpose the Actuary shall take into account:

(a) current rates of contributions

(b) the yield to be expected from contributions in the longer term; and

(c) such other matters as he considers to be relevant as affecting the present and future level of the Fund'.

A key measure of whether the level at which the National Insurance Fund stands from year to year may be expected, in the longer term, to bear a proper relation to demands in respect of payments of benefit is that of when (or if) the Fund is projected to run out.

2.2 This report is required to be laid before Parliament pursuant to 166(5) of the Social Security Administration Act 1992 as amended by the Social Security Contributions (Transfer of Functions, etc) Act 1999.

Contents of this review

2.3 In order to meet the legislative requirements set out above, this review:

> projects future levels of income and expenditure of the Fund and the projected Fund balance on the current (pre-Pensions Act 2014) legislative basis on a base-case set of assumptions and under a variety of variant scenarios, assuming no change in contribution rates, to consider when the balance in the Fund may reach zero (Fund 'exhaustion')
> includes less detailed projections of the impact of the Pensions Act 2014 provisions
> projects the level of National Insurance contributions which would be required in future years to make the annual income, excluding investment income, and expenditure equal ('break-even contribution rates'), and

> considers the impact on the Fund's position of changes in legislation, Fund experience and changes in assumptions since the previous review.

The review also considers briefly the impact on the Fund's projected financial position of possible changes that, taken together with the Pensions Act 2014 changes, might ensure that, on the base-case assumptions, Fund exhaustion does not occur before 2060 ('BCA sustainability').

2.4 The present review addresses the legislative requirements using an effective date of 5 April 2010. It takes account of events after the effective date and contains projections from 2010 to 2075. The previous review (with an effective date of 5 April 2005) was published in March 2010. The next review will be carried out with an effective date of 5 April 2015.

2.5 As a number of technical terms and abbreviations are used in this report we have provided a glossary in Appendix J.

Compliance with relevant standards

2.6 This report complies with GAD's standards. For further details please see GAD's website: https://www.gov.uk/government/organisations/government-actuarys-department/about/terms-of-reference

3 How the National Insurance Fund operates

This section:

- briefly describes the history and operation of the Fund, the benefits paid from the Fund and the financing of the Fund
- contains a summary of changes in contributions and benefits since the last review
- summarises the measures within the Pensions Act 2014 that will affect the Fund

How the National Insurance Fund of Great Britain operates

3.1 The Fund was established on 5 July 1948 and provides retirement pensions, benefits in the event of incapacity, unemployment and sickness and other benefits in cases where individuals meet the contribution and other qualifying conditions. Generally, benefits paid from the Fund are not means-tested.

3.2 The main benefits currently paid by the Fund are:

- State pension (basic and additional)
- Incapacity Benefit/Employment and Support Allowance (contributory only)
- Bereavement Benefits
- Jobseeker's Allowance (contributory only)
- Maternity Allowance.

3.3 Employment and Support Allowance and Jobseeker's Allowance have contributory components which are paid only to those who have made sufficient National Insurance contributions (see Appendix C) and non-contributory components paid generally on a means-tested basis. The non-contributory components of Employment and Support Allowance and Jobseeker's Allowance are paid out of general taxation rather than the Fund, as are other welfare benefits.

3.4 Under the Social Security Administration Act 1992, benefits due under the National Insurance Scheme are payable out of the Fund. The funds required for meeting the cost of these benefits are generally met from National Insurance contributions. The Social Security Contributions and Benefits Act 1992 sets out the conditions governing entitlement to most benefits and the basis for assessing liability to pay National Insurance contributions.

3.5 HM Revenue and Customs (HMRC) is responsible for collecting National Insurance contributions and recording them against individuals' contribution records which determine entitlement to benefits payable from the Fund. HMRC is also responsible for the operation of the Fund, for example, preparing annual accounts[9].

[9] https://www.gov.uk/government/publications/national-insurance-fund-accounts

3.6 The Department for Work and Pensions (DWP) has overall responsibility for the award and payment of most benefits payable from the Fund, including those relating to retirement, sickness and contribution-based Jobseeker's Allowance. Entitlement to benefit is determined by the claimant satisfying certain qualifying conditions.

3.7 The Fund is financed in such a way that the bulk of contributions paid in a year are used to meet benefit expenditure in the year, so it can be considered to operate broadly on a pay as you go (PAYG) basis. No substantial Fund has been built up. However, as the Fund has no borrowing powers, a working balance is necessary to guard against unexpected falls in contribution income or increases in outgo.

3.8 The Social Security Act 1993 introduced the potential for Treasury Grants to be paid to the Fund at the discretion of HM Treasury to maintain the balance of the Fund at a certain minimum level. The maximum amount that can be paid in any year is 17% of the 'estimated benefit expenditure' for that year. The estimated benefit expenditure, in relation to a financial year, means the amount estimated by the Government Actuary or the Deputy Government Actuary, before the beginning of that financial year, to be the sum of the benefits to be paid out of the Fund during that year.[10]

3.9 The Treasury Grant was generally set at a level sufficient to deliver a balance in the Fund equivalent to around 1/6th of benefit expenditure, which the Government Actuary, since at least 2000, has recommended was the minimum level necessary to ensure a reasonable working balance in the Fund. The Fund has remained sufficient to cover 1/6th of annual benefit expenditure[11] up until the financial year 2012-13 and was projected, in our recent up-rating report[12] to continue to do so in 2013-14. However, our up-rating report projected that the Fund could fall below 1/6th of annual benefit expenditure during 2014-15 and, if so, would require a Treasury Grant[13].

3.10 Further details regarding National Insurance contributions and benefits are provided in Appendices B and C below.

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[10] Previous Treasury grants were made under different legislation in earlier years of the Fund.

[11] The Fund has no borrowing powers and so historically the Government Actuary has recommended a balance for the Fund of at least 16.6% (two months or 1/6th) of projected benefit expenditure to ensure that the Fund maintains a working balance and can deal with short-term fluctuations. When necessary, additional funding in the form of a Treasury Grant from the Consolidated Fund can be made to the Fund. The maximum Treasury Grant that can be made available in any one tax year is set by primary legislation at 17% of the National Insurance Fund's annual benefit expenditure

[12] https://www.gov.uk/government/publications/report-to-parliament-on-the-2014-re-rating-and-up-rating-orders

[13] The Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2014

Relevant changes in legislation and policy since the last review

3.11 The most significant changes since the previous review was published include:

- The Pensions Act 2011 which brought forward from 2020 to 2018 the equalisation, to age 65, of State Pension age (SPA) for men and women, and brought forward the increase in SPA to 66 for both sexes to 2020
- The introduction of triple lock increases which are applied to the basic State Pension. This measure, introduced in April 2012, ensures that increases applied to the basic State Pension each year will be set as the greater of 2.5%, average earnings and CPI growth over the previous year. It has been assumed that triple lock increases will continue to apply in the long term, for consistency with the OBR's 2013 FSR
- The Welfare Reform Act 2012 which reduced the amount of contribution-based Employment and Support Allowance and Jobseeker's Allowance paid from the Fund, and
- The Pensions Act 2014 as described below.

The Pensions Act 2014

3.12 The provisions within the Pensions Act 2014 which will directly, and potentially materially, affect the National insurance Fund are:

- the introduction of the new State Pension
- the cessation of contracting-out and hence of contracting-out rebates
- the acceleration of the increase of SPA to 67 between 2026 and 2028
- periodic reviews of the rules about pensionable age, with the report on the first such review due by 7 May 2017, and
- the introduction of voluntary Class 3A contributions to purchase additional state pension.

Section 5 below describes our projections of the impact of these measures and Appendix G provides more detail about the changes which will affect the Fund.

3.13 The projections also take into account the effects of the National Insurance Contributions Act 2014 which introduced the £2000 Employment Allowance from April 2014 and the Under 21 employers NICs zero rate from 6 April 2015, albeit in an approximate manner. These effects are not material to the finances of the Fund in the long term.

4 Results of the base-case scenario projections

This section:

- provides an overview of the main results of the projections of the Fund on the base-case assumptions without allowing for the provisions of the Pensions Act 2014
- presents the projected income and expenditure of the Fund and the balance of the Fund over the projection period. It also shows the break-even contribution rates required in future years to ensure that in each year income, excluding investment income, equals the expenditure of the Fund
- details of the data, assumptions and methodologies used are provided in Appendices A to F
- the results of these projections, and those using variant assumptions, are shown in Appendix H and on the GAD website

Base-case projections

4.1 As the Pensions Act 2014 received Royal Assent just before this report was finalised we have based our base case and variant assumption projections on the legislative position of the Fund excluding the Pensions Act provisions. Section 5 below includes a projection which shows our estimate of the impact of the Pension Act 2014 on the Fund, using the base-case assumptions.

4.2 We have used actual Fund account figures up to 2012-13. Therefore, assumptions are required in order to produce projections for years 2013-14 onwards.

4.3 In our base-case projections we have used a set of assumptions which we consider are a reasonable set of long-term economic and demographic assumptions. In addition, we have included the impact of using different assumptions to show a possible range of results in the event that actual experience differs from our base-case assumptions; these are described in sections 6 to 9 below.

4.4 We have used the following key assumptions:

- The Office for National Statistics' (ONS's) 2012-based low migration population projections for Great Britain[14]. These show that the ratio of the working age population to the population over SPA drops from around 3.2 in 2010 to around 2.4 in 2075. Section 4.8 below provides further detail

[14] http://www.ons.gov.uk/ons/rel/npp/national-population-projections/2012-based-projections/stb-2012-based-npp-principal-and-key-variants.html#tab-Variant-Population-Projections

- Short-term and long-term economic assumptions which are consistent with those used by the Office for Budget Responsibility (OBR) in its March 2014 Economic and fiscal outlook (EFO2014)[15] and 2013 Fiscal Sustainability Report (FSR2013)[16] and as shown in Tables 4.1 and 4.2 below. Having reviewed these assumptions we consider that they are a reasonable set of short-term and long-term assumptions for the purpose of the base case. The investment return assumption is set by GAD
- Up-rating of benefit rates in line with legislation or current practice, for example triple lock increases to basic State Pension (BSP) based on the greater of 2.5%, CPI and earnings growth. We have assumed, for the base case, that up-rating of the BSP by triple lock will continue indefinitely although it has only been guaranteed for the term of this UK Parliament. We have prepared variant projections which show the impact of moving away from triple lock
- Re-rating of limits in line with legislation and current practice. For the short term this is generally in line with CPI. In the long term re-rating of limits is generally in line with earnings where this is considered more appropriate to avoid 'fiscal drag', that is, to avoid contribution income increasing simply as a result of contribution earnings limits increasing at a slower rate than earnings growth[17], and
- Labour market assumptions are based on the merging of OBR's short-term series from its March 2014 EFO2014 and long-term projections from its cohort employment model.

The full set of base-case assumptions with a comparison to the assumptions used for the previous review are described in detail in Appendices D, E and F.

Table 4.1: Key long-term economic assumptions

Item	Basis	Long-term assumption
Price inflation[1]	Long-term view of CPI increases	2.00% pa[2]
General earnings growth		4.45% pa (CPI and 2.4%)
Triple lock		4.75% pa (earnings growth plus 0.30%[3])
Investment return	CPI plus 1.15%	3.15% pa

1 The long-term price inflation assumption, as well as being a reference point for comparing a number of the other economic assumptions, is used for up-rating additional State Pension and other benefits as described in Table C3 below.
2 Consistent with the Bank of England's target.
3 The long-term triple lock assumption is set as earnings growth plus 0.30% to allow for the impact of years when earnings growth is lower than 2.5% or CPI.

[15] http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2014/
[16] http://budgetresponsibility.org.uk/wordpress/docs/2013-FSR_OBR_web.pdf
[17] See section 3.26 of the OBR's FSR 2013 http://budgetresponsibility.org.uk/wordpress/docs/2013-FSR_OBR_web.pdf

4.5 The OBR long-term earnings growth assumption equals the product of labour productivity growth and GDP deflator[18]. OBR assume that labour productivity growth would be 2.2%, based on an analysis of the historical trend between 1971 and 2008. OBR assumed that the long-term GDP deflator would be 2.2%.

Table 4.2: Key short-term economic assumptions

Financial Year	Earnings increases	CPI (September)	Triple lock as applied in FY[1]
2013-14	2.6%	*2.7%*[2]	*2.5%*[2]
2014-15	2.4%	*1.8%*	*2.7%*[2]
2015-16	3.3%	2.0%	2.5%
2016-17	3.7%	2.0%	3.3%
2017-18	3.7%	2.0%	3.6%
2018-19	3.8%	2.0%	3.7%

1 The triple lock increase is not equal to the highest of 2.5% and the equivalent earnings growth and CPI figures shown. Triple lock increases for a year are based on the earnings growth and CPI as at the previous July and September respectively.
2 These values are already known as at the date of this report as they have been used to set the level of the basic State Pension and other benefits.

4.6 An assumption about the investment return is needed in order to make projections of the balance of the National Insurance Fund. However, this assumption is not significant to the results of the review. Interest is added to the Fund Investment Account surplus which is placed on deposit by the Commissioners for the Reduction of National Debt with the Debt Management Account Deposit Facility. The surplus is expected to earn a rate of interest close to the Official Bank of England Rate (Base Rate). We consider that a suitable proxy for long term Base Rate projections is to assume notional investment in index linked gilts.

Development of the Fund since the previous review

4.7 The main changes in assumptions between the previous and current reviews are as follows:

- In the previous review only long-term economic assumptions were used whereas in the current review we have used the OBR's short-term economic assumptions from the EFO2014 for the period to 2018-19 and then OBR's long-term assumptions from its FSR2013
- In the 2005 review we assumed RPI of 2.87%. RPI is no longer relevant for most up-rating and re-rating of benefits and earnings limits, having been replaced by CPI or triple lock. The 2010 review CPI long-term assumption is

[18] The GDP deflator is a much broader price index than the CPI, RPI or RPIX (which only measure consumer prices) as it reflects the prices of all domestically produced goods and services in the economy. Hence, the GDP deflator also includes the prices of investment goods, government services and exports, and subtracts the price of UK imports.

2.0%

> General earnings growth in the 2005 review was 4.87%. In the current review earnings growth is assumed to be 4.45% in the long term

> The earnings distribution, that is, the distribution of earnings by age and sex, has been updated based on more recent information for the current review

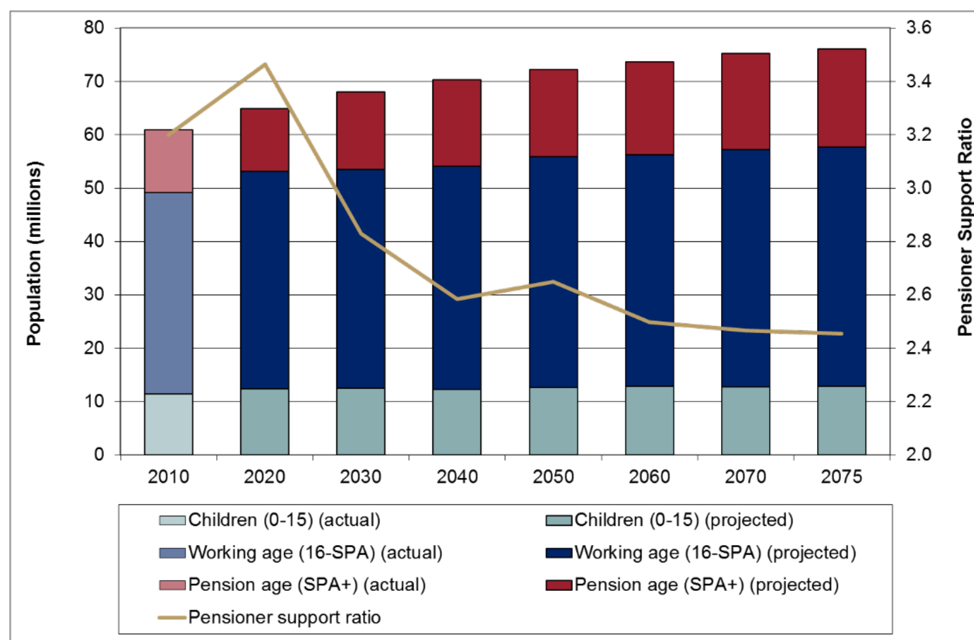
> The investment return was 4.87% in the 2005 review and is 3.15% in the current review

> Unemployment was assumed to be around 5% in the 2005 review and is assumed to be around 5.5% in the current review.

Base-case population projection

4.8 Figure 4.3 below shows the projected population of Great Britain up to 2075 using the base-case demographic assumptions, that is, the Office for National Statistics' (ONS's) 2012-based low migration population projections for Great Britain, sub-divided into children (those below age 16), those of working age (those aged between 16 and SPA) and those at or above SPA. The line on the chart, measured against the right hand axis, shows the projected pensioner support ratio, calculated as the number of individuals of working age for each person at or above SPA. Other things being equal, the lower the pensioner support ratio the higher, as a percentage of the pay of the working population, the cost of pension benefits paid from the Fund would be. Table C2 details the assumed ages of retirees reaching SPA in the projection period.

Figure 4.3: Actual (to 2012) and projected population of Great Britain under the base-case demographic assumptions and projected pensioner support ratio



4.9 The general pattern of decline in the pensioner support ratio is dependent on several factors. The decline over the longer term is characteristic of an ageing population,

that is, increasing longevity combined with low fertility and the net effect of these not being offset by inward migration at younger ages. The number of people between 16 and SPA is increasing less rapidly than the number of people above SPA. However, in the short term the increase in SPA to 66 by 2020 results in the projected number of people above SPA remaining relatively constant from 2010 to 2020 whilst the number aged 16 to SPA increase over the same period; hence the pensioner support ratio increases over the period to 2020. In contrast between 2020 and 2040 the number of pensioners increases much more rapidly than the number aged 16 to SPA, partly as a result of the large number of people born between 1945 and 1964 reaching SPA during this period, resulting in a large fall in the pensioner support ratio. After 2040 the rate of reduction in the pensioner support ratio slows down (and reverses for the period 2043 to 2046 as a result of a further increase in SPA).

4.10 The following table illustrates, for sample projection years, the average number of years a person aged 65 would live if he or she experienced the projected mortality rates for that year throughout the rest of his or her life ('period life expectancies'). It does not make allowance for reductions in mortality rates after that year. The Table therefore shows a snapshot of mortality rates in future projection years and does not give the number of years an individual could actually expect to live.

Table 4.4: Assumed base-case period life expectancies at age 65 by calendar year of projection, Great Britain[19] for QR2010 and QR2005

Year	QR2010		QR2005	
	Men	**Women**	**Men**	**Women**
2020	20.1	22.5	20.4	22.5
2030	21.6	24.0	21.6	23.9
2040	22.7	25.0	22.5	24.7
2050	23.7	26.0	23.4	25.5
2060	24.7	27.0	24.2	26.3
2070	25.7	28.0	25.1	27.1
2075	26.2	28.5	25.5	27.5

Projections of contributions and benefits

4.11 Class 1 contributions make up over 96% of the total contributions throughout the projection period. The other 4% is made up of Class 1A, 1B, 2, 3 and 4 contributions. The percentage is projected to increase slowly over time as Class 1 contributions are projected to increase slightly faster than the other classes of contribution.

[19] http://www.ons.gov.uk/ons/rel/lifetables/period-and-cohort-life-expectancy-tables/2010-based/index.html

4.12 Basic State pension payments (including those paid to beneficiaries resident outside the UK and graduated pensions) make up around 75% of pension benefits paid throughout the projection period. Additional State Pension benefits are around 18% at the start of the projection period with a projected rise to around 24% by the end. Non-pension benefits start at about 8% of the total benefits paid. By the end of the projection period non-pension benefit payments are projected to make up less than 1% of the total benefit payments made from the Fund.

Combined income and expenditure projections

4.13 The following charts show the projected income (contributions, investment income and some very small additional items) and expenditure (benefits and expenses) of the Fund along with a projection of the Fund balance. These projections exclude the effects of the Pensions Act 2014. Appendix H contains a revenue account showing a more detailed breakdown of the Fund's projected income and expenditure on the base-case assumptions.

4.14 We have not included Treasury Grant payments in our projections and therefore we are assuming that, if the Fund reaches zero, any future excess of expenditure over income is made up by HM Treasury directly.

Figure 4.5: Actual (to 2012) and projected Fund income and expenditure

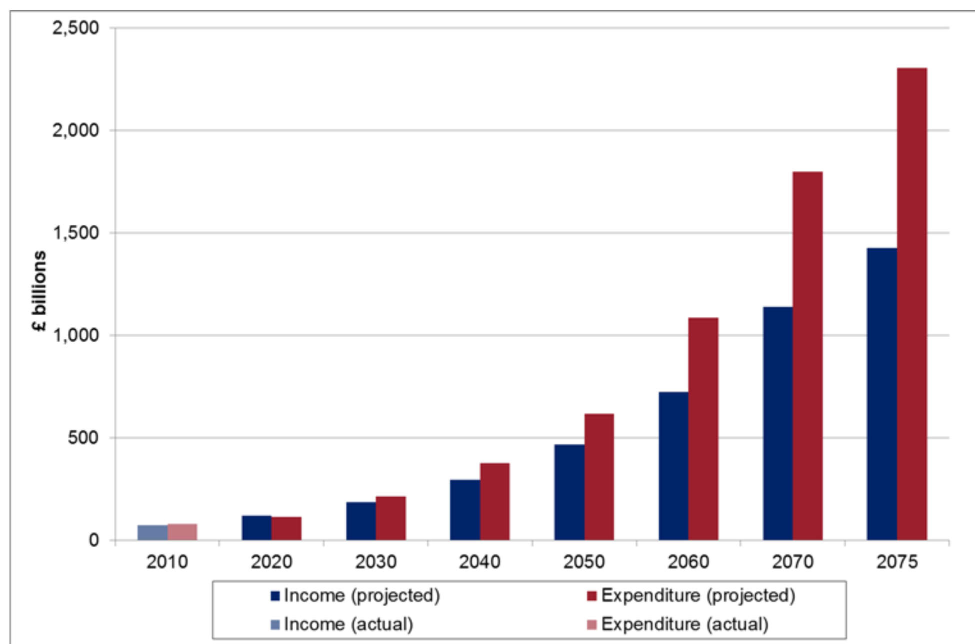
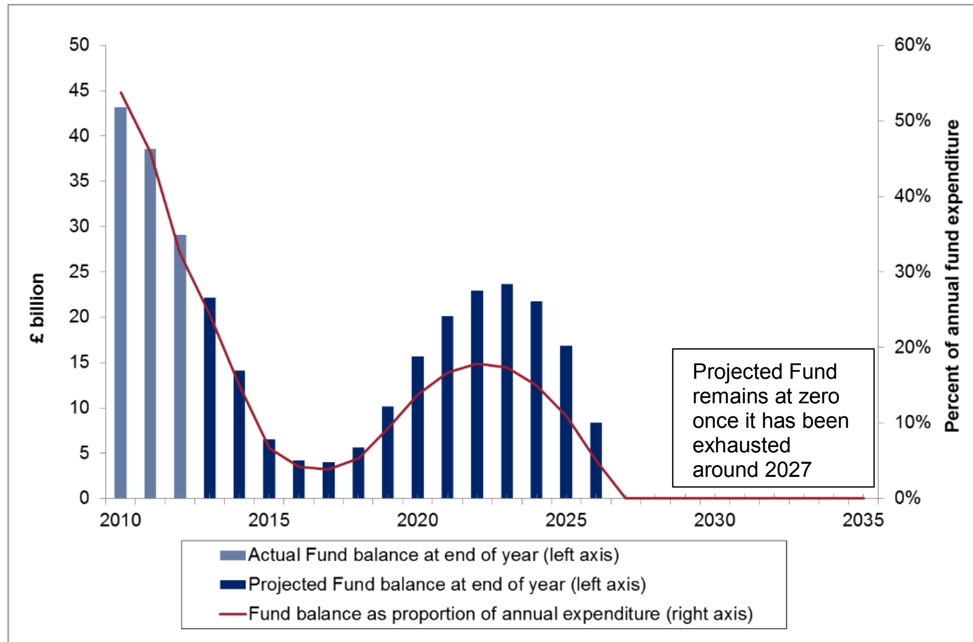


Figure 4.6: Actual (to 2012) and projected Fund balance and Fund as a percentage of annual expenditure



4.15 The Fund falls in size between 2010 and around 2017 as income is consistently below expenditure. Income then becomes greater than expenditure between 2017 and 2024 as a result of changes in SPA and the impact of economic and demographic factors. However, from 2024 onwards expenditure is greater than income as the impact of the ageing population and triple lock increases in basic State Pension have a more significant impact. Over the longer term, contribution income broadly increases in line with earnings, allowing for changes in the size of the working age population, while the basic State Pension broadly increases in line with triple lock, which is assumed to be 0.3% higher a year than earnings growth, and in line with changes in the size of the population over SPA, which as seen in Figure 4.3 increases more rapidly than the proportion at working age.

4.16 Treasury Grants can be made, up to 17% of benefit expenditure, to supplement the income to the Fund. These could therefore be used to keep the Fund at or above zero for a number of years after 2027. However, without changes to contributions, benefits or the cap on the amount of the Treasury Grant the Fund will eventually be exhausted.

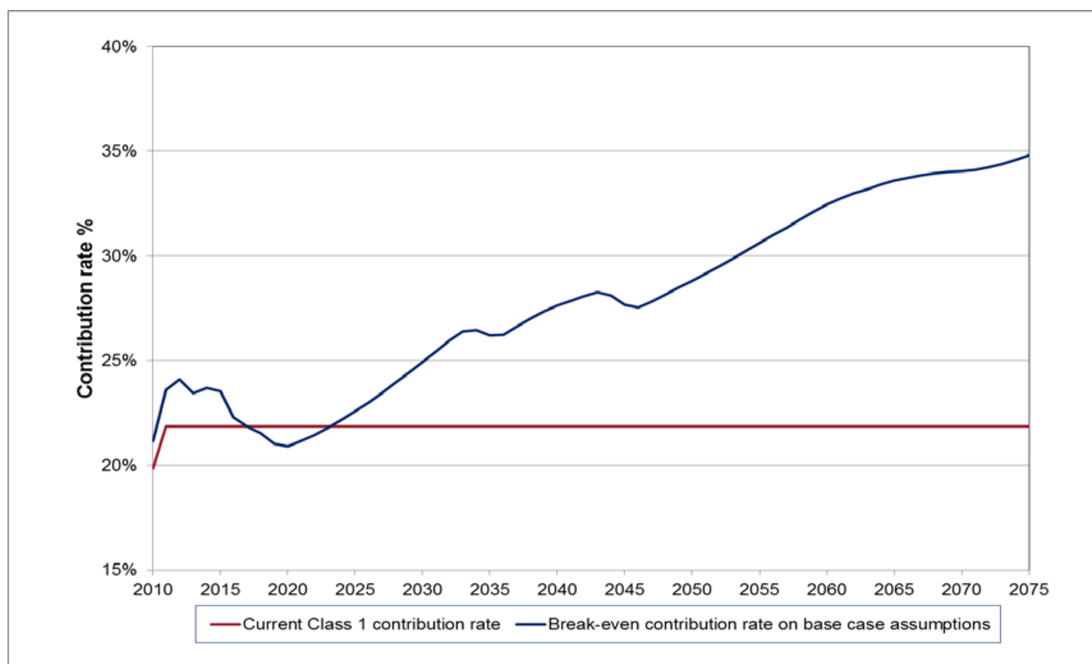
Break-even contribution rates

4.17 Figure 4.7 below shows the level of break-even rates required under the base-case assumptions. Break-even contribution rates are the rates of contribution required to make the amount of income, excluding investment income, received in a year equal to the amount of benefit expenditure and administration expenses paid in that year. We show them just in terms of the sum of the main employee and employer contribution (Class 1) rates as this is by far the largest class of contributions. The same proportional increase in these Class 1 rates would apply to all the other classes of contribution. No changes in benefits have been allowed for in the calculation of the break-even contribution rates.

4.18 Under the National Insurance Contributions Act 2011 there was a 1% increase in both the main primary (8.95% to 9.95%) and secondary (10.9% to 11.9%) Class 1 contribution rates from 2011-12 (excluding NHS allocation). This is shown in the chart below. The break-even contribution rate also increased by a similar amount because the primary and secondary thresholds increased quite significantly in that year (see Table B1) offsetting the impact of the increase in contribution rate.

4.19 The chart shows the effect of the increases in male and female SPA to 66 from 2018 to 2020 and increases in SPA to 67 between 2034 and 2036 and 68 between 2044 and 2046 in legislation prior to the Pensions Act 2014. The clear underlying trend, as a result of the ageing of the population of Great Britain and the rate of increase in the level of pension benefits, for example due to triple lock, compared to increases in contribution income, as shown below, is for break-even contribution rates to gradually increase.

Figure 4.7: Actual (to 2012) and projected Class 1 break-even contribution rates compared with the current main Class 1 contribution rates



5 The impact on the Fund of the Pensions Act 2014 provisions

This section:

- provides our initial estimates of the impact on the Fund of the enactment of the Pensions Act 2014
- explains the approach we have used to producing our estimates
- the results of these projections, and those using variant assumptions, are shown in Appendix I and on the GAD website

The Pensions Act 2014

5.1 The provisions within the Pensions Act 2014 which will directly, and potentially materially, affect the Fund are:

- The introduction of the new State Pension, including the increase in the number of qualifying years for a full pension to 35 and a minimum qualifying period of 10 qualifying years to receive any pension
- The cessation of contracting-out and hence the ending of contracting-out rebates
- The acceleration of the increase of SPA to 67 between 2026 and 2028
- Periodic reviews by the Secretary of State for Work and Pensions of the rules about pensionable age, with the Secretary of State's report on the first such review due by 7 May 2017, and
- The introduction of voluntary Class 3A contributions to purchase additional State Pension.

Further details of these provisions are provided in Appendix G.

5.2 There are other provisions within the Pensions Act 2014, for example the ending of Savings Credit, which will have an impact on UK government finances but which do not affect the Fund and so are not considered in this report. Also the changes listed in paragraph 5.1 above may have knock-on effects on UK government finances due, for example, to the reduction in eligibility to Guarantee Credit as a result of the higher standard rate of the new State Pension compared to the current basic State Pension. Our analysis of the impact of the Pensions Act 2014 will therefore be different to that provided in DWP's Impact Assessments[20] which include a wider range of effects.

Our approach to estimating the impact of the Pensions Act 2014 measures

5.3 We have not been able to undertake an analysis building in the Pensions Act 2014 changes at the same level of detail that we have been able to undertake for our projections under the pre-Pensions Act 2014 legislation, although we have good confidence in the overall picture being presented. It would seem inappropriate to do

[20] https://www.gov.uk/government/publications/pensions-act-2014-impact-assessments-may-2014

so under the legislative framework for this review and therefore more detailed analysis should be undertaken.

5.4 In our projections of the impact of the Pensions Act 2014 we have used the same assumptions as used in the base-case projection described in section 4 above.

5.5 As it is not clear how the conclusions of future reviews by the Secretary of State for Work and Pensions of the rules about pensionable age will be implemented we have not, unless otherwise stated, made any allowance for future changes in SPA other than those currently legislated for or included in the Pensions Act. In any case, the results of our projections show that the Fund will be exhausted before the dates for possible changes in SPA to 68 and 69 outlined in the Chancellor's Autumn Statement 2013. Therefore any changes in SPA after middle of the 2030s will have no effect on the Fund exhaustion date on the main analysis of the position allowing for the Pensions Act 2014. They would have an impact on break-even contribution rates.

5.6 As the voluntary Class 3A contributions are intended to be set on an actuarially fair basis and the total amounts expected to be received are not expected to be material in the context of the Fund, we have not made any allowance for these.

5.7 We have not made allowance for any possible changes in the terms under which individuals who choose to defer their State Pensions receive increments, because any such changes would be unlikely to have a material impact on the long-term finances of the Fund.

5.8 In projecting the Fund allowing for the Pensions Act 2014 we treated people who are expected to reach SPA before the implementation of the new State Pension in April 2016 separately from those who will reach SPA after implementation.

People who reach SPA before April 2016

5.9 Those who are in receipt of pensions in 2016 when the new State Pension is introduced have been modelled on the basis of the current pension arrangements. This includes basic State Pension and additional State Pension paid from the Fund to GB and non-GB residents.

People who reach SPA on or after April 2016

5.10 We have used a database provided by DWP of anonymised data which included records on over 450,000 individuals who would be caught by the new State Pension transitional arrangements. This database showed past earnings and contribution record history. Based on this data we calculated, for each individual (a) their entitlement at the introduction of the new State Pension based on the pre-Pensions Act 2014 system, and (b) their entitlement assuming the new State Pension system had always been in place. The higher of these two amounts is the individual's 'starting amount'. If the starting amount is greater than the full rate of the new State Pension, the difference becomes the individual's protected payment and is payable alongside the new State Pension, although up-rated both before and after SPA in line with price inflation (CPI).

5.11 As the database provided by DWP included data just up to the end of the financial

year 2011-12 we extrapolated the records up to 2016 assuming, where necessary, an allowance for mortality. We also assumed that each individual will receive a full year of credit for each year they survive between 2012 and 2016.

5.12 The protected payments were projected separately allowing for CPI up-rating and mortality before and after coming into payment. We allowed for inheritance of these amounts consistent with the rules regarding inheritance of additional State Pension.

5.13 The new State Pension entitlements, excluding the protected payments, were converted to an average proportion of the full amount that individuals would achieve on average at SPA. This took into account both the starting amounts as described in paragraph 5.10 and qualifying years that individuals might accrue after 2016. In the long term we would expect this average proportion to stabilise close to but less than 100% of the full new State Pension. As it is not clear what the impact of requiring 35 years for a full new State Pension and the introduction of a 10 year minimum qualifying period will be, we have assumed that the long run average proportion will be around 95%. This is lower than the corresponding proportion for the projections of the current system (97%, see paragraph F.7 and Table F1).

5.14 This average proportion was applied to the total population reaching SPA after April 2016. The new State Pensions were up-rated in line with triple lock although we also projected the Fund using alternative approaches to up-rating to apply after 2020.

5.15 We have assumed that the amount of the new State Pension in 2016 is £155.25 a week in nominal terms. This is based on the policy statement that the new State Pension will be set above the basic level of means-tested support, that is, the Pension Credit Standard Minimum Guarantee which is £148.35 a week for a single pensioner in the financial year 2014-15[21].

5.16 The changes required to how we model contributions are to cease allowing for contracted out rebates from 2016 onwards and to allow for the change in SPA to 67 between 2026 and 2028.

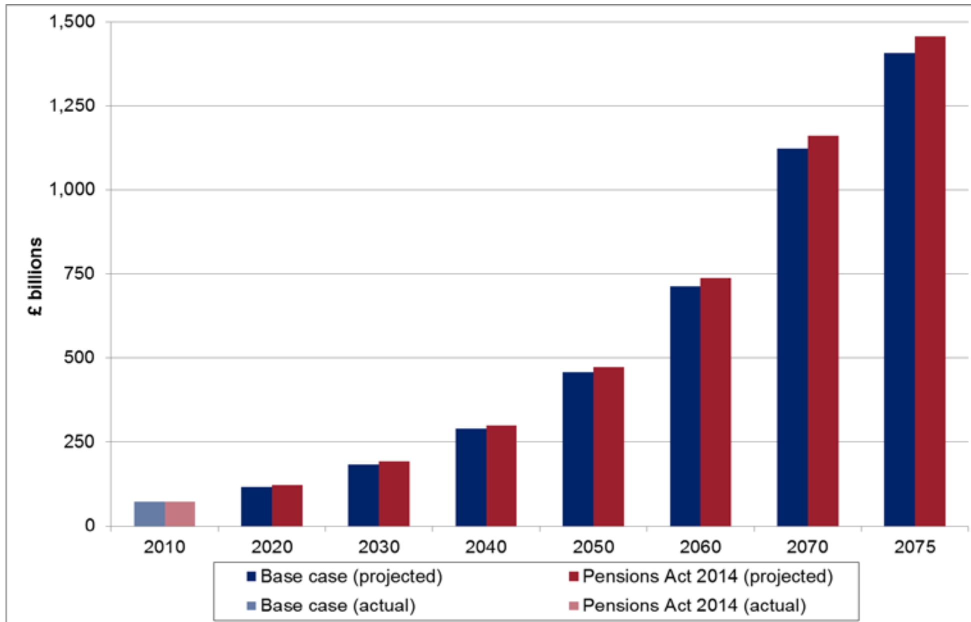
5.17 All non-pension benefit payments are the same as in the base case.

Results allowing for the Pensions Act 2014

5.18 The following charts show the projected contribution income and benefit expenditure (both excluding and including the provisions of the Pensions Act 2014), and the Fund balance.

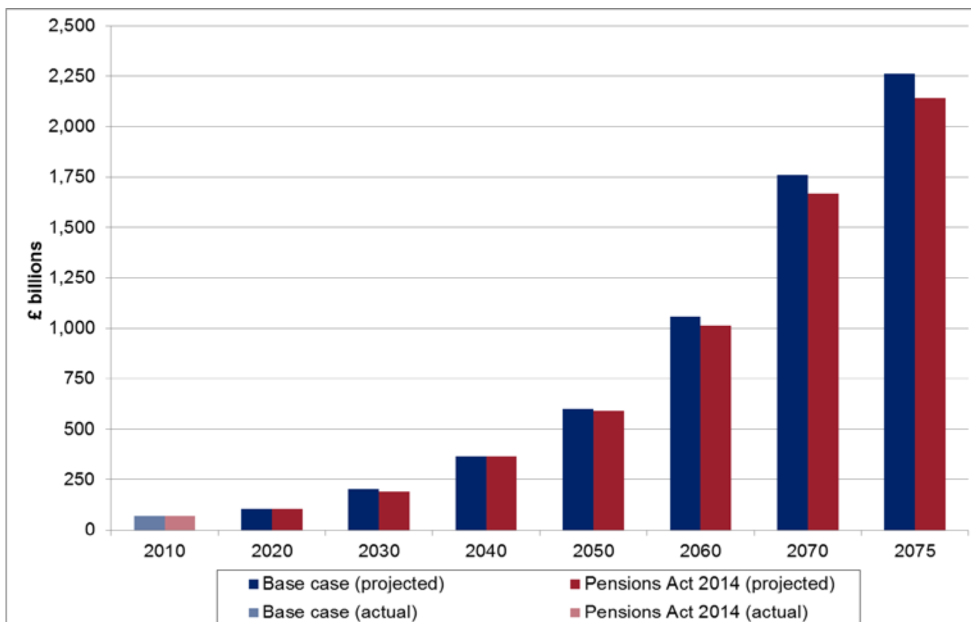
[21] https://www.gov.uk/government/policies/making-the-state-pension-simpler-and-fairer/supporting-pages/introducing-a-simple-single-tier-state-pension

Figure 5.1: Actual (to 2012) and projected contribution income excluding (base case) and including the provisions of the Pensions Act 2014



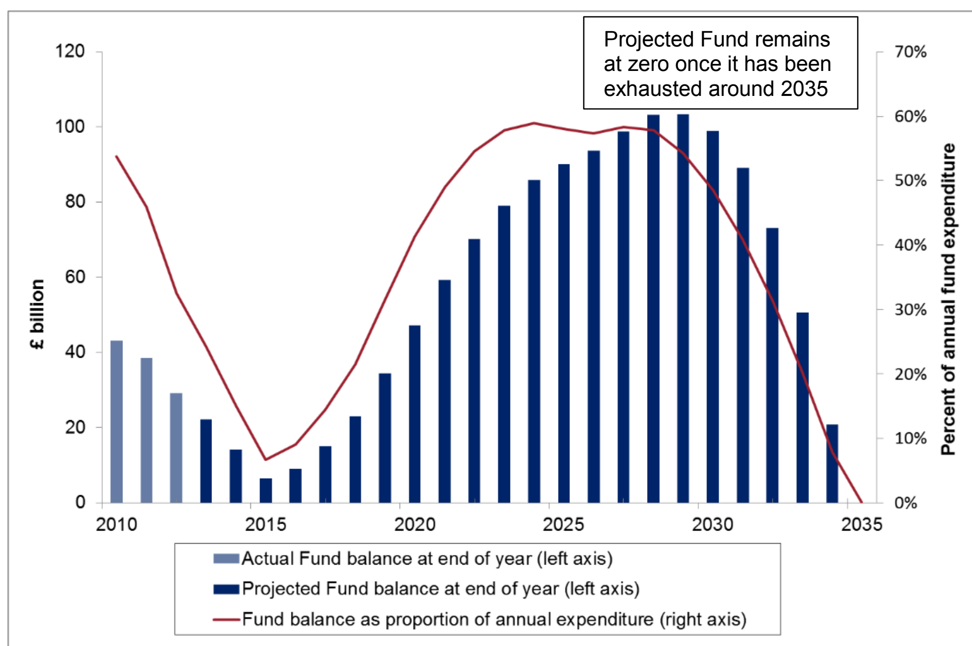
5.19 Contribution income under the Pension Act 2014 is projected to be higher because of the ending of contracting out and the increase in SPA to 67 between 2026 and 2028.

Figure 5.2: Actual (to 2012) and projected pension benefit expenditure excluding (base case) and including the provisions of the Pensions Act 2014



5.20 Initially, pension benefit payments following the enactment of the Pensions Act 2014 is projected to be very marginally higher than they would have been without the Pensions Act 2014 provisions, as the new State Pension amount is projected to be higher than the full rate of the BSP would have been under the pre-Pensions Act 2014 system. However, this will reverse between the mid-2020s and the mid-2030s as the Pensions Act 2014 brings forward the increase in SPA to 67 to between 2026 and 2028. From the mid-2030s, when SPA was due to rise to 67 under pre-Pensions Act 2014 legislation, the Pensions Act 2014 contributory pension benefits will again be higher until such time as the run off of Additional State Pension and Protected Payments outweigh the higher level of BSP under the new State Pension system.

Figure 5.3: Actual (to 2012) and projected Fund balance and Fund as a percentage of annual expenditure allowing for the Pensions Act 2014 (new State Pension, cessation of contracting out and increase in SPA to 67 between 2026 and 2028)



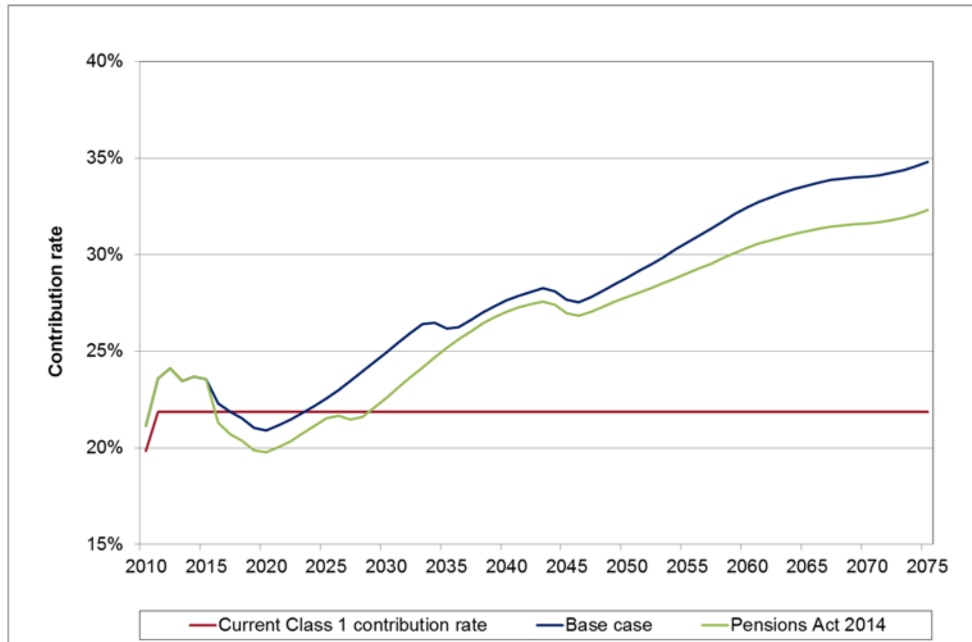
5.21 As a result of the Pensions Act 2014, the Fund is exhausted 8 years later than under the base-case projection which ignores the effect of the Pensions Act 2014, that is, 2035 rather than 2027.

5.22 Treasury Grants can be made, up to 17% of benefit expenditure, to supplement the income to the Fund. These could therefore be used to keep the Fund at or above zero for a number of years after 2035. However, without changes to contributions, benefits or the cap on the amount of the Treasury Grant the Fund will eventually be exhausted.

5.23 The following chart shows the projected break-even contribution rates excluding and including the provisions of the Pensions Act 2014. The reasons for the difference between the base case and Pensions Act 2014 rates are those outlined in paragraph

5.20 above, combined with the effect of ending contracted-out rebates.

Figure 5.4: Actual (to 2012) and projected break-even contribution rates excluding and including the provisions of the Pensions Act 2014



Alternative projections

5.24 In addition to the projections, the results of which are shown above, we also carried out additional projections on the following bases:

(a) Allowing for the Pensions Act 2014 changes as described above with SPA assumed to increase in line with OBR estimates, that is increasing SPA to 68 in 2036 and to 69 in 2049 as described in the 2013 Autumn Statement and as set out in the FSR2014

(b) As in (a) and with triple lock to revert to just earnings up-rating from 2020

(c) As in (b) but assuming (Class 1) National Insurance contributions (excluding NHS allocation) increase in 2020 from 21.85% to 23.5%

(d) As in (b) but with up-rating from 2020 to be CPI+2.1%.

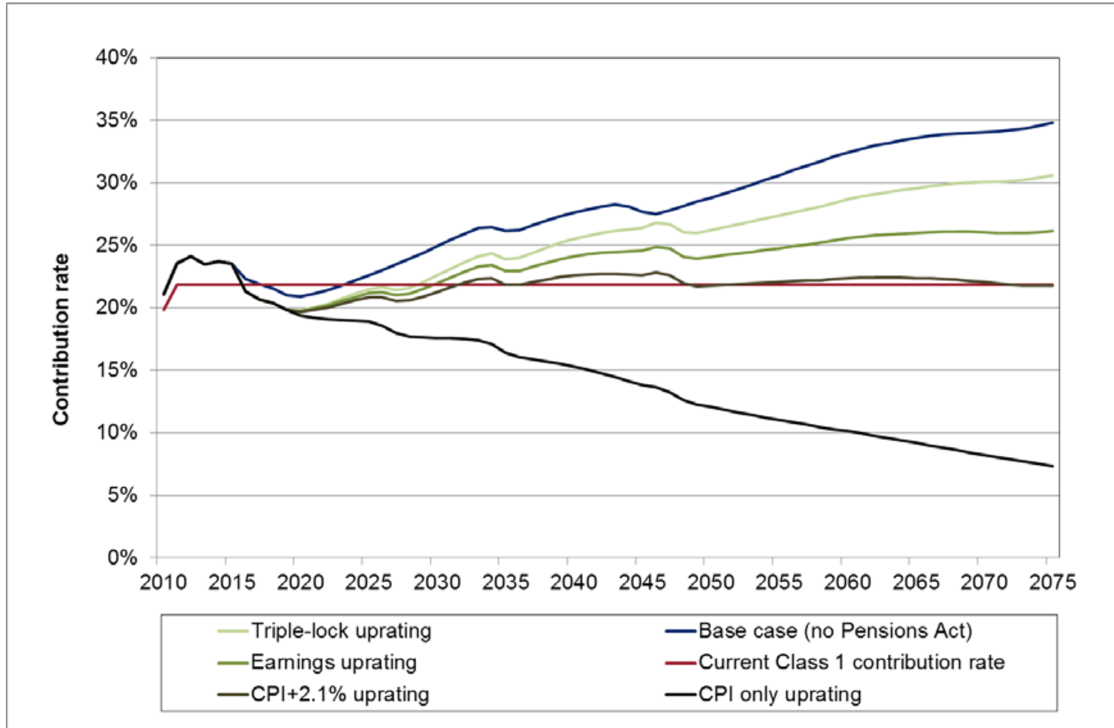
5.25 The Fund exhaustion dates under these alternative scenarios were as follows:

Table 5.5: Impact of variant projections allowing for the Pensions Act 2014

Alternative Scenario	Year	Comments
Base case: Pensions Act 2014 changes incorporated – partial - only new State Pension, cessation of contracting out and rise in SPA to 67 between 2026 and 2028 - excludes further potential increases to SPA - using base-case central assumptions - indefinite triple lock	2035	If variant long-term assumptions used, the exhaustion year is estimated to range from 2031-2038
Variant (a) Pensions Act 2014 changes incorporated incl. SPA increases to 68 in 2036 and to 69 in 2049 - SPA increase in line with Autumn Statement 2013 and OBR FSR2014 - indefinite triple lock	2036	As the assumed increases in SPA take place after 2035, the projected Fund exhaustion date is almost unchanged
Variant (b) – Pensions Act 2014 as (a) above but triple lock ceases in 2020 - as in variant (a) above except - up-ratings assumed to revert to just earnings link from 2020 (that is, from CPI+2.75% to CPI+2.45%)	2040	
Variant (c) National Insurance contribution increases - from 21.85% to 23.5% (Class 1 excluding NHS allocation) from 2020 - all other as per variant (b) above	2060	Sustainability is taken as Fund exhaustion in 2060 or later ('BCA sustainability')
Variant (d) – Reduce pension increases each year - from triple lock (assumed at CPI+2.75%) to CPI+2.1% (or earnings–0.4%) - all other as per variant (b) above.	2062	

5.26 To give a further impression of the range of results for projections of the Fund that different assumptions about the up-rating of the new State Pension after 2020 could give, a range of possible considered rates of up-rating were considered. These are purely illustrative and do not constitute a recommendation for future change. The effects of different levels of up-rating on the incomes of pensioners were not considered.

Figure 5.6: Impact of illustrative different up-ratings on break-even contribution rates in the longer term (allowing for the Pensions Act 2014 and increasing SPA to 68 in 2036 and 69 in 2049)



6 Projections on variant demographic assumptions for the base case (pre Pensions Act 2014 position)

This section:

- summarises the results of the variant demographic assumptions compared to the base-case results
- the results of using these variant assumptions are shown in Appendix H and on the GAD website
- variants on the projections including the Pensions Act 2014 are analysed in section 5

Demographic variant assumptions

6.1 In this section we show the effects of using variant projections, as provided by ONS, for fertility, migration and life expectancy. We have also shown the effect of using ONS's 'young' and 'old' combined variants. The variant demographic assumptions are based on different combinations of the ONS's 2012-based principal, high and low life expectancy, fertility, and migration assumptions, to produce population estimates for Great Britain, as set out in Table 6.1 below.

Table 6.1: Composition of variants

Variant	Life expectancy	Fertility	Migration
Base case	Principal	Principal	Low
Principal migration	Principal	Principal	Principal
High life expectancy	High	Principal	Principal
Low life expectancy	Low	Principal	Principal
High fertility	Principal	High	Principal
Low fertility	Principal	Low	Principal
'Young'	Low	High	High
'Old'	High	Low	Low

6.2 The base-case projections were derived from the ONS's 2012-based low migration population projections. ONS produces standard variant projections for the United Kingdom and each constituent country but such variants are not produced for Great Britain. We therefore had to adjust the ONS's low migration variant projection for the United Kingdom in order to provide the low migration population projections for Great Britain. This was done by multiplying the projected population figure for a given age, sex and year in the United Kingdom low migration variant by the ratio of the projected population figure in the Great Britain principal projection at that age, sex and year to the corresponding figure in the principal projection for the United Kingdom. The same approach was taken to produce the other variant population projections for

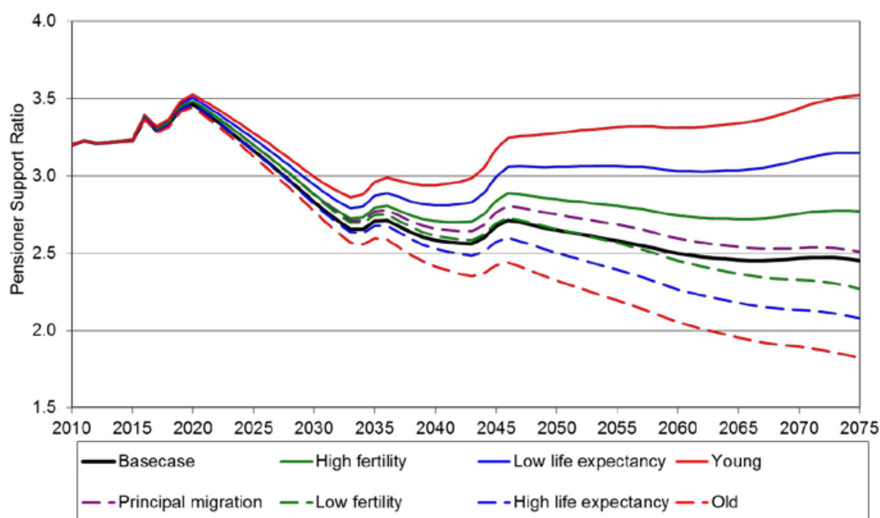
Great Britain from the United Kingdom equivalent.

Pensioner support ratios

6.3 One way of illustrating the differences between the base case and variant demographic assumptions is to look at the resulting pensioner support ratios. Figure 6.2 shows the projected pensioner support ratio under various demographic assumptions. In all cases the support ratio increases until around 2020 as a result of the increases in SPA initially for females to age 65 and then for both males and females to age 66 by 2020. The support ratios then broadly fall under each variant until the next increase in SPA from 66 to 67 over the mid-2030s.

6.4 As could be expected, the falls in pensioner support ratio are more rapid for variants where the population is projected to age more quickly than under the base-case projection, that is, for the high life expectancy, low fertility and 'old' population variants and less rapidly for the variants where the population ages less quickly. In each case the support ratio falls again until the next increase in SPA to 68 in the mid-2040s. Following the increase in SPA to 68 in the mid-2040s under the pre-Pensions Act 2014 legislation the paths of the pension support ratios diverge quite significantly, depending on the variant. This is consistent with Figure 4.3.

Figure 6.2: Pensioner support ratio under the base-case and variant population projections



Projection results using the variant demographic assumptions

6.5 Tables 6.3 and 6.4 below show the effect of changing the main demographic assumptions on the Fund's exhaustion date and break-even contribution rates.

Table 6.3: Fund exhaustion dates under the base-case and variant demographic scenarios

Variant	Year in which the Fund is exhausted
Base case	2027
Principal migration	2028
High life expectancy	2027
Low life expectancy	2029
High fertility	2028
Low fertility	2028
'Young'	2031
'Old'	2026

Table 6.4: The break-even contribution rate under the base-case and variant demographic scenarios

Year	2010	2020	2030	2040	2050	2060	2070	2075
Base case	21%	21%	25%	28%	29%	32%	34%	35%
Principal migration	21%	21%	25%	27%	28%	31%	33%	34%
High life expectancy	21%	21%	25%	28%	30%	35%	38%	40%
Low life expectancy	21%	21%	24%	26%	25%	27%	28%	28%
High fertility	21%	21%	25%	27%	27%	30%	31%	31%
Low fertility	21%	21%	25%	27%	29%	33%	36%	37%
'Young'	21%	21%	24%	25%	24%	25%	25%	25%
'Old'	21%	21%	25%	29%	32%	38%	43%	45%

6.6 The variant scenarios lead to different effects on the income and expenditure from the Fund over the projection period compared with the base-case scenario. These affect both the year in which the Fund is exhausted and the break-even contribution rates. As the impact of changes in demographic assumptions is generally felt over the long term the Fund exhaustion date does not change significantly under the variant demographic projections except where we have used the most extreme variants, that is, the 'young' and 'old' population projections. Hence it is very important to have regard not only the Fund exhaustion dates but also the longer-term

development of the break-even contribution rates when considering the impact of these changes.

6.7 Under the principal migration projection, compared to the base-case low migration projection, the number of contributors increases throughout the projection period and this delays the projected year of Fund exhaustion slightly and reduces the break-even contribution rate by a small amount from the mid-2030s.

6.8 In comparing the fund exhaustion dates given in Table 6.3 it should be noted that the high and low life expectancy and high and low fertility variants are all based on the principal migration assumptions rather than the low migration assumptions used for the base case. This means that the effects on the Fund exhaustion date of varying mortality and fertility are best shown by comparing to the fund exhaustion date on the principal migration variant rather than the base case. This is also the case for the young and old variants where the variant assumptions used are all varied from the principal migration variant.

6.9 The high (low) life expectancy variant brings forward (delays) the Fund exhaustion date compared to the principal migration variant and increases (decreases) the break-even contribution rate as it increases (decreases) the size of the retired population relative to the working age population, as the change in mortality rates has a bigger effect on the elderly population.

6.10 The high (low) fertility variant delays (brings forward) slightly the Fund exhaustion date and decreases (increases) the break-even contribution rate as it increases (decreases) the size of the working age population relative to the retired population. It takes longer to have a noticeable effect on break-even contribution rates compared to the longevity variant as it takes at least 16 years for the change in births to affect the size of the working age population and even then the initial impact is minimal. Over the much longer term the change in the number of births will affect the size of the retired population and offset the changes in the break-even contribution rate experienced up until then.

6.11 The 'old' population variant brings forward the projected year of Fund exhaustion the most. This variant combines greater longevity of the retired population with fewer births and fewer migrants who would mainly join the working age population. The opposite is the case of the 'young' population variant.

7 Projections on variant economic assumptions for the base case (pre Pensions Act 2014 position)

This section:

- summarises the results of the variant economic assumptions compared to the base-case results
- the results of using these variant assumptions are shown in Appendix H and on the GAD website
- variants on the projections including the Pensions Act 2014 are analysed in section 5

Variant economic assumptions

7.1 The following tables set out the base-case and variant economic assumptions. Apart from the 'long-term-throughout' variant, the other variants use the same short-term economic assumptions. The long-term assumptions apply from 2019-20.

Table 7.1: Key base-case and variant economic assumptions – long-term assumption changes

	Earnings growth	CPI	Triple lock
Base case	2.40% pa (net of CPI)	2.0% pa.	Earnings growth + 0.30% pa
High earnings growth	2.90% pa (net of CPI)	2.0% pa.	Earnings growth + 0.30% pa
Low earnings growth	1.90% pa (net of CPI)	2.0% pa.	Earnings growth + 0.30% pa
Higher triple lock	2.40% pa (net of CPI)	2.0% pa.	Earnings growth + 0.40% pa
Use of long-term economic assumptions throughout	2.40% pa (net of CPI)	2.0% pa	Earnings growth + 0.30% pa

7.2 The high earnings growth, low earnings growth and higher triple lock variants keep the same short-term assumptions and change only the long-term earnings growth assumption.

7.3 The short-term assumptions were not varied except in the variant which applied the long-term economic assumptions throughout, and the two variants in which we replaced only the short-term earnings growth assumptions (see paragraph 7.8 below).

Table 7.2: Key short-term economic assumptions

Financial Year	Earnings increases	CPI (September)	Triple lock as applied in FY [1]
2013-14	2.6%	*2.7%*[2]	*2.5%*[2]
2014-15	2.4%	*1.8%*	*2.7%*[2]
2015-16	3.3%	2.0%	2.5%
2016-17	3.7%	2.0%	3.3%
2017-18	3.7%	2.0%	3.6%
2018-19	3.8%	2.0%	3.7%

1 The triple lock increase is not equal to the highest of 2.5% and the equivalent earnings growth and CPI figures shown. Triple lock increases for a year are based on the earnings growth and CPI as at the previous July and September respectively.

2 These values are already known as at the date of this report as they have been used to set the level of the basic State Pension and other benefits.

Projection results using the variant economic assumptions

7.4 The following tables show the effect of changing some of the main economic assumptions on the Fund exhaustion date and break-even contribution rates.

Table 7.3: Fund exhaustion dates under the base-case and variant economic scenarios

Variant	Year in which the Fund is exhausted
Base case	2027
High earnings	2028
Low earnings	2026
Higher triple lock	2027
Long-term throughout	2029

Table 7.4: The break-even contribution rate under the base-case and variant economic scenarios

Year	2010	2020	2030	2040	2050	2060	2070	2075
Base case	21%	21%	25%	28%	29%	32%	34%	35%
High earnings	21%	21%	25%	27%	28%	32%	33%	34%
Low earnings	21%	21%	25%	28%	29%	33%	35%	36%
Higher triple lock	21%	21%	25%	28%	29%	33%	35%	36%
Long-term throughout	21%	21%	25%	28%	29%	32%	34%	35%

7.5 The high and low earnings scenarios have very similar effects, although in different directions, on the Fund exhaustion date. The overall effect on Fund exhaustion date and, over the longer term, on break-even contribution rates, is not very large as changes in the earnings growth assumption affects both income and expenditure broadly to the same extent.

7.6 The impact of a higher triple lock margin, 0.4% rather than 0.3%, has a small effect on the Fund and break-even rates as it would lead to a slightly higher level of basic State Pension payments. The effect is explored further in the comparison of this review with the previous one, covered in section 10.

7.7 Using long-term assumptions throughout affects both income and benefit payments. The main difference from the base case is due to there being significantly higher earnings growth in the 'long-term throughout' scenario than in the base case, in the short term. This causes the break-even contribution rates in the short term (before 2020) to be lower under the variant run than under the base-case assumptions. This differential remains over the long term as the lower earnings growth in the early years of the projection in the base case causes projected earnings to remain lower throughout the projection period, although the effects are small.

Short-term 'shocks'

7.8 As we have seen during the period between this and the previous review, changes in actual earnings growth can have a significant impact on the Fund, particularly due to how it affects contribution income. We have therefore carried out projections allowing for higher and lower earnings growth in the period from 2014 to 2020. These projections used the same assumptions as in the base case except:

(a) Assuming earnings growth was CPI + 3.50% rather than CPI + 2.40% with this being used in setting the short-term triple lock assumptions, and

(b) Assuming earnings growth was CPI only rather than CPI + 2.40% with this being used in setting the short-term triple lock assumptions.

7.9 The results of these projections, in terms of Fund exhaustion date are as shown in Table 7.5 below.

Table 7.5: Impact of short-term 'shock' compared to the base case, and long-term-throughout variant

Scenario	Year	Comments
Base Case (without Pensions Act 2014) - central assumptions with special short term - ignores 2014 Pensions Act - indefinite triple lock	2027	If variant long-term assumptions are used, the year of exhaustion is between 2024 and 2031
Long-term only variant – base case adjusted over 2014 to 2019 – as if long-term - short-term assumptions to 2020 replaced by long-term assumptions (see Table 4.1) throughout - otherwise assumptions as in base case	2029	The short-term (central) assumptions are those used by OBR; so this takes an optimistic view
Variant (a) – base case adjusted over 2014 to 2020 – upside shock - earnings growth to 2020 changed to CPI + 3.5% pa - otherwise assumptions as in base case	2033	
Variant (b) – base case adjusted over 2014 to 2020 – downside shock - earnings growth to 2020 changed to CPI + 0% pa - otherwise assumptions as in base case	2016	

8 Projections on variant labour market assumptions for the base case (pre Pensions Act 2014 position)

This section:

- summarises the results of the variant labour market assumptions compared to the base-case results
- the results of using these variant assumptions are shown in Appendix H and on the GAD website
- variants on the projections including the Pensions Act 2014 are analysed in section 5

Variant labour force assumptions

8.1 The base-case labour market assumption was an average unemployment rate of 5.5% of the workforce throughout the projection period. In this section we show the effects on the projections if average unemployment was assumed to be either 50% lower than this, that is, a constant rate of around 2.75% of the workforce or 50% higher than this, that is, a constant rate of around 8.25% of the workforce. While these are relatively large changes to the unemployment rate the corresponding change in employment level is relatively small, from 94.5% to 97.25% and 91.75%.

Projection results using the variant labour force assumptions

8.2 The following tables show the effect of changing the main labour market assumption on the Fund exhaustion date and break-even contribution rates.

Table 8.1: Fund exhaustion dates under the base-case and variant labour force scenarios

Variant	Year in which the Fund is exhausted
Base case	2027
Higher unemployment	2024
Lower unemployment	2030

Table 8.2: The break-even contribution rate under the base-case and variant labour force scenarios

Year	2010	2020	2030	2040	2050	2060	2070	2075
Base case	21%	21%	25%	28%	29%	32%	34%	35%
Higher unemployment	21%	22%	26%	28%	30%	33%	35%	36%
Lower unemployment	21%	21%	24%	27%	28%	32%	33%	34%

8.3 These two variants change the amount of contribution income, as changes to employment levels mean that there would be a different number of contributors compared to the base case. We have assumed that the unemployed will receive pension credits towards their basic State Pension so the impact on pension expenditure will be through a different level of additional State Pension paid in the pre-Pensions Act situation. The employment related benefits paid from the Fund will also change as the number of claimants change. However, the overall effect on benefit outgo from the Fund is marginal as the employment related benefits account for less than 2% of the total benefit outgo. Therefore most of the impact on the Fund and break-even contribution rates will be as a result of the change in the amount of contribution income received. Also there will be a small impact on additional State Pension expenditure. This will be, on average, later in the projection period while the impact on contribution income will start immediately.

9 Projections on other variant scenarios for the base case (pre-Pensions Act 2014 position)

This section:

- summarises the results of projections under three further variant scenarios
- one assumes that all future re-rating of earnings limits and benefit payments will be in line with earnings increases
- the other two illustrate the effect of pensioners receiving, on average, a higher or lower proportion of the standard rate pension
- the results of using these variant assumptions are shown in Appendix H and on the GAD website
- variants on the projections including the Pensions Act 2014 are analysed in section 5

Other variant assumptions

9.1 Currently there are a variety of methods used to up-rate (increase or decrease from the current year) the benefits paid, the rates of some classes of National Insurance contributions and to re-rate the earnings limits to which some of the National Insurance contribution rates apply. The decision which up-rating factor to use is determined by legislation and current practice. We have included a variant which shows the effect on the Fund of all benefits being up-rated in line with earnings throughout the projection period. This variant does not assume a change to the re-rating of contribution limits.

9.2 People who start receiving their basic State Pension receive a certain proportion of the full rate depending on the number of years of contributions they have made or been credited with. The average proportion can change over time as the eligibility requirements change, as people's working lives change and the levels of credits awarded change. There are two variant assumptions for the proportions of the full rate of basic State Pension – a higher average proportion variant which assumed that individuals get 5% more pension than assumed in the base case (though with a maximum pension of 100% of the full rate in all cases) and the lower average proportion variant which assumes that individuals get 5% less pension than assumed in the base case.

Projection results using the other variant assumptions

9.3 The following tables show the effect of changing the items described above on the Fund exhaustion date and break-even contribution rates.

Table 9.1: Fund exhaustion date under the base-case and other variant scenarios

Variant	Year in which the Fund is exhausted
Base case	2027
Up-rating all benefits in line with earnings	2024
Higher proportion of standard rate pension	2027
Lower proportion of standard rate pension	2029

Table 9.2: The break-even contribution rate under the base-case and other variant scenarios

Year	2010	2020	2030	2040	2050	2060	2070	2075
Base case	21%	21%	25%	28%	29%	32%	34%	35%
Up-rating in line with earnings	21%	21%	26%	29%	30%	33%	34%	35%
Higher proportion of standard rate pension	21%	21%	25%	28%	29%	33%	35%	35%
Lower proportion of standard rate pension	21%	21%	24%	27%	28%	31%	33%	34%

9.4 These other variants only affect the amount of benefit paid. As can be seen from Table 9.2 the differences have relatively small effects on the break-even contributions rates over the projection period.

9.5 Under the earnings up-rating variant, the basic State Pension will increase at a lower rate than the triple-lock increases assumed in the base case. In contrast, additional State Pensions are larger due to replacing CPI up-rating with earnings growth up-rating. These two effects broadly cancel out in the long term but in the short term the Additional State Pension effect predominates and this causes the Fund to be exhausted sooner than under the base-case assumptions.

9.6 The higher proportion of standard rate pension has little impact as in the base-case assumptions it is already close to 100%. The lower proportion has a more marked effect and, as it reduces the projected level of basic State Pension paid, it delays the Fund exhaustion date by a couple of years and reduces, although not by much, the break-even contribution rates.

10 Comparison with the 2005 Quinquennial Review

This section describes the differences between the results of this review and the results of the 2005 review. These differences include:

- experience in the period between the reviews
- changes in contribution income and benefits as a result of policy; and
- the effect of assumption changes

10.1 The following table compares selected results from the previous, 2005 Quinquennial Review (QR2005) and the results of the current review. In the 2005 review we presented two central projections, one using 2.0% real earnings growth and one using 1.5% real earnings growth and in our comparison we use the QR2005 results using the principal assumptions with 2% real earnings growth. The analysis would have been very similar if we had used the alternative central scenario shown in QR2005, that is, the projections based on 1.5% real earnings growth, as our starting point.

Table 10.1: Comparison of results of QR2005 and the current (QR2010) review

Financial year	2015-16	2030-31	2050-51	2070-71
QR2005				
Balance in the Fund as a multiple of the expenditure in the year	1.7	4.0	4.6	2.1
Break-even contribution rate (%)	19.1	20.5	22.1	25.8
QR2010				
Balance in the Fund as a multiple of the expenditure in the year	0.1	0.0	0.0	0.0
Break-even contribution rate (%)	23.5	24.9	28.8	34.0

10.2 As the Fund is projected to run out in 2027 in the base-case projections for the current review, the Fund as a multiple of expenditure falls to zero at that point.

10.3 The main causes of the change from QR2005 to QR2010 can be categorised as discussed in the following paragraphs:

- actual experience between the dates of the two reviews
- legislative and policy changes affecting benefit payments
- changes in assumptions.

Actual experience

10.4 The tables below show the income and expenditure of the Fund between 2009-10 and 2012-13 as projected in QR2005, assuming 2% real earnings growth, and according to the actual Fund accounts for this period

Table 10.2: Projected income and expenditure 2009-10 to 2012-13 (£bn) shown in QR2005

	2009-10	2010-11	2011-12	2012-13
Fund value at start of year	50.6	55.5	63.7	82.0
Contributions	78.5	84.5	97.5	104.4
Investment income	2.6	2.9	3.5	4.5
Other income	2.2	2.3	2.4	2.5
Total income	83.2	89.7	103.4	111.4
Pension benefits	66.9	69.7	73.2	77.9
IB/ESA benefits	7.0	7.1	7.2	7.3
Other benefits	2.5	2.6	2.7	2.7
Other expenditure	2.0	2.0	2.1	2.2
Total expenditure	78.4	81.4	85.1	90.1
Surplus/deficit	4.8	8.2	18.3	21.3
Fund value at end of year	55.5	63.7	82.0	103.3

Table 10.3 Actual income and expenditure 2009-10 to 2012-13 (£bn) from National Insurance Fund accounts

	2009-10	2010-11	2011-12	2012-13
Fund value at start of year	53.0[1]	48.8[2]	43.2	38.6
Contributions	71.2	71.9	76.3	77.0
Investment income	0.2	0.2	0.2	0.2
Other income	1.9	2.2	3.1	2.6
Total income	73.3	74.3	79.6	79.8
Pension benefits	66.4	69.3	74.1	80.0
IB/ESA benefits	6.7	6.6	6.4	5.7
Other benefits	2.2	1.9	1.9	1.8
Other expenditure	2.6	2.1	1.8	1.8
Total expenditure	77.9	79.9	84.2	89.3
Surplus/deficit	-4.6	-5.6	-4.6	-9.5
Fund value at end of year	48.5	43.2	38.6	29.1

1 The opening balance for 2009-10 was restated after we produced the QR2005.
2 The opening balance for 2010-11 was restated in the 2011-12 accounts.

Table 10.4 Difference between projected and actual income and expenditure 2009-10 to 2012-13 (£bn)

	2009-10	2010-11	2011-12	2012-13	Total
Fund value at start of year	2.4	-6.7	-20.5	-43.4	
Contributions	-7.3	-12.6	-21.2	-27.4	-68.6
Investment income	-2.3	-2.7	-3.3	-4.3	-12.6
Other income	-0.3	-0.1	0.7	0.1	0.4
Total income	-9.9	-15.3	-23.8	-31.6	-80.6
Pension benefits	-0.5	-0.4	0.9	2.1	2.1
IB/ESA benefits	-0.2	-0.5	-0.8	-1.6	-3.2
Other benefits	-0.3	-0.7	-0.8	-0.9	-3.1
Other expenditure	0.6	0.1	-0.3	-0.4	0.4
Total expenditure	-0.5	-1.5	-0.9	-0.8	-3.7
Surplus/deficit	-9.4	-13.9	-22.8	-30.8	-76.9[1]
Fund value at end of year	-7.0	-20.5	-43.4	-74.2	

1 This figure of £76.9bn differs from the difference in Fund value at the end of 2012-13 of £74.2bn by the amount of the two restatements described in the notes to Table 10.3.

10.5 These show that the main difference between the projections and the actual experience is that contributions and investment income received were significantly lower than expected. Contribution figures in tables 10.2 and 10.3 are net of payments of contracted out rebates to members of Contracted-out Money Purchase (pension) Schemes and Appropriate Personal Pensions, and so are not exactly comparable with contribution figures shown elsewhere in this report.

10.6 The main reasons why the actual Fund balance is significantly lower than Fund balance as projected in QR2005 are:

- The lower contribution income received between the reviews was mainly due to lower earnings growth than assumed in the 2005 review. The actual earnings growth between 2008 and 2012 was as shown in Table 10.5 below. The nominal earnings growth assumption in QR2015 was 4.87% a year:

Table 10.5: Actual earnings increases in recent years

Financial year	April to April earnings increases
2009-10	-1.70%
2010-11	4.71%
2011-12	1.08%
2012-13	3.38%

- Although there was an increase in contribution rates in 2011-12, this was offset by the large increase in earning limits in that year. The increase in contribution rate had been anticipated in our 2005 projection but not the large increase in limits
- Investment income was lower because of the lower rate of return being earned on the Fund's investments and the smaller size of the Fund
- Benefit payments were lower due to lower than expected Incapacity Benefits and Employment and Support Allowances, being only partially offset by slightly higher than expected pension benefit payments.

Legislative and policy changes affecting benefit payments

10.7 The main benefit changes between QR2005 and QR2010, excluding the Pensions Act 2014 changes, are:

- the introduction of triple lock up-rating from April 2011
- the Pensions Act 2011 bringing forward the planned increase in SPA to 66 from the mid-2020s to between 2018 and 2020 for men and women (see Table 10.6 for the impact), and
- the capping of increases in certain welfare benefits at 1% a year between 2013 and 2015 (for 2014 and 2015 by the Welfare Benefits Up-rating Act 2013).

See Table 10.6 overleaf for the quantification of major impacts.

Changes in assumptions

10.8 The main changes in assumptions between the previous and current reviews are as follows:

- In the previous review only long-term economic assumptions were used, whereas in the current review we have used the OBR's short-term economic assumptions from the EFO2014 for the period to 2018-19 and then OBR's long-term assumptions from its FSR2013
- In the 2005 review we assumed RPI of 2.87%. RPI is no longer relevant for most up-rating and re-rating of benefits and earnings limits, having been replaced by CPI or triple lock. The 2010 review CPI long-term assumption is 2.0%
- General earnings growth in the 2005 review was 4.87%. In the current review earnings growth is assumed to be 4.45% in the long term
- The earnings distribution, that is, the distribution of earnings by age and sex, has been updated based on more recent information for the current review
- The investment return was 4.87% in the 2005 review and is 3.15% in the current review
- Unemployment was assumed to be around 5% in the 2005 review and is assumed to be around 5.5% in the current review.

The next table illustrates the impact of these changes in terms of break-even contribution rates.

Table 10.6: Analysis of change in break-even contribution rates between QR2005 and QR2010

	2015-16	2030-31	2050-51	2070-71
Break-even contribution rate QR2005	**19.1%**	**20.5%**	**22.1%**	**25.8%**
Change in economic assumptions	1.5%	0.8%	0.9%	1.3%
Changes affecting contribution receipts				
Employment numbers and earnings distribution[1]	0.6%	0.9%	1.9%	2.6%
Effect of projected limits being different	2.8%	2.6%	2.5%	2.5%
Change in benefits				
Triple lock policy	0.1%	0.8%	1.8%	2.9%
Population projections	0.0%	0.3%	0.8%	0.1%
SPA change	0.0%	0.0%	0.0%	0.0%
Difference in experience				
Additional State Pension alignment	0.0%	-0.2%	-0.7%	-1.1%
Change in IB/ESA	-0.5%	-0.5%	-0.4%	-0.2%
Other miscellaneous effects	-0.1%	-0.3%	0.0%	0.1%
Break-even contribution rate QR2010 (pre-Pensions Act 2014 base case)	**23.5%**	**24.9%**	**28.9%**	**34.0%**

1 As employment numbers and earnings distribution depend on each other and combine closely to produce the level of contributions we have treated these together in our analysis.
2 This is after allowing for the impact of different economic assumptions.

10.9 The change in economic assumptions increases the break-even contribution rate as a result of the lower earnings growth assumptions. This is the case in the short term but persists and gets larger over the longer term.

10.10 The impact of projected limits shows the effect of the earnings limits for National Insurance contributions being different at the starting point of the current projections to what was projected under the previous review after allowance for differences in economic assumptions. This includes, for example, the restriction of the increase in the Upper Earnings Limit by 1% in 2014-15 and 2015-16. We have also changed from limits increasing in line with earnings throughout to limits increasing in line with CPI during the short term and in line with earnings thereafter (consistent with OBR).

10.11 The projected number of pensioners at State Pension age and over in 2010 based on the ONS 2006-based projections is very similar to the actual numbers of pensioners. Over future years the numbers of pensioners based on the 2012-based projections and older is lower than previously projected until around 2028, after which the projected numbers are higher, with the differential reaching a peak in 2049 and then falling below again over the long term. These differences are driven both by the different assumptions underlying the two sets of population projections and differences in the assumed State Pension ages. The overall difference in projected benefit expenditure in any year is comparatively small.

10.12 The SPA change between the 2005 and 2010 reviews is to bring forward the increase to 66 between 2018 and 2020. Therefore the impact of this is not a component of the above table.

10.13 We changed the methodology used to align our projections of additional State Pension to actual recent experience which has had a longer-term effect.

10.14 We have simplified our method of projecting expected payments of Incapacity Benefits and Employment and Support Allowances and used DWP's short-term projection of IB/ESA payments as the starting point for our long-term projections. As can be seen in Table 10.4 above the QR2005 had overestimated IB/ESA payments in the short term. The amounts of these benefits in the long term are inherently variable as there have been several reforms involving changes to entitlement, including the on-going change from IB to ESA, the final outcome of which in terms of benefit load and future expenditure is still uncertain.

10.15 The following table illustrates the impact of these changes in terms of Fund balance up to the point when under the QR2010 pre-Pensions Act 2014 base-case assumptions the Fund is projected to be exhausted.

Table 10.7: Analysis of change in Fund balance between QR2005 and QR2010 (£bn)

	2015-16	2020-21	2027-28
Projected fund balance in previous review	**188.37**	**394.91**	**824.13**
Change in economic assumptions	-22.23	-66.40	-135.92
Changes affecting contribution receipts			
Employment numbers and earnings distribution	-10.49	-24.26	-67.51
Effect of projected limits being different[1]	-52.84	-172.68	-432.39
Change in benefits			
Triple lock policy	-1.92	-11.95	-53.98
Population projections	0.27	-1.00	-11.20
SPA change[2]	0.01	16.30	65.57
Change in experience			
Additional State Pension alignment	0.31	1.39	7.70
Change in IB/ESA	9.59	34.22	87.55
Change in investment income	-10.92	-34.00	-81.10
Change in fund starting position	-72.54	-69.86	-66.28
Miscellaneous effects			
Change in allowance for statutory payments[3]	-17.17	-40.51	-93.09
Other miscellaneous effects	-3.92	-10.49	-43.48
Projected fund balance in this review	**6.52**	**15.67**	**0.00**

1 This is after allowing for the impact of different economic assumptions.
2 The effect of the change in SPA is now seen as the years shown in the table cover the period affected.
3 The change for the allowance for statutory payments is a correction to the method used to allow for these in the previous projection.

10.16 The explanation for the analysis shown in the table above is basically the same as for the analysis of the change in the break-even contribution rates.

10.17 Investment income and the starting position of the Fund are not included in the calculation of break-even contribution rates but do affect the fund value so are shown in the table above.

Why the events of the recession and financial downturn since the last Quinquennial Review have had a major impact on the current level of the Fund

It is often commented that the recession that has occurred over the period since the last Quinquennial Review has been different in its effect compared to others in the post-war period. For a number of years, earnings increases have fallen below price inflation, but there has been a significantly lower impact on unemployment than has been seen in many other downturns.

What also has been observed is that the effects of this reduction in the real level of average earnings have shown no sign to date of unwinding to the pre-crisis trend line in real terms, nor is there any expectation, through short or long-term assumptions, for such a reversion to the pre-crisis trend line to occur in future. Put another way, there has been what most people see as an irrecoverable drop (in real earnings) from the pre-crisis trend line, and although the long-term assumptions do allow for a normal upwards annual growth of earnings in excess of inflation to return, it is without any catch-up to the pre-crisis trend line.

If there were to be a return to the original pre-2008 trend line one way or another, the projections in this review would be healthier. Having considered the actual results between reviews and having undertaken some theoretical calculations, it is clear that this lack of catch-up both before now and in the future assumptions constitutes the major difference between the results of our projections now and those shown in the previous review.

11 Conclusions

This section:

- draws conclusions from the report about the factors that affect the future finances of the Fund
- suggests some possible changes that could lead to greater Fund sustainability
- recommends further study when the effects of the implementation of the Pensions Act 2014 can be more fully understood, but in advance of a 2020 deadline for considering changes to the legislation governing the Fund

Economic shocks

11.1 The analysis in section 10 shows that an important driver of Fund sufficiency and long-term sustainability is the impact of short-term shocks, particularly where earnings increases are below or above the historical trend of being above inflation. Table 10.4 shows that lower contributions over the years 2009-10 to 2012-13 account for around 90% of the difference between the Fund balance projected in the previous QR and reality. When earnings growth is lower than inflation, growth in contribution receipts falls relative to benefit payments, and this can have a permanent effect, and move the Fund from a position of stable or even growing balances to one of a falling balance.

11.2 It could be that there may be a short-term upside 'shock', before the next Quinquennial Review that is, the next few years turn out to be more positive than the current OBR assumptions. This would make the longer-term prognosis healthier. However, it is necessary to make plans without allowance for such a shock.

Treasury Grant

11.3 The National Insurance Fund has no borrowing powers. In order that the Fund maintains a working balance and can deal with short-term fluctuations in income and outgo, the Government Actuary historically has recommended a balance for the NIF of at least 1/6th of projected annual benefit expenditure.

11.4 For well over a decade the Fund has remained sufficient to cover 1/6th of annual benefit expenditure up until the financial year 2012-13 and was projected, in our recent up-rating report[22] to continue to do so in 2013-14. However, our up-rating report projected that the Fund could fall below 1/6th of annual benefit expenditure during 2014-15 and would require a Treasury Grant[23]. We understand that there is

[22] https://www.gov.uk/government/publications/report-to-parliament-on-the-2014-re-rating-and-up-rating-orders[23] The Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2014

[23] The Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2014

the legislative power to permit a Treasury Grant to be paid during 2014-15, though at the time of going to press none had actually yet been paid.

Fund exhaustion and break-even contribution rates (pre-Pensions Act 2014)

11.5 On our base-case assumptions, which ignores the changes made by the current Government in the Pensions Act 2014 and any actual payments of Treasury Grant, the Fund is projected to be exhausted in 2027-28.

11.6 When alternative assumptions for the main economic and demographic variables are considered, the likelihood is that the Fund will be exhausted by a date in the range 2024-25 (the higher unemployment scenario – see Table 8.1) to 2031-32 (the 'young' demographic scenario – see Table 6.3).

11.7 The break-even contribution rates are expected to increase steadily over the projection period due to population ageing as this increases the number of pensioners relative to those of working age contributing through National Insurance. The rate of increase is critically dependent on how the amount of benefit expenditure increases each year relative to the increase in contribution income. The break-even rate is expected to exceed the current levels of contributions before 2030 before allowing for the effects of the Pensions Act 2014.

11.8 We believe it would not be appropriate or consistent with the legislative requirement to conduct such a comprehensive review as this review at 2010 without allowing for the new legislation because there is more uncertainty about projections allowing for Pensions Act 2014 changes than for the base case on the previous legislation, as some details of the transitional arrangements are yet to be finalised and there may be behavioural changes as a result of the new legislation that we cannot anticipate. Nevertheless, because the impact of the changes resulting from the 2014 Act results in a significant improvement on the position we felt it wrong to ignore the effects and are confident that our estimates allowing for the changes give a good idea of the trends and impacts allowing for such changes. The rest of this conclusion should be read with this in mind.

The Pensions Act 2014

11.9 With the changes brought in by the Government in the Pensions Act 2014, the Fund is projected to be exhausted 8 years later, that is, in 2035-36, than it would have been without these changes.

11.10 It should be noted that we do not have the same detailed level of insight into the position allowing for Pensions Act 2014 changes as we have for the base case on the previous legislation, nor do we believe it would be appropriate or consistent with the legislative requirement to conduct such a comprehensive review as at 2010. Nevertheless, because the impact of the changes resulting from the 2014 Act results in a significant improvement on the position we felt it wrong to ignore the effects and are confident that our estimates allowing for the changes give a good idea of the trends and impacts allowing for such changes. The rest of this conclusion should be read with this in mind.

11.11 The break-even contribution rates (that is, the rates of National Insurance contributions for each year sufficient to finance that year's benefit expenditure) are expected to increase steadily over the projection period due to population ageing as this increases the number of pensioners relative to those of working age contributing through National Insurance. The rate of increase is then critically dependent on how the amount of benefit expenditure increases each year relative to the increase in contribution income. The break-even rate is expected to exceed the current levels of contributions before 2030, as was the case when considering the pre-Pensions Act position (see paragraph 11.7 above).

11.12 Without changes to contribution rates or limits, changes to benefits, or the payment of further Treasury Grants, or unexpected changes in economic or demographic factors, the Fund is likely to be exhausted within 25 years of the effective date of this review, that is, within 25 years of 2010.

11.13 Accordingly, the conclusion of this analysis is that, on the base-case assumptions as applied to a post Pensions Act 2014 situation, the Fund would remain with a positive balance for the duration of the next Parliament from 2015. However, before 2020 some further analysis, using more up-to-date data and trends than are available in 2014, should be conducted, taking on board the options set out in paragraph 1.31 above and more, on how to put the Fund into a sustainable position (with a view as to what that means) for many years ahead. If small changes are not made during the 2020s, before the break-even costs start to exceed the contributions at the end of that decade, bigger and more dramatic changes risk being needed later.

Options considered for long-term sustainability

11.14 It is not the place of this report to set out recommendations as to measures that should be taken to ensure the long-term sustainability of the Fund. However, given the work covered in this report, it would be useful to give some indicative options that could lead to greater long-term sustainability following the introduction of the Pensions Act 2014 measures.

11.15 Section 5 shows only a small selection out of a whole range of scenarios and we do not believe this is sufficient to come to a proper view on the full range of options, nor on the scale of what might be appropriate for the 2020s and beyond. But it does give some strong pointers as to the direction in which the Fund is going and a feel for some of the interventions that matter and those that are less effective.

11.16 With this in mind, section 5 considered options for long-term BCA sustainability, that is, a package of options such that the Fund balance is not projected to fall to zero over the period to 2060 on the base-case assumptions. The figures for each option start from the position of full incorporation of all the Pensions Act 2014 provisions, that is, new State Pension, cessation of contracting out and actual changes to SPA in line with future increases in longevity. The options would appear to come under the following broad headings:

> pay more
> reduce benefits (primarily by restricting the rate of annual pension increases after 2020 to below triple-lock)
> work longer, in effect, by increasing the SPA further, and
> combinations could be considered from a partial use of each of the above to deliver sustainability.

The options are, of course, not inconsistent with the options described in the First Report of the Pensions Commission published in 2004 on the adequacy of private pension saving in the UK[24].

11.17 We have considered the three particular kinds of options further below. The figures for each option start from the position of full incorporation of all the Pensions Act 2014 provisions, that is, new State Pension, cessation of contracting out and actual changes to SPA in line with future increases in longevity, as described in section 5 and the figures use the base-case assumptions. Sustainability is deemed to be achieved if the Fund has not been projected to be exhausted by the end of 50 years, that is, by 2060, which we define as BCA (base-case assumptions) sustainability.

Increased contributions

11.18 An increase in combined Class 1 National Insurance contributions from 21.85% to 23.5% from 2020 would be projected to prevent Fund exhaustion by 2060.

Lower pensions increases

11.19 If the rate of annual pension increases after 2020 were to be reduced from triple-lock to a small fraction below earnings (thus still remaining significantly in excess of the assumption for prices, which could be with or without an underpin of a minimum annual increase of 2.5% a year), this would also be projected to preserve a BCA sustainable Fund to 2060 (and in this instance potentially beyond) There could always be the possibility of higher discretionary increases if experience is sufficiently positive under this option. As an example, increases at CPI + 2% a year would also projected to have the same effect as the contribution increase above in delivering BCA sustainability.

Higher State Pension age (SPA)

11.20 Further increases in SPA, over and above the changes already allowed for as a result of the Pensions Act 2014, do not have a substantial impact on the sustainability of the Fund because sufficiently large reductions in the level of the Fund would likely have already occurred before any realistic years for making any further increases to SPA.

24 http://webarchive.nationalarchives.gov.uk/20070801230000/http:/www.pensionscommission.org.uk/publications/2004/annrep/fullreport.pdf

11.21 Combinations could be considered from a partial use of each of the above to deliver sustainability.

11.22 Care is necessary with any of the above to test the resilience of the Fund following any of these changes to shocks or different experience from that assumed, rather than to assume that any particular change or combination of changes will guarantee to deliver sustainability.

Implementation of any changes and further study

11.23 In considering the kind of changes suggested as possible in section 5, it is important to bear in mind that what happens, whether due to policy changes or other causes, between now and 2020 is, because of practicalities over effecting radical further change before 2020, and the positive impact of the changes that have been put in place over the last five years, unlikely to have much impact in the longer term. This can be seen from the projected path of the Fund as shown in Figure 5.3. What happens from 2020 onwards, short of any major shocks before then, is the key determinant of the longer-term performance of the Fund.

11.24 Of course, this is not the full picture. Firstly, the above list of options should not be treated as exhaustive. Secondly, the trajectory of the Fund over the period to 2020 could follow a better course than the projections for our base-case scenario. Third, and perhaps most importantly, the position for State Pensions cannot be looked at in isolation from the overall framework for pensions including private sector provision. In this latter case the changes taking place that will have an important impact before 2020 include auto-enrolment, the Budget changes for annuities and the proposed changes to introduce Defined Ambition Plans. The combined effect of these private provision changes could be to increase retirement saving and this in turn could open up consideration of phasing options starting in 2020 for securing greater sustainability of State pensions and the National Insurance Fund.

11.25 Faced with this set of scenarios, and the many more options that could be modelled and considered for stability, acceptability and so on, it is clear that more work should be done but this report is not the appropriate place.

11.26 In view of the fact that we have not been able to undertake a detailed analysis building in the Pensions Act 2014 changes at the level of detail we have been able to undertake for the base case, whilst having good confidence in the overall picture being presented, we conclude that more detailed analysis should be undertaken. One option would be to commission such analysis at a suitable time after mid-2015 when the details of the transition to the new State Pension is better known, with a view to implementing any changes from 2020, well before the annual costs start exceeding the Fund's income towards the end of the 2020s. Such an analysis could, if desired, consider a more rounded and detailed analysis of the situation in the light of the facts and outlook prevailing at the time. It should be possible to consider the options in this report (for example, as in paragraph 1.31) and many more, all with a view to reaching a sustainable State pension framework for current and future generations of pensioners.

Appendix A: Summary of data used

Introduction

A.1 The accuracy of the review is fundamentally dependent on the data on which it is based. If the data contain material inaccuracies or omissions it could have a significant effect on the results of the review.

A.2 The data used can be categorised broadly as follows:

- information from National Insurance contribution and benefit administration systems
- financial data from National Insurance Fund accounts
- census information from population projections and workforce surveys.

Use of data

A.3 Data is used in three main areas:

- As the starting point of the projections. This data (comprising population data, National Insurance Fund accounts, benefit expenditure information and workforce information) is summarised further below
- To help choose appropriate assumptions about the future (although allowance is also made for expected future trends which may not yet be reflected in administrative data sources). The choice of assumptions is discussed in Appendices D to F
- As a validation of the projection methodology.

Sources of data

A.4 Summarised below are the sources of data we have used in our projections:

- The source of population data and assumptions is the ONS 2012-based population projections published in 2013. The assumptions underlying these projections are described in Appendix D. Also used are ONS mortality and marital statistics information
- The data and projected data series underlying the assumptions for price inflation, earnings inflation and employment numbers in OBR's March 2014 EFO were shared with us and form the basis of the short-term economic assumptions discussed in Appendix D. As discussed in Appendix D, our long-term economic assumptions reflect OBR's 2013 Fiscal Sustainability Report
- The financial position of the Fund and details of income and expenditure are taken from the Fund accounts, the latest being for the financial year 2012-13 published in December 2013. This information is summarised in Table A1

> The contribution projections are based on information from ONS surveys, such as the Labour Force Survey and Annual Survey of Hours and Earnings, also HMRC information such as the Survey of Personal Incomes, recent accrued contribution out-turns for certain contribution classes and accrued contribution run-off patterns, together with long-term employment projection information from OBR's cohort employment projection model. Short-term results were validated in comparison with the equivalent modelling for OBR's March 2014 EFO. Information from the Department for Work and Pensions ' (DWP's) Lifetime Labour Market Database (L2) is also used in preparing projections of profiles of contracted-out employees

> The main source of data for benefit expenditure is information provided by the DWP from L2 and their Quarterly Statistical Extracts, covering numbers of recipients of benefits, average amounts payable and historical earnings records and demographic information, broken down by age and sex

> Projections of non-pension benefits are also informed by DWP's short-term forecasts of benefit expenditure.

A.5 GAD has not verified the data (except for limited reviews for reasonableness) and does not accept responsibility for any inaccuracies in the data supplied.

A.6 No data exist showing the number of people below SPA currently living overseas and therefore not included in ONS's population projections who may be entitled to a State Pension when they reach SPA. The approach used to make estimates in this area is set out in Appendix F. In the opinion of GAD these missing data do not have a material effect on the overall projection results.

Fund finances

A.7 Table A1 below shows the accounts of the National Insurance Fund for the period covered by the review and up to latest available.

Table A1 Actual income and expenditure 2005-06 to 2012-13 (£bn) from National Insurance Fund accounts

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Fund value at start of year	29.1	34.3	38.2	50.3[1]	53.0[2]	48.8[3]	43.2	38.6
Contributions[3]	63.9	65.2	73.0	71.8	71.2	71.9	76.3	77.0
Investment income	1.4	1.8	2.4	2.0	0.2	0.2	0.2	0.2
Other income	1.5	1.4	2.1	1.8	1.9	2.2	3.1	2.6
Total income	66.8	68.4	77.5	75.6	73.3	74.3	79.6	79.8
Pension benefits	51.4	53.8	57.5	61.3	66.4	69.3	74.1	80.0
IB/ESA benefits	6.7	6.7	6.6	6.7	6.7	6.6	6.4	5.7
Other benefits	1.6	1.6	1.5	2.5	2.2	1.9	1.9	1.8
Other expenditure	2.0	2.3	2.2	2.3	2.6	2.1	1.8	1.8
Total expenditure	61.7	64.4	67.8	72.8	77.9	79.9	84.2	89.3
Surplus/deficit	5.2	4.0	9.7	2.8	-4.6	-5.6	-4.6	-9.5
Fund value at end of year	34.3	38.2	47.9	53.0	48.5	43.2	38.6	29.1

1 The opening balance for 2008-09 was restated in the 2009-10 accounts
2 The opening balance for 2009-10 was quoted differently in QR2005.
3 The opening balance for 2010-11 was restated in the 2011-12 accounts
4 Contribution figures are net of payments of contracted out rebates to members of Contracted-out Money Purchase (pension) Schemes and Appropriate Personal Pensions, and so are not exactly comparable with contribution figures shown elsewhere in the report.

Appendix B: Details of contributions and other income to the Fund

Introduction

B.1 This Appendix summarises the contributions and other income to the Fund on which the projections in this review are based. It reflects the position at March 2013, including known subsequent changes in contributions and benefits. It does not include details of the provisions included in the Pensions Act 2014. These are described in Appendix G.

B.2 This Appendix describes the following items of income:

> contributions

> income from investment account

> compensation for statutory payment recoveries

> other receipts

> Treasury Grant.

Contributions

B.3 This section describes the main features of National Insurance contributions.

B.4 For the purpose of National Insurance contributions, the population of Great Britain is divided[25] into three main (but not mutually exclusive) categories:

> employees (Class 1)

> self-employed persons (Class 2 and 4)

> those making additional voluntary National Insurance contributions (Class 3).

Employees (Class 1)

B.5 Employees and their employer pay Class 1 National Insurance contributions on earnings falling within certain bands. The Class 1 contributions paid by employees are called Class 1 primary contributions and those paid by employers are Class 1 secondary contributions.

Class 1 – Earnings bands

B.6 Class 1 primary contributions are currently based on all earnings above the Primary Threshold (but a lower rate applies above the Upper Earnings Limit), while Class 1 secondary contributions are currently based on all earnings above the Secondary Threshold.

B.7 The earnings thresholds and limits in force for Class 1 contributions in each tax year from 2005-6 up to 2014-15 are shown in Table B1 below. From 2009-10, the Upper Earnings Limit (UEL) has been aligned to the income tax higher rate threshold. While

[25] Section 1(2) of the Social Security Contributions and Benefits Act 1992

the Primary and Secondary Thresholds had been aligned with the income tax personal allowance since 2001, there have been a number of policy-driven adjustments departing from this relationship in recent years. From 2012-13 the Primary Threshold will increase in line with CPI, the Secondary Threshold will increase in line with RPI until 2015-16.

Table B1: Earnings limits from 2005-6 to 2014-15

	Earnings limits (£ a week)			
	Lower Earnings Limit	Upper Earnings Limit	Primary Threshold	Secondary Threshold
2005-06	82.00	630.00	94.00	94.00
2006-07	84.00	645.00	97.00	97.00
2007-08	87.00	670.00	100.00	100.00
2008-09	90.00	770.00	105.00	105.00
2009-10	95.00	844.00	110.00	110.00
2010-11	97.00	844.00	110.00	110.00
2011-12	102.00	817.00	139.00	136.00
2012-13	107.00	817.00	146.00	144.00
2013-14	109.00	797.00	149.00	148.00
2014-15	111.00	805.00	153.00	153.00

Class 1 – Contribution rates

B.8 Table B2 shows the rates of contribution applicable to most employed persons.

Table B2: Main Class 1 percentage contribution rates

Tax year	Main primary Class 1 rate (paid by employees)			Main secondary Class 1 rate (paid by employers)		
	NIF allocation	NHS allocation	Total	NIF allocation	NHS allocation	Total
2005-06 to 2010-11	8.95%	2.05%	11.0%	10.9%	1.9%	12.8%
2011-12 (onward)	9.95%	2.05%	12.0%	11.9%	1.9%	13.8%

1 Before 2011-12 the lower primary contribution rate of 1% applied to all earnings above the UEL and was allocated to the NHS. From 2011-12 onwards, this increased to 2% of which 1% is allocated to NHS.

2 The allocation of secondary Class 1 NICs to the NHS is deemed to be in respect of all earnings for those cases earning more than the Primary Threshold.

B.9 The total primary rate paid by those married women and widows who pay the reduced rate of contribution was 4.85%, of which 2.8% went to the National Insurance Fund, for years up to 2010-11. In 2011-12 these rates were increased to 5.85% and 3.8% respectively on earnings between the Primary Threshold and Upper Earnings Limits and additional contributions required at the rate of 1% on all earnings above the UEL allocated to the National Insurance Fund. The rates of secondary contributions are the same as for other employees.

Contracting-out

B.10 Table B3 shows the reduction in National Insurance contributions for those individuals who are members of contracted-out pension arrangements, noting that from April 2012 only salary-related contracting-out remains. Rebates are payable on earnings between the Lower Earnings Limit (LEL) and Upper Accrual Point (or the UEL prior to 2009-10), even though the main Class 1 rate is based on a different band of earnings. The Upper Accrual Point is set at £770 a week and is fixed in cash terms. For further details see the Government Actuary's Quinquennial review of contracted-out rebate rates[26].

Table B3: Contracted-out rebates from 2005-06 to 2014-15 as a percentage of relevant earnings

Year	Contracted-out salary-related schemes			Contracted-out money purchase schemes	Appropriate personal pensions
	Employee	Employer	Total		
2005-06 to 2006-07	1.6%	3.5%	5.1%	2.6–10.5%	4.2–10.5%
2007-08 to 2011-12	1.6%	3.7%	5.3%	3.0–7.4%	4.7–7.4%
2012-13 and later	1.4%	3.4%	4.8%	N/A	N/A

Self-employed persons (Classes 2 and 4)

B.11 Self-employed persons who have not been granted exemption on account of low earnings pay flat-rate Class 2 National Insurance contributions. If they have profits above the Lower Profits Limit (LPL) they also pay earnings-related Class 4 contributions. The main rate of Class 4 contributions is paid on profits up to the Upper Profits Limit (UPL) and a lower rate on profits above this level. From 2009-10, the UPL was aligned to the income tax higher rate threshold. The LPL is effectively aligned with the Class 1 Primary Threshold.

[26] https://www.gov.uk/government/news/quinquennial-review-of-contracted-out-rebate-rates

B.12 Details of the Small Earnings Exception limit, the profits limits and the contribution rates for the self-employed during the period 2005-06 to 2014-15 are shown in Table B4 below. Up to 2010-11, the standard Class 4 contribution rate for profits between the LPL and UPL was 8% (2.15% of which was allocated to the NHS), with an additional contribution of 1% of earnings above the UPL (all of which was allocated to the NHS). From 2011-12 the rate of Class 4 contributions increased by a further 1% on earnings above and below the UPL, both increases allocated to the National Insurance Fund. 15.5% of the income from Class 2 contributions is allocated to the NHS.

Table B4: Contribution rates, including the NHS allocation, and profits limits for self-employed persons from 2005-06 to 2014-15

	Small Earnings Exception limit (£ a year)	Class 2 contribution (£a week)	Profits limits for Class 4 contributions (£a year)		Standard Class 4 contribution rate on profits between the limits (%)	Additional Class 4 contribution rate on profits above the Upper limit
			Lower	Upper		
2005-06	4,345	2.10	4,895	32,760	8.0%	1.0%
2006-07	4,465	2.10	5,035	33,540	8.0%	1.0%
2007-08	4,635	2.20	5,225	34,840	8.0%	1.0%
2008-09	4,825	2.30	5,435	40,040	8.0%	1.0%
2009-10	5,075	2.40	5,715	43,875	8.0%	1.0%
2010-11	5,075	2.40	5,715	43,875	8.0%	1.0%
2011-12	5,315	2.50	7,225	42,475	9.0%	2.0%
2012-13	5,595	2.65	7,605	42,475	9.0%	2.0%
2013-14	5,725	2.70	7,775	41,450	9.0%	2.0%
2014-15	5,885	2.75	7,956	41,865	9.0%	2.0%

Persons paying additional voluntary National Insurance contributions (Class 3)

B.13 People may pay Class 3 National Insurance contributions on a voluntary basis with a view to meeting the contribution conditions for entitlement to the basic State Pension and certain bereavement benefits. The Class 3 contribution rate, including the NHS share, is shown in Table B5. 15.5% of the income from Class 3 contributions is allocated to the NHS.

Table B5: Class 3 contributions from 2005-06 to 2014-15

	Class 3 contribution (£ per week)
2005-06	7.35
2006-07	7.55
2007-08	7.80
2008-09	8.10
2009-10	12.05
2010-11	12.05
2011-12	12.60
2012-13	13.25
2013-14	13.55
2014-15	13.90

Income from investment account

B.14 Interest is added to the Fund Investment Account surplus which is placed on deposit by the Commissioners for the Reduction of National Debt with the Debt Management Account Deposit Facility. The surplus is expected to earn a rate of interest close to the Official Bank of England Rate (Base Rate). We consider that a suitable proxy for long-term Base Rate projections is to assume notional investment in index-linked gilts.

Compensation for recoveries of statutory payments

B.15 The Government compensates the Fund for loss of revenue due to contribution receipts being reduced by recoveries of statutory sick, maternity, adoption and paternity pay. The effect for all future years is that the projected amount of compensation is equal to the projected amount of recoveries by employers, and therefore the actual level of statutory payment recoveries is irrelevant to projecting the finances of the Fund. The compensation is drawn down from the Consolidated Fund and then paid over to the Fund by DWP and Department for Business, Innovation and Skills (BIS), as the Fund has no facility to do so. The amounts paid over are based on estimates made by GAD. The categories of statutory payments are as follows:

- Statutory Sick Pay (SSP)
- Statutory Maternity Pay (SMP)
- Statutory Adoption Pay (SAP)
- Statutory Paternity Pay (SPP)
- Additional Statutory Paternity Pay (ASPP).

See paragraph C.77 below for further details.

Other receipts

B.16 A relatively small amount of additional receipts arise from state scheme premiums, recoveries of compensation payments paid to recipients of certain NIF benefits, retrospective reimbursements to the Fund from European countries for their citizens who have been paid unemployment benefit in the UK and redundancy amounts recovered from employers.

B.17 State scheme premiums are generally payable when an employee leaves a contracted-out occupational pension scheme having completed less than two years in the scheme. This payment reinstates the individual in the additional State Pension in respect of his or her period of scheme membership.

Treasury Grant

B.18 The Social Security Act 1993 introduced the potential for a Treasury Grant to be paid to the Fund at the discretion of HM Treasury to maintain the balance of the Fund at a certain minimum level. This replaced the Treasury Supplement system which had been in place from 1948 to 1989. It enables money provided by Parliament to be paid into the Fund if HM Treasury considers it expedient to do so to maintain the level of the Fund. It is subject to a maximum of 17% of benefit expenditure in the year and is based on estimates, made by the Government Actuary prior to the start of the financial year, of the expected financial position of the Fund at the end of the financial year.

B.19 No Treasury Grant has been paid since the possibility of such a payment was introduced in 1993 as none has been considered necessary. We have not made any allowance in our projections for the receipt by the Fund of any Treasury Grants. Based on our most recent up-rating report[27], however, a Treasury Grant is projected to be required in 2014-15.

[27] https://www.gov.uk/government/publications/report-to-parliament-on-the-2014-re-rating-and-up-rating-orders

Appendix C: Details of benefits and other expenditure from the Fund

Introduction

C.1 This Appendix describes the benefit and other expenditure from the Fund on which the projections in this review are based. Our projections include all items of expenditure of the Fund. This Appendix focuses on those aspects that are most significant in financial terms. It does not attempt to give a full description of the benefit rules, which are set out in statute[28]. This section describes the general eligibility conditions for benefits and details of the SPA and how this is expected to increase in future years. This Appendix is based on the pre-Pensions Act 2014 legislation. Relevant details of the Pensions Act 2014 are set out in Appendix G.

General eligibility conditions

C.2 Table C1 below sets out the benefit entitlements for the different classes of contributions described in section B above.

Table C1: Entitlement to National Insurance Fund benefits for different National Insurance contribution classes

Class	Entitlement
Class 1 full rate	All benefits
Class 1 reduced rate	Only through husband's contributions (except Statutory Sick Pay and Statutory Maternity Pay)
Class 1 contracted-out	All flat-rate benefits. Reduced or no entitlement to Additional State Pension
Class 2 & 4	All benefits except Jobseeker's Allowance and earnings-related additions to retirement pension and Widowed Parent's Allowance
Class 3	Basic State Pension, bereavement benefits for spouse only

[28] Social Security Contributions and Benefits Act 1992

C.3 Eligibility for contribution-based Employment and Support Allowance and Jobseeker's Allowance is generally determined by the following two conditions:

- Claimants must have paid Class 1 contributions on relevant earnings of at least 25 times the weekly Lower Earnings Limit during the qualifying year. Class 2 contributions count towards Employment and Support Allowance but not Jobseeker's Allowance
- Claimants must have paid contributions on relevant earnings of at least 50 times the weekly Lower Earnings Limit during each of the past two qualifying years. National Insurance credits can also be used to satisfy this condition.

C.4 Eligibility for other benefits is generally determined by reference to whether a person received (or was treated as having received) qualifying earnings for the year that were at least 52 times the weekly Lower Earnings Limit (LEL). This is called a qualifying year.

C.5 Credits allow some individuals who are not working to build up benefit entitlement. For example, the impact of credits on the basic retirement pension is broadly as follows:

- People who are unable to work because of sickness or disability, or who are unemployed and are available for and actively seeking work, or who are a carer, are normally entitled to a credit for each week they fulfil the relevant conditions
- Men aged 60 to 64 who are not liable to pay contributions and are in Great Britain for at least six months of the tax-year are entitled to 'autocredits'. This is being phased out between April 2010 and April 2018.

C.6 These credits count as a contribution at the LEL for entitlement to most benefits. However, they do not count towards the first contribution condition for contribution-based Employment and Support Allowance or Jobseeker's Allowance.

State Pension age (SPA)

C.7 The age from which the basic and additional State pensions are payable was legislated, prior to the Pensions Act 2014, to rise from 60 (women) and 65 (men) in 2010 to 68 (men and women) by the mid-2040s. Table C2 shows the path of SPA increases excluding the impact of the measures in the Pensions Act 2014. The Pensions Act 2014 accelerates the increase in SPA to 67 between 2026 and 2028. It also includes the requirements for periodic reviews of SPA. The Autumn Statement 2013 stated that SPA may rise to 68 in the mid-2030s and to 69 in the late 2040s[29], and these assumptions (in particular, an increase to age 68 in 2036 and to 69 in 2049) were used by OBR in their 2014 Fiscal Sustainability Report; it is discussed more in paragraph G.27.

Table C2: SPA changes excluding the Pensions Act 2014 changes

Financial year	Men	Women
2010-11	65	60–60.5
2011-12	65	60.5–61
2012-13	65	61–61.5
2013-14	65	61.5–62
2014-15	65	62–62.5
2015-16	65	62.5–63
2016-17	65	63–63.75
2017-18	65	63.75–64.5
2018-19	65–65.25	64.5–65.25
2019-20	65.25–65.75	65.25–65.75
2020-21	65.75–66	65.75–66
2021-22 to 2033-34	66	66
2034-35[1]	66–66.5	66–66.5
2035-36	66.5–67	66.5–67
2036-37 to 2043-44	67	67
2044-45	67–67.5	67–67.5
2045-46	67.5–68	67.5–68
2046-47 and later	68	68

1 Under the Pensions Act 2014 the changes previously intended to take place between 2034 and 2036 will now take place between 2026 and 2028.

[29] https://www.gov.uk/government/policies/reviewing-the-state-pension-age

Benefit up-rating methods

C.8 The following table sets out the various up-rating methods used for benefits paid from the Fund. These are based either on legislation or, where the method is not set out explicitly in legislation, on current practice.

Table C3: Up-rating methods used for Fund benefits

Benefit	Up-rating method used
Basic State Pension	Triple lock
Graduated Retirement Pension	CPI
Additional State Pension (SERPS and State Second Pension)	CPI
Bereavement Benefits	CPI, except Bereavement Payment, which is a fixed lump sum of £2,000
Contributory Incapacity Benefit/Employment and Support Allowance	Normally CPI but capped at 1% for 2014-15 and 2015-16
Contributory Jobseeker's Allowance	Normally CPI but capped at 1% for 2014-15 and 2015-16
Guardian's allowance	CPI
Christmas bonus	Fixed at £10 a year
Statutory Sick Pay and Statutory Maternity Pay	Normally CPI but capped at 1% for 2014-15 and 2015-16
Statutory Adoption Pay and Statutory Paternity Pay	Normally CPI but capped at 1% for 2014-15 and 2015-16
Maternity Allowance	Fixed component: normally CPI but capped at 1% for 2014-15 and 2015-16 Variable component: The lower of 90% of weekly earnings or £136.78 a week
Redundancy payments	Earnings

Basic State Pension

C.9 Entitlement to a basic retirement pension is based on the number of qualifying years a person has achieved during their working life. Working life for retirement pension runs from the tax year in which age 16 is attained up to the tax year before reaching SPA. For example, where the SPA is 65 the maximum working life is 49 years. To qualify for the full basic State Pension a person needs to have achieved at least 30 qualifying years based on pre-Pensions Act 2014 legislation.

Table C4: Percentage of the full basic State Pension according to the number of qualifying years (sample years only) completed by an individual reaching SPA after 2010 based on pre-Pensions Act 2014 legislation

Number of qualifying years	% of full basic State Pension
44 or more	100%
40	100%
35	100%
30	100%
25	83%
20	67%
15	50%
11	37%
10	33%
5	17%
1	3%

C.10 The full standard rate of basic State Pension for 2005-06 to 2014-15 is shown in Table C5 below.

Table C5: Basic State Pension (£ a week)

	Basic State Pension
2005-06	82.05
2006-07	84.25
2007-08	87.30
2008-09	90.70
2009-10	95.25
2010-11	97.65
2011-12	102.15
2012-13	107.45
2013-14	110.15
2014-15	113.10

C.11 Additions were payable for certain adult and child dependants. However, new adult dependency increases are no longer awarded from 6 April 2010. Existing increases will be paid until April 2020 (while eligibility conditions remain satisfied). No new child dependency increases have been awarded since April 2003.

C.12 For those reaching State Pension age before 6 April 2010 any complete tax year between April 1978 and April 2010 in which a person qualified for Home Responsibilities Protection whilst looking after children or disabled persons was deducted from the minimum number of years of contributions/credits needed to qualify for a full basic State Pension. From April 2010, a new system of credits was introduced which allows parents and carers to build up qualifying years. This replaced Home Responsibilities Protection. For those reaching State Pension age on or after April 2010 any Home Responsibilities Protection credit is converted into qualifying years (up to a maximum of 22 years) for receiving basic State Pension.

C.13 From 2010, married men or women and civil partners are able to claim a retirement pension based on their spouses' or partners' contribution record if their own contributions mean they would get less than 60% of the full basic State Pension. Contributions paid in countries with which there is a reciprocal agreement may be taken into account in qualifying for a pension, although any resulting pension is adjusted to reflect the period worked abroad.

C.14 Special rules applied to married women up to April 2010. A married woman whose husband is receiving a Category A retirement pension at the standard rate may receive a 'Category BL' pension of about 60% of the amount of her husband's pension based on her husband's contribution record provided she is over SPA. A dependent wife who is under SPA does not receive a pension, but her husband may receive an addition to his pension for an adult dependant. A married woman may also be entitled to a Category A retirement pension based on her own contributions. If her Category A pension is less than the full rate of Category BL pension payable to a married woman, the two pensions are combined to give a composite pension. The Category A pension is increased by the lesser of:

> the difference between the full-rate Category BL pension and the Category A pension to which she is entitled, and

> the rate of the Category BL pension to which she is entitled.

C.15 A widow, widower or surviving civil partner may receive a Category B pension at the full standard rate where the contribution conditions and other conditions relating to age at date of death are satisfied. Prior to April 2010 widowers or surviving civil partners who were over SPA whose wives or partners were under SPA at death could not qualify for a Category B pension or inherit any benefit. These rules were changed from April 2010 when benefits for widows, widowers and surviving civil partners are fully equalised. The Category B pension can be added to any Category A pension based on the widow, widower's or surviving civil partner's own record subject to the maximum for a single person. Divorced persons, those who had their civil partnership dissolved and those widowed under SPA may take into account contributions paid by the former spouse or civil partner up to the time of divorce, dissolution or death instead of their own contributions in the same period, if that would lead to a more favourable entitlement to basic pension on their own contribution record.

C.16 It is possible to be awarded and to receive the basic State Pension while resident outside the United Kingdom, provided sufficient contributions have been paid, and to continue to receive basic State Pension on emigration from the United Kingdom after SPA. A considerable number of recipients of basic State Pension live outside the United Kingdom. Annual increases after award or emigration are not paid except where the recipient lives in a country which has a reciprocal social security agreement with the United Kingdom.

Pension deferment

C.17 People who do not claim their retirement pension at SPA will be awarded higher pensions when they subsequently claim. Until April 2005 the increase was 1/7th of 1% for each week of deferment up to a maximum of five years. Since April 2005, the increase is 1/5th of 1% for each week of deferment with no maximum period of deferment. People who defer for one year or more then have a choice about whether to receive these payments of extra retirement pension or a one-off lump sum instead. The lump sum will be equal to the amount of retirement pension forgone plus interest at a rate 2% above the Official Bank of England Rate (Base Rate). Under the Income Tax Acts, the lump sum is considered taxable income.

Graduated Retirement Benefit

C.18 Employees who paid graduated contributions in the period between April 1961 and April 1975 earned units of Graduated Retirement Benefit. Each £7.50 paid by a man and each £9.00 paid by a woman gave entitlement to a pension unit of 2.5 pence a week. Since November 1978 the value of the unit has been up-rated each year and is 13.14 pence a week from April 2014. From April 2010 units of graduated benefit for new awards to women are determined in the same way as for men, That is, each unit is based on £7.50 of contributions. Spouses or civil partners can inherit one half of the graduated benefit to which their deceased spouse or civil partner was entitled.

Additional State Pension (SERPS and State Second Pension)

C.19 Since April 1978, employees paying Class 1 National Insurance contributions have been able to earn an additional earnings related pension. Up until April 2002, Additional State Pension accrued under the State Earnings Related Pensions Scheme (SERPS). From 6 April 2002, Additional State Pension has accrued as State Second Pension, which, although based on the SERPS structure, incorporates some important revisions. The main provisions of SERPS are described below, followed by a description of how these provisions were modified for the State Second Pension.

Additional State Pension-SERPS

C.20 Employees with earnings over the annual Lower Earnings Limit (LEL) in any year in the period from April 1978 to April 2002 are entitled to an earnings related Additional State Pension (SERPS). The earnings in any tax year between the LEL and Upper Earnings Limit (UEL) for that year are revalued in line with the increases in the general level of earnings, up to the year before reaching SPA.

April 1978-April 1988

C.21 The aim of SERPS, as originally enacted in the Social Security Pensions Act 1975, was to provide a pension equal to 25% of revalued average earnings, using the highest 20 years' earnings.

April 1988-April 2002

C.22 Under the Social Security Act 1986, SERPS was changed so that it would ultimately provide a pension equal to 20% of revalued average earnings over a full working life. For the purpose of calculating SERPS, working life is the number of tax years from the year of attaining age 16, or 1978-79 if later, up to the year before attaining SPA, subject to a minimum of 20 years.

C.23 The accrual rate remained 25% in respect of revalued earnings up to April 1988, averaged over a full working life. Transitional arrangements were provided in respect of earnings from April 1988, depending on the year in which SPA was attained. Those reaching SPA before April 2000 received a pension based on an accrual rate of 25% for post-1988 earnings. Those reaching SPA after April 2009 receive a pension based on an accrual rate of 20% for post-88 earnings, with a phased reduction in the accrual for those retiring between April 2000 and April 2009. Table C6 below provides full details of the relevant accrual rates.

Table C6: Accrual rates for SERPS pensions

Year of retirement	Accrual rate % for period 1978-79 to 1987-88	Accrual rate % for period 1988-89 to 2001-02
1998-99 and before	25/20	25/20
1999-2000	25/21	25/21
2000-01	25/22	24.5/22
2001-02	25/23	24/23
2002-03	25/24	23.5/24
2003-04	25/25	23/25
2004-05	25/26	22.5/26
2005-06	25/27	22/27
2006-07	25/28	21.5/28
2007-08	25/29	21/29
2008-09	25/30	20.5/30
2009-10	25/31	20/31
2010-11	25/32	20/32
2022-23	25/44	20/44
2028-29	25/50	20/50
2029-30	25/50	20/50
2034-35	25/50	20/50
2035-36	25/51	20/51
2045-46 and later	25/52	20/52

Additional State Pension – State Second Pension

C.24 The Child Support, Pensions and Social Security Act 2000 reformed SERPS, replacing it with the State Second Pension (S2P). Benefit entitlements under S2P started to accrue from April 2002. Benefit entitlement under SERPS earned up to April 2002 continue to be calculated as before. The main changes introduced by S2P were:

> the introduction of three different accrual rates on different bands of earnings

> treating those earning between the Lower Earnings Limit and the Low Earnings Threshold as though they earned at the Low Earnings Threshold (LET), and

> treating qualifying carers and people with long-term disabilities who have no earnings above the Lower Earnings Limit as if they have earnings at the level of the LET.

April 2002 – April 2010

C.25 From April 2002 to April 2009, S2P accrued on earnings (actual or deemed) between the LEL and UEL (as for SERPS). However, unlike SERPS, earnings in this range were divided into three bands:

> Band 1 ran from the LEL to the LET

> Band 2 ran from the LET to an Upper Earnings Threshold (UET), an amount equal to (3 x LET less 2 x LEL)

> Band 3 covered the remaining earnings up to the Upper Earnings Limit (UEL).

C.26 In April 2009, the UEL was replaced by the Upper Accrual Point (UAP) for calculating S2P accrual. The UAP is fixed at £40,040 a year.

C.27 These bands determined the rate of pension accrual under the S2P. The rate of accrual was double, half and equal to the post-88 SERPS accrual rate of 20% on earnings in Bands 1, 2 and 3 respectively.

C.28 People who earned in Band 1 were treated as though they had earnings at the LET.

April 2010 – April 2012

C.29 Bands 2 and 3 were merged from April 2010 so that all earnings exceeding the LET up to the UAP fell into Band 2 and Additional State Pension accrued on these earnings at 10%.

C.30 A new system of credits has also applied since April 2010. Qualifying carers, people with long-term disabilities or low earners are treated as though they earn at the LET if a combination of their earnings together with weekly earnings credits for caring and disability reach the LEL.

From April 2012

C.31 From April 2012, Band 1 was replaced with a flat-rate accrual amount which is increased in line with the general level of earnings. From April 2014 the flat-rate accrual amount is £92.00 a year for each year. The earnings-related component of the State Second Pension is projected to be effectively removed by around 2030.

Additional State Pension – Spouse's or civil partner's benefits

C.32 SERPS originally provided for a widow or widower to inherit up to 100% of their late spouse's Additional State Pension, subject to a cap on the total amount of SERPS an individual can receive, including both their own SERPS pension and any inherited SERPS pension.

C.33 From 6 October 2002 (or from 5 December 2005 for civil partners) the maximum percentage of Additional State Pension which can be passed on to a surviving spouse or civil partner is 50%, subject to the same overall limit on the total amount of SERPS. Transitional arrangements were provided in respect of contributors reaching, or expected to reach, SPA between October 2002 and October 2010. A similar arrangement applies in respect of civil partnerships.

C.34 The State Second Pension provides for surviving spouses or civil partners to inherit up to 50% of their spouse's State Second Pension, again up to the same overall limit.

Additional State Pension – Contracting-out

C.35 Employees who are members of pension arrangements which meet specified criteria may be contracted-out of SERPS/S2P. These employees, and in most cases their employers, pay reduced rates of National Insurance contributions, or receive a payment of part of their contributions, on the band of earnings on which Additional State Pension accrues (contracted-out rebate). In turn, the amount of Additional State Pension provided is subject to a contracted-out deduction (COD).

C.36 The system of contracting out changed from April 1997 based on the provisions of the Pensions Act 1995, and again in April 2002 in order to take into account the introduction of S2P.

Contracting-out April 1978 – April 1988

C.37 Originally employees could only be contracted-out of SERPS through a salary-related occupational pension scheme. Contracted-out pension schemes were required to provide a Guaranteed Minimum Pensions (GMP) at age 60 for women and age 65 for men, and a half-rate GMP to surviving widows.

Contracting-out April 1988 – April 1997

C.38 From April 1988, occupational schemes operating on a money-purchase basis could also be used for contracting out of SERPS, provided the contributions made to the scheme in respect of employees were not less than the amount of the contracted-out National Insurance Rebate. The pensions provided from the scheme also had to satisfy certain requirements.

C.39 Employees not contracted-out under an occupational pension scheme could also choose to contribute to a personal pension arrangement that was approved for the purposes of contracting out. In this case, the individual and their employers paid full-rate National Insurance contributions and a rebate was subsequently paid by the State into the personal pension arrangement chosen by the individual, equal to the contribution rebate for contracted-out members of occupational pension schemes.

C.40 The GMP requirements for salary-related occupational schemes also changed from April 1988. GMPs accrued after 6 April 1988 are required to be increased in line with price inflation, up to a maximum of 3% a year, once in payment. No increases are required in respect of GMPs accrued before April 1988. The half-rate GMP for surviving widows was also extended to widowers (and subsequently to surviving civil partners) in respect of accruals between April 1988 and April 1997.

Contracting-out April 1997 – April 2002

C.41 An amended system of contracting out operated in the period between April 1997 and April 2002.

C.42 Salary-related occupational pension schemes no longer had to provide a GMP, but rather the scheme had to satisfy a minimum quality of benefits test, known as the Reference Scheme Test.

C.43 The rules for contracting out via a personal pension remained broadly as they had been prior to April 1997, but the amount of the contributions paid by the State to the individual's pension arrangement became age-related. Similar rules were introduced for contracted-out money-purchase occupational schemes.

C.44 Those contracted-out in this period (whether as a member of an occupational pension scheme or an approved personal pension) did not accrue any SERPS benefits in respect of periods contracted-out.

Contracting-out from April 2002

C.45 The National Insurance contributions rebates for members of contracted-out salary-related schemes were not changed following the introduction of S2P. However, some contracted-out members may also receive an S2P top-up, provided to recognise the different accrual rates which apply to different bands of earnings under S2P, which are not taken into account in the flat-rate salary-related rebates. The top-up is based on the difference between what an individual would have received under S2P compared to SERPS, had they not been contracted-out.

C.46 Contracting-out for occupational and personal pension schemes on a money purchase basis was abolished from April 2012. Members of such schemes instead build up entitlement to S2P from that date and pay the full rate of National Insurance contributions.

Additional State Pension – Contracting-out Deduction

C.47 Employees who have been contracted-out will have their SERPS pension payable from the National Insurance Fund reduced by a Contracted-out Deduction (COD) in respect of periods for which they were contracted-out up to April 1997.

C.48 The GMPs provided to members of salary-related schemes and therefore the CODs applied are broadly equivalent to the SERPS pension that the individual would have earned had they not been contracted-out. However, differences in revaluation before SPA and increases in payment means there is not a perfect offset between an individual's SERPS and the COD applied.

C.49 The COD applied for members of money-purchase pension schemes is calculated in the same way as that for a member of a salary-related scheme, even though there is no GMP.

C.50 Where appropriate, CODs are deducted from benefits payable from the National Insurance Fund to widows, widowers and surviving civil partners.

C.51 There are no CODs in respect of contracting-out between April 1997 and April 2002.

Bereavement Benefits

C.52 The current Bereavement Benefit Scheme was introduced on 9 April 2001, providing benefits for men and women widowed on or after 9 April 2001 or who become surviving civil partners on or after 5 December 2005. Different rules and conditions applied for those widowed before that date.

C.53 Bereavement Benefits comprise Bereavement Payment, Widowed Parent's Allowance and Bereavement Allowance. Entitlement is based on the contributions paid by or credited to the deceased spouse or civil partner.

C.54 Increases to bereavement benefits in payment are provided under the Welfare Reform Act 2012, which caps increases to 1% until the year 2015-16.

Bereavement payment

C.55 Bereavement Payment is a single lump sum payment payable immediately on bereavement if the surviving spouse or civil partner is under SPA or the deceased spouse or civil partner was under SPA or not entitled to a Category A retirement pension when they died. The benefit is a fixed amount of £2,000. This amount is not up-rated each year.

Widowed Parent's Allowance

C.56 Widowed Parent's Allowance is a regular payment, payable where the surviving spouse or civil partner is under SPA and has at least one dependent child for whom they are entitled to Child Benefit. The amount paid depends on the deceased's contribution record.

C.57 An earnings-related additional spouse's or civil partner's pension is payable along with Widowed Parent's Allowance, in respect of earnings on which contributions were paid by the deceased spouse or civil partner since April 1978. This Additional State Pension is calculated in broadly the same way as SERPS or S2P, but assuming the contributor reached SPA in the year of death. The proportion of the pension inherited by the spouse or civil partner is the same as that for inherited Additional State Pension after SPA.

Bereavement Allowance

C.58 Bereavement Allowance is a regular payment payable for 12 months to those aged between 45 and SPA at the time of bereavement. The amount paid depends on the deceased's contribution record and the beneficiary's age at the time of bereavement. The full rate is paid to those age 55 and above, with those aged between 45 and 54 receiving a percentage of the full rate.

C.59 No earnings-related spouse's or civil partner's pension is paid with Bereavement Allowance. However a widow, widower or surviving civil partner who has qualified for Bereavement Allowance, and who has not subsequently re-married, may inherit an Additional State Pension on reaching SPA, based on the deceased spouse's or civil partner's entitlement.

C.60 Widowed Parent's Allowance and Bereavement Allowance cannot be paid at the same time.

C.61 Widowed Parent's Allowance and Bereavement Allowance are not awarded to surviving spouses or civil partners over SPA, rather inherited basic State Pension benefits are payable. A bereavement benefit already in payment at SPA is usually converted to basic State Pension.

Incapacity Benefit/Employment and Support Allowance

C.62 Incapacity Benefit (IB) was replaced by Employment and Support Allowance (ESA) for new claims from 27 October 2008. People in receipt of IB on that date will initially remain entitled to receive IB. ESA contains many allowances depending on the circumstances of the recipients. However, everyone who satisfies the work capability assessment will receive a personal allowance and either the work-related activity component or the support component. The process is underway to review Incapacity Benefit claims to assess if they can be transferred to ESA.

Incapacity Benefit

C.63 IB is paid in respect of a claimant who is unable to work because of sickness or disability. IB is paid at three rates:

> IB short-term lower rate at a personal rate of £78.50 a week from April 2014 for the first 28 weeks, after three waiting days, unless the claimant is an employee in receipt of Statutory Sick Pay (SSP)

> IB short-term higher rate at a personal rate of £92.95 a week from April 2014 for cases between 29 and 52 weeks and immediately for those transferring from SSP after 168 days (28 weeks), provided they satisfy the contribution conditions

> IB long-term rate at a personal rate of £104.10 a week from April 2014 thereafter as long as the claimant satisfies the 'personal capability assessment' and is under SPA. For claimants who were aged under 35 at the start of the incapacity an age addition of £11.00 a week from April 2014 will be paid and for those aged 35 to 44 an addition of £6.15 a week from April 2014 will be paid.

C.64 Increases may be paid with IB for an adult dependant who is caring for a dependent child or is aged 60 or over, provided their earnings are less than the adult dependency addition. The rate is £58.20 a week from April 2014 for claimants on the short-term rates, and £60.45 a week from April 2014 for those on the long-term rate.

Employment and Support Allowance

C.65 ESA consists of two phases:

> the assessment phase: a lower benefit rate is paid for the first 13 weeks of a claim while a Work Capability Assessment is undertaken

> the main phase: a higher rate is paid from week 14 for those whose entitlement is confirmed in the Work Capability Assessment.

C.66 There are two groups within the main phase:

> Work-Related Activity Group

> Support Group.

C.67 People placed in the Work-Related Activity Group will receive support to help them return to work. This normally includes an interview with a personal adviser to consider future work prospects. They must also attend any work-focused interviews arranged for them.

C.68 People placed in the Support Group are those with serious illnesses or disabilities. They are not expected to return to work.

C.69 The Work Capability Assessment determines whether a claimant will join the Work-Related Activity Group or Support Group, or whether they are capable of working without difficulty (and so not entitled to ESA).

C.70 The rates of ESA from April 2014 are:

> assessment phase: £72.40 a week (£57.35 a week for under 25s)

> Work-Related Activity Group: £101.15 a week

> Support Group £108.15 a week.

Special rules apply for 16 to 19 year olds and students aged under 25.

Contributory Jobseeker's Allowance

C.71 The rate of contribution-based Jobseeker's Allowance (JSA) is £72.40 a week from April 2014 for those aged 25 and over and £57.35 per week for those under 25. From October 2010, in order to be eligible, the claimant must have paid, or have been credited with sufficient National Insurance contributions in one of the two complete tax years before the start of the calendar year of the claim.

C.72 The benefit is payable after 3 waiting days for up to 6 months in any 2-year period of interruption of employment in a single spell or linked spells, provided the contribution and other conditions are satisfied. After benefit has been paid for 6 months it cannot be paid again until the claimant has re-qualified by working as an employee for at least 16 hours in each of at least 13 weeks in the 26 weeks before benefit is reclaimed and is based on a later contribution period. After the period for which contributory JSA is payable finishes, the claimant may be entitled to income-based JSA which is not payable from the Fund.

Guardian's Allowance

C.73 This allowance, administered by HMRC, is payable at the rate of £16.35 a week per child from April 2014, to a person who provides a home for, or maintains, a child whose parents are both dead. In certain circumstances only one parent needs to have died. There are no contribution conditions but there is a residence test, and the guardian must be entitled to (or treated as being entitled to) Child Benefit in respect of the child.

Christmas bonus

C.74 The Christmas bonus is an annual tax-free payment, currently £10, paid with the qualifying benefit in the first week of December. It is paid to individuals present or ordinarily resident in the UK or any other EU member state, who are entitled to either retirement pension, Widowed Parent's Allowance, Bereavement Allowance, long-term rate Incapacity Benefit, or main phase of Employment and Support Allowance in the relevant week. The Christmas bonus is also paid to recipients of certain other benefits, such as Disability Living Allowance and war widows pensions, although no allowance has been made for this since, in these cases, the bonus is not paid from the National Insurance Fund.

Maternity Allowance

C.75 Maternity Allowance is paid to a woman expecting a child who has stopped work, provided she has worked:

- as an employee with earnings over the Maternity Allowance Threshold (MAT), which is £30 a week from April 2014, not entitled to Statutory Maternity Pay, or
- as a self-employed person,

for at least 26 weeks in the 66 weeks ending with the week before the expected week of childbirth. The allowance is payable for a maximum of 39 weeks, starting at the earliest 11 weeks before the baby is due.

C.76 The amount payable from April 2014 is £138.18 a week or, if lower, 90% of weekly earnings, with a minimum of £27 a week for those earning at the MAT. Those who are self-employed and pay Class 2 contributions qualify for the standard rate. Those who hold a Small Earnings Exception certificate are treated as earning at the MAT.

Statutory payments

C.77 The following statutory payments are made by employers directly to employees who satisfy the relevant eligibility conditions:

- Statutory Sick Pay (SSP)
- Statutory Maternity Pay (SMP)
- Statutory Adoption Pay (SAP)
- Statutory Paternity Pay (SPP)
- Additional Statutory Paternity Pay (ASPP).

SSP and SMP replace IB/ESA and Maternity Allowance respectively for most employees.

C.78 Most people who work for an employer and earn enough to pay Class 1 NICs, including women who have opted to pay reduced rate contributions, will receive SSP from their employers for up to 28 weeks during a period of interruption of work. There are a number of groups of employees excluded from the SSP scheme and such employees may be entitled to IB or ESA. Following a full period of 28 weeks in receipt of SSP, an employee should be able to claim IB or ESA. The rate of SSP is £87.55 a week from April 2014.

C.79 SMP is paid by employers to women expecting a child who have been in their employment for a continuous period of at least 26 weeks up to the 15th week before the expected week of birth, and have average weekly earnings that equal or exceed the LEL. SMP is payable for up to 39 weeks commencing, at the earliest, 11 weeks before the week the baby is due. The first six weeks are paid at 90% of the employee's average earnings. The remaining weeks are paid at the lower of the flat-rate and 90% of earnings. The flat-rate is £138.18 a week from April 2014.

C.80 SAP is payable for up to 39 weeks subject to similar eligibility conditions as SMP. The rate is the same as for the second period of SMP.

C.81 SPP is payable for up to 2 weeks. The rate is the same as for SAP.

C.82 ASPP is payable to an employee if their partner returns to work before the end of maternity leave in respect of a baby due after April 2011. In this case the employee can be entitled for Additional Paternity Leave of between 2 and 26 weeks and ASPP of the lower of £138.18 a week from April 2014 or 90% of the employee's average earnings.

C.83 For all statutory payments except SSP, employers are able to recover most of the payments made to employees by deductions from the NICs they pay (small employers can recover all). Employers can recover SSP paid before April 2014 if the amount paid to employees in a pay period exceeds a proportion of the NICs owed. Employers cannot reclaim any SSP paid from April 2014 under changes introduced by the Statutory Sick Pay Percentage Threshold (Revocations, Transitional and Saving Provisions) (Great Britain and Northern Ireland) Order 2014. Payments are made from the Consolidated Fund (general taxation revenue) into the NIF equal to amounts deducted by employers by way of statutory payments.

C.84 In the Fund accounts these statutory payments are treated as deductions from contributions and are shown as such in the tables of projected income and expenditure in this review. As this is equal in most years to the transfer from the Consolidated Fund each year, for the purposes of this review, the amounts of these benefits have no effect on the projected finances of the Fund itself in the long term.

Redundancy payments

C.85 Redundancy payments are made where an employee is owed money from an insolvent employer. In this case the employee can make a claim against the Fund for items such as redundancy pay, unpaid wages and unpaid holiday pay. Employees can also make a claim for unpaid pension contributions.

C.86 The administration of the payments and associated recoveries from assets of employers on wind-up is by the Department for Business, Innovation and Skills (BIS).

Parity payments

C.87 Section 88(3) of the Northern Ireland Act 1998 (as amended) requires HM Revenue and Customs to make 'any necessary adjustments between the [Great Britain] National Insurance Fund and the Northern Ireland National Insurance Fund'. The system of parity payments acts as a final safeguard against serious imbalances between the Great Britain and Northern Ireland National Insurance Funds.

C.88 It has been agreed since the 1970s that the parity payment should be made on the basis of estimates by GAD using the relevant proportions of population of working age in GB and Northern Ireland. Transfers between Great Britain and Northern Ireland National Insurance Funds are therefore made so that, as far as possible, the balance in the Northern Ireland Fund is maintained at 2.87% of the joint balance of the two Funds, this percentage having recently been revised from 2.84% in the light of the results of the 2011 census.

Administration expenses

C.89 Deductions are made from the Fund to cover the expenses incurred in running the Fund including the costs of administering benefits and collecting contributions.

Appendix D: Summary of main assumptions

Introduction

D.1 This Appendix summarises the main assumptions used in projecting income and expenditure in this report. It contains the following sections:

> a summary of base-case assumptions and variant assumptions

> a description of the base-case and variant demographic assumptions

> an explanation of the economic assumptions

> an explanation of the labour market assumptions.

D.2 Appendices E and F discuss the methods and more detailed assumptions used for projecting specific items of income and expenditure.

D.3 The results of our projections have been aligned with external sources of information on current levels of contribution income and benefit expenditure, including the accounts of the Fund and additional income and outgo data from HMRC and DWP.

Summary of base-case assumptions and variant assumptions and comparison with previous Quinquennial Review

D.4 The table below summarises the base-case and variant assumptions used for this review, together with the principal assumptions used for the previous review.

Table D1: Summary of base-case assumptions and variant assumptions used for the current (QR2010) review compared to the principal assumptions adopted for the previous review (QR2005)

Item	Principal assumption QR2005	Base-case assumption QR2010	Variants QR2010
Policy			
Inclusion of legislation or policy measures	As legislated	Pre-Pensions Act 2014	Main variants on pre-Pensions Act 2014 position. Additional variants provided using Pensions Act 2014 provisions
SPA	As legislated and announced at the time	As legislated (that is, excluding Pensions Act 2014 measures to bring increase in SPA to 67 forward to the mid-2020s)	Pensions Act 2014 proposal to bring increase in SPA to 67 forward to the mid-2020s but no further changes

Demographic			
Great Britain population projections (fertility, migration, mortality, proportions married)	Principal ONS 2006-based projections (principal migration assumption)	ONS 2012-based low migration projections	Principal migration, high and low fertility, high and low life expectancy, together with 'young age structure' and 'old age structure' combined variants
Labour market			
Labour market participation	HMT projections allowing for SPA changes Unemployment constant at around 5%	OBR projections allowing for SPA changes blending long-term cohort employment projections with short-term EFO2014 series Unemployment constant around 5.5%	Unemployment increased by 50% (to around 8.25%) or reduced by 50% (to around 2.75%)
Economic			
General approach	Assumptions set with reference to the long term only	OBR's March 2014 Economic and Fiscal Outlook (EFO2014) short-term assumptions blending into the July 2013 FSR long-term assumptions	
Deflators	RPI-based	Not used directly in this review	None
Price inflation (CPI)	N/A	OBR 2014 EFO2014 forecast 2013-14 to 2018-19; 2.0% a year after this	None
General earnings growth (real)	1.5% a year and 2% a year (net of RPI)	OBR 2014 EFO2014 forecast 2013-14 to 2018-19 (net of CPI), 2.40% a year (net of CPI) in the long term (gross earnings in long term thus 4.45% a year)	Long-term earnings growth of 1.90% a year and 2.90% a year (net of CPI). Short-term (2014-15 to 2019-20) 'shocks' of CPI+3.5% and CPI+0%

Price/earnings up-rating	Mixture (reflecting current legislation and policy); where used, price up-rating based on RPI Broadly, majority of limits were assumed to increase in line with earnings	Mixture (reflecting current legislation and policy); price up-rating mainly CPI Triple-lock: the better of CPI, earnings and 2.5% a year for the short-term (to 2019-20 up-rating); earnings + 0.30% a year from 2020-21 onwards Broadly, majority of limits are assumed to increase in line with earnings in long term	All benefits in payment increasing in line with earnings Triple lock of earnings + 0.4% a year for the long term
Investment return on NIF (real)	2.0% a year (net of RPI)	1.15% a year (net of CPI)	None

D.5 In addition, there are variants in which recipients of the basic State Pension receive higher or lower proportions of the full rate.

D.6 We have also carried out a number of less detailed projections on variants allowing for the provisions of the Pensions Act 2014 (see section 5 and Appendix G). These were:

> allowing for future SPA increases to 68 in 2036 and 69 in 2049 SPA increases to 68 in 2036 and to 69 in 2049 (in line with Autumn Statement 2013 and OBR FSR2014

> assuming that the new State Pension is up-rated by earnings growth rather than triple lock after 2020 and other approaches

> allowing for combinations of the above changes.

Population projections

D.7 The projected future population of Great Britain used for this review, both for the base-case and the variant projections, was derived from the 2012-based population projections published by the ONS in 2013 as discussed in paragraph 6.1 above. These projections were based on mid-2012 population estimates. Details of the mortality, fertility and migration assumptions used by the ONS can be found on the ONS website at:

http://www.ons.gov.uk/ons/rel/npp/national-population-projections/2012-based-projections/stb-2012-based-npp-principal-and-key-variants.html

D.8 For demographic variants, we followed ONS's approach and used their variant projections for fertility, migration and life expectancy. We have also shown the effect of using ONS's 'young' and 'old' combined variants. The variant demographic assumptions are based on different combinations, as set out in Table D2 below, of the ONS's 2012-based principal, high and low life expectancy, fertility, and migration assumptions, to produce population estimates for Great Britain.

Table D2: Composition of demographic variants

Variant	Life expectancy	Fertility	Migration
Base case	Principal	Principal	Low
Principal migration	Principal	Principal	Principal
High life expectancy	High	Principal	Principal
Low life expectancy	Low	Principal	Principal
High fertility	Principal	High	Principal
Low fertility	Principal	Low	Principal
'Young'	Low	High	High
'Old'	High	Low	Low

D.9 The base-case projections were derived from the ONS's 2012-based low migration population projections in line with OBR's approach. ONS produces standard variant projections for the United Kingdom and each constituent country but such variants are not produced for Great Britain. We therefore had to adjust the ONS's low migration variant projection for the United Kingdom in order to provide the low migration population projections for Great Britain. This was done by multiplying the projected population figure for a given age, sex and year in the UK low migration variant by the ratio of the projected population figure in the Great Britain principal projection at that age, sex and year to the corresponding figure in the principal projection for the United Kingdom. The same approach was taken to produce the other variant population projections for Great Britain from the UK equivalent.

Labour market assumptions

State pension age (SPA)

D.10 See paragraph C.7 above for details of the SPA assumptions for the base case. These are based on the SPA rules set out in the pre-Pensions Act 2014 legislation.

Labour market participation

D.11 Participation rates and unemployment rates are obtained from the cohort employment projection model. This model, originally developed by HMT, has been extensively reviewed by OBR, therefore we have not examined the model in detail ourselves. However, the results of the model has been adapted for the additional population projection variants introduced for the 2010 review and also extended to allow for the time horizon of 2075.

Adjustments to numbers employed (employees and the self-employed)

D.12 For NIC modelling we have blended the short-term projection series supplied by OBR into the longer-term projections from the cohort employment projection model.

D.13 Our models allow for economically active persons up to and including age 80. OBR's cohort employment projection model projects to age 74 at most and so, where necessary, we are assuming that labour force participation remains constant from age 74.

Economic assumptions

D.14 We have used the following key economic assumptions in the long term, taken from the OBR's Fiscal Sustainability Report 2013 (FSR2013)[30], which apply to projections from 2019 onwards. The investment return assumption is set by GAD.

Table D3: Key long-term economic assumptions

Item	Basis 2010	Long-term assumption	
		QR2010	QR2005
Price inflation	Long-term view of CPI increases	2.00% pa[2]	2.87% a year (RPI)
General earnings growth		4.45% a year (CPI and 2.4%)[3]	4.4%/4.9% a year[4]
Triple lock		4.75% a year (earnings growth plus 0.30%[5])	N/A
Investment return	CPI plus 1.15%	3.15% a year	4.9% a year

1 The long-term price inflation assumption, as well as being the starting point for setting a number of the other economic assumptions, is used for up-rating additional State Pension and other benefits as described in Table C3.
2 Consistent with the Bank of England's target.
3 OBR derive this from a GDP deflator of 2.2% and productivity growth of 2.2%.
4 QR2005 used real earnings growth of 1.5% a year and 2.0% a year as central assumptions.
5 The long-term triple lock assumption is set as earnings growth plus 0.30% to allow for the impact of years when earnings growth is lower than 2.5% or CPI.

D.15 The additional 0.30% on top of earnings growth is to allow for the possibility that from time to time earnings growth may be lower than the other parameters determining the triple lock up-rating (CPI and 2.5%).

[30] http://budgetresponsibility.org.uk/wordpress/docs/2013-FSR_OBR_web.pdf

D.16 Up-rating of benefit rates and re-rating of limits is in line with current practice (for example, triple-lock for the basic State Pension) or in line with earnings where this is considered more appropriate. For the longer term many contribution limits are re-rated in line with earnings as this is necessary to avoid the projections being compromised by the effects fiscal drag that price re-rating of limits would cause. This approach is consistent with that adopted by the OBR.

D.17 The short-term economic assumptions, taken from the OBR's March 2014 Economic and Fiscal Outlook (EFO2014)[31], are summarised in the following table:

Table D4: Key short-term economic assumptions[1]

Financial Year	Earnings increases	CPI (September)	Triple lock as applied in FY[1]
2013-14	2.6%	*2.7%[2]*	*2.5%[2]*
2014-15	2.4%	*1.8%*	*2.7%[2]*
2015-16	3.3%	2.0%	2.5%
2016-17	3.7%	2.0%	3.3%
2017-18	3.7%	2.0%	3.6%
2018-19[4]	3.8%	2.0%	3.7%

1 In the QR2005 no specific short-term economic assumptions were used.
2 The triple lock increase is not equal to the highest of 2.5% and the equivalent earnings growth and CPI figures shown. Triple lock increases for a year are based on the earnings growth and CPI as at the previous July and September respectively.
3 These values are already known as at the date of this report as they have been used to set the level of the basic State Pension and other benefits.
4 The triple lock up-rating in 2019-20 based on assumed economic conditions in 2018-19 and is projected to be 3.8%

CPI

D.18 We have adopted OBR's March 2014 short-term view of CPI as shown in Table D4 above. The assumption for CPI reverts to the Bank of England's long-term 2.0% a year target for subsequent years. The OBR used this assumption in their July 2013 Fiscal Sustainability Report.

General earnings growth

D.19 As with the CPI assumptions, short–term assumptions for general earnings growth have been based on OBR's March 2014 EFO short-term view of earnings increases. For the long-term assumption we have assumed a long-term rate of CPI with real earnings growth of 2.40%. (Note that 1.020 x 1.024 = 1.0445.) This is consistent with OBR's long-term FSR2013 assumption. The OBR long-term earnings growth assumption equals the product of labour productivity growth and GDP deflator[32].

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[31] http://cdn.budgetresponsibility.org.uk/37839-OBR-Cm-8820-accessible-web-v2.pdf

[32] The GDP deflator is a much broader price index than the CPI, RPI or RPIX (which only measure consumer prices) as it reflects the prices of all domestically produced goods and services in the economy. Hence, the GDP

OBR assume that labour productivity growth would be 2.2%, based on an analysis of the historical trend between 1971 and 2008. OBR assumed that the long-term GDP deflator would be 2.2%.

D.20 The earnings growth assumption is important.

- Contribution income grows broadly in line with earnings. However the link to earnings will become weaker as increasing numbers of contributors have earnings above the Upper Earnings Limit. This is because such contributors will then pay Class 1 primary contributions on earnings between the Primary Threshold and the UEL at a much higher rate than on earnings above the UEL. As more people earn above the UEL, a greater proportion of total NIC income is, in effect, determined by the UEL rather than the earnings of individual contributors, and thus increases in the UEL become increasingly important in driving growth in contributions. Linking the UEL to earnings growth in the longer term overcomes this issue
- While BSP is expected to grow in line with triple lock, other benefit expenditure is currently expected to grow in line with prices.

Triple lock

D.21 The basic State Pension has triple-lock increases (the better of CPI, earnings and 2.5% a year) guaranteed for the duration of this UK Parliament, and we have assumed that this policy continues indefinitely. For the short term, that is, up-ratings based on economic conditions to 2018-19, we have used the better of the assumed rates of CPI increase, earnings increases and 2.5% a year. For the long term, starting with the up-rating in 2020-21 and based on economic conditions in 2019-20, we have an assumption of earnings + 0.30% a year. The 0.30% a year margin is to allow for the possibility that from time to time either or both of 2.5% or CPI increases may be higher than increases in earnings. This margin is as used by OBR, and we believe it to be reasonable under current monetary policy conditions. Variant results have been produced using a long-term triple lock assumption of earnings + 0.40% a year.

Other up-rating of benefits and re-rating of limits

D.22 Apart from certain exceptions, earnings limits and benefits are currently expected to increase in line with prices (CPI) in the short term.

D.23 In order to avoid fiscal drag, that is, to avoid contribution income increasing simply as a result of contribution earnings limits increasing at a slower rate than earnings growth (consistent with the OBR's approach), it is assumed that in the long term the majority of limits increase in line with earnings. This is consistent with OBR's long-term approach. However, policy as regards future increases in earnings limits and benefits could change and the results of our projections are sensitive to whether benefits and earnings limits are up-rated and re-rated with prices or earnings. A

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deflator also includes the prices of investment goods, government services and exports, and subtracts the price of UK imports.

variant set of results has been produced which assumes that all benefits in payment increase in line with earnings.

D.24 The main contribution earnings limits in the short term are:

Table D5: Earnings limits in the short term[1]

Financial Year	Earnings limits (£ a week)			
	Lower Earnings Limit	**Upper Earnings Limit**	**Primary Threshold**	**Secondary Threshold**
2015-16	113	813	156	157
2016-17	115	830	159	160
2017-18	117	847	162	163
2018-19	119	864	165	166
2019-20	121	897	171	172

1 After the short term, earnings limits are generally assumed to increase in line with earnings

Investment return

D.25 An assumption about the investment return is needed in order to make projections of the balance of the National Insurance Fund. There is no OBR assumption on this matter. However, this assumption is not significant to the results of the review. Surplus in the National Insurance Fund is placed on deposit by the Commissioners for the Reduction of National Debt with the Debt Management Account Deposit Facility. Interest is expected to be earned at a rate of interest close to the Official Bank of England Rate (Base Rate). We consider that a suitable proxy for long-term Base Rate projections is to assume notional investment in index-linked gilts. Consequently our long-term assumption is 3.15%, based on an assumed long-term index-linked return net of RPI of 0% a year, an assumed long-term difference between RPI and CPI of 1.15% a year and assumed long-term CPI of 2.0% a year (4.87% in the previous QR).

D.26 GAD assumed investment returns in the short term (using the Bank of England's quarterly Inflation Report conditioning path projection database) are:

Table D6: Investment returns in the short term

Financial Year	Investment return
2013-14	0.50%
2014-15	0.50%
2015-16	1.10%
2016-17	1.80%
2017-18	2.20%
2018-19	3.15%
2019-20	3.15%

Contracting-out assumptions

D.27 Our results take into account the abolition of contracting-out into a money-purchase arrangement (into a COMPS or an APP) from 2012.

D.28 The contracting–out proportions for membership of Contracted-out Salary-Related Schemes (COSRSs) have been updated to allow for changes in public sector contracting-out and the rapid decline in private sector salary-related contracting-out as a result of job changers not being able to join schemes which are closed to new entrants and scheme closures to future accruals.

Appendix E: Methods used for projecting National Insurance contributions and other income to the Fund

Introduction

E.1 This Appendix summarises the methods used to project National Insurance contributions and other income to the Fund. The data sources and assumptions used in projecting contributions and other income are described in Appendix A and Appendix D, respectively.

Future contribution receipts

E.2 The methods adopted for projecting contributions are summarised below:

Class 1 (employees and their employers)

E.3 We extend short-term projections of numbers of employees provided by OBR into the long term in line with the trends observed from OBR's long-term cohort employment projection model, which is based on ONS's Labour Force Statistics and population projections.

E.4 We also use OBR's cohort employment projection model to prepare projections of age/sex splits for employees for each future year. The profile of those who have contracted-out from the Additional State pension is compiled from a combination of this information and information from the DWP Lifetime Labour Market Database.

E.5 We apply the projected age and sex structure of employees to their projected future counts described in paragraph E.3, along with earnings distributions, allowing for assumed future earnings growth and projected contribution earnings limits, in order to project the National Insurance contributions and contracted-out rebates. Contribution earnings limits are projected in the short term generally in line with CPI and in the long term generally in line with the assumed earnings growth.

E.6 Actual known receipts in recent years were used to adjust the projected amounts of contributions to align results from modelling with available information on actual contributions. Short-term results were also validated in comparison with the equivalent modelling for OBR's March 2014 EFO.

Class 1A and 1B (employers in respect of company cars and other fringe benefits)

E.7 As Class 1A and Class 1B contributions are not very large a simpler approach was adopted based on information provided by HMRC and allowing for future assumed growth in earnings.

Class 2 and Class 4 (self-employed people)

E.8 Projections were carried out for the self-employed in a similar manner to Class 1, but using a distribution of relevant earnings derived from HMRC's Survey of Personal Incomes[33] instead. For Class 2, the distribution of relevant earnings was used to determine what proportion of the projected number of self-employed have profits above the Small Earnings Exception and would therefore be liable to pay flat-rate Class 2 contributions.

Class 3 (voluntary contributors)

E.9 Class 3 contributions were projected using information from DWP and HMRC regarding projected future numbers of contributors allowing for projected increases in the rate of Class 3 contributions in line with CPI.

E.10 For all classes of contributions, amounts accruing in any one year are turned into amounts of receipts in that and subsequent years allowing for observed lags in payments of the relevant class of contributions.

Other income

E.11 The compensation payments made to the Fund in respect of statutory payment recoveries are set to be equal to the amount of the statutory payments which are calculated as described in paragraph F.33 below.

[33] http://data.gov.uk/dataset/hmrc-survey-of-personal-incomes-spi

Appendix F: Methods and further assumptions used for specific items of expenditure

Introduction

F.1 This Appendix summarises the methods and assumptions used for the specific items of Fund expenditure based on the pre-Pensions Act 2014 legislation. Details of the changes brought about by the Pensions Act 2014, and some of the methods and assumptions used to project the finances of the Fund under these changes are shown in Appendix G.

F.2 Benefit expenditure is estimated separately for each of the main contributory benefits and separately for the basic and the Additional State Pensions (SERPS and S2P) elements. In all cases, allowance has been made for recent legislative changes, including those made since 5 April 2010 as described in section C, but excludes the measures contained in the Pensions Act 2014.

F.3 For the main benefits adjustments are applied to align the estimates for recent years with actual known levels of payments.

F.4 This section describes the methods used to project the following benefits and payments from the Fund:

- Basic Retirement Pension
- Graduated Retirement Pension
- Additional State Pension (SERPS and State Second Pension)
- Contracted-out deduction
- Bereavement Benefits
- Contributory Incapacity Benefit/Employment and Support Allowance
- Contributory Jobseeker's Allowance
- Guardian's allowance
- Christmas bonus
- Statutory Sick Pay and Statutory Maternity Pay
- Statutory Adoption Pay and Statutory Paternity Pay
- Maternity Allowance
- Adult dependency increases
- Child dependency increases
- Redundancy payments
- Other expenditure
- Administration costs.

Basic Retirement Pension

F.5 The projected future numbers of those over SPA receiving the basic State Pension resident in Great Britain were obtained by applying factors to the numbers in the derived 2012-based population projection at the relevant ages. For those retiring after April 2010, the changes in eligibility conditions introduced in the Pensions Act 2007 have been allowed for. In the base-case projections, legislated changes to SPA from 65 to 68 between 2018 and 2046 as well as increases in female SPA to 65 by 2018 have also been reflected. We have also carried out separate projections showing the impact of the provisions of the Pensions Act 2014 (see Appendix G).

F.6 The estimated expenditure on the basic retirement pension was then obtained by multiplying the projected number of recipients by the estimated average amounts of basic retirement pension. In doing this, the first stage was to calculate the future cost in respect of those already retired (allowing for future deaths), who are in receipt of known amounts of pension.

F.7 For men resident in Great Britain, it was assumed that 100% of those in the population reaching SPA in each future year after 2013 will be eligible for a basic retirement pension, including those who defer their pension beyond SPA, with slightly lower proportions for years before 2014. For men retiring in 2012-13, including deferrers, the mean rate of pension is assumed to be 98.5% of the standard basic retirement pension. This percentage is assumed to fall to around 97.5% by 2024 and to stabilise at this level.

F.8 The position is more complicated for women since it is necessary to make allowance for changes resulting from the increasing number of women who are economically active, the introduction of Home Responsibilities Protection (see paragraph C.12) and the phasing out of the married women's reduced rate contribution option[34], as well as the Pensions Act 2007 changes. The result of these changes is that increasing proportions of women are entitled to a basic retirement pension on their own contribution record when they reach SPA rather than relying solely on that of their husband, and their average rate of pension is increasing.

F.9 The assumed proportions of women reaching SPA who are entitled to some basic retirement pension, and their average rate of pension as a percentage of the standard basic retirement pension rate, is shown in Table F1 overleaf. This is based on pre-Pensions Act 2014 legislation. The ultimate position is reached in around 2062–63; those reaching SPA in that and later years were born too late to be accruing Basic State Pension in 2010. The proportions shown include women who are not entitled to any retirement pension at SPA, but who will become entitled to a pension upon their husband reaching SPA, if they are married. Similarly, the average rate of pension may increase during retirement, above that shown, as a result of the husband reaching SPA or dying.

[34] Only married women who were paying the reduced rate of contributions in 1977 retained the right, under certain conditions, to continue to pay such contributions.

Table F1: Assumed average percentage of all women and all married women at SPA who are entitled to retirement pension and their mean rate of pension as a percentage of the standard rate (QR2005 figures in brackets)

	All women		All married women	
Financial year of reaching SPA	**% with any entitlement**	**Mean pension amount as % of standard rate**	**% with any entitlement**	**Mean pension amount as % of standard rate**
2010-11	97% (100%)	88% (90%)	99.5% (100%)	85.5% (87%)
2020-21	100% (100%)	96% (98%)	100% (100%)	95.5% (98%)
2030-31	100% (100%)	97.5% (99%)	100% (100%)	97% (99%)
2062-63 and beyond	100% (100%)	97% (98%)	100% (100%)	96% (98%)

F.10 The principal reasons for the trend over time shown in Table F1 relate to the assumed changing entitlements of married women.

F.11 It should be noted that the projected changes to women's entitlement only affect the number of women in receipt of a basic retirement pension at younger ages, mainly under age 70. This is because, in most cases, by older ages they would have become entitled to some pension once their husbands reach age 65 or they become widows.

F.12 A separate model estimates the amounts of retirement pension paid to pensioners overseas (and therefore not covered by the ONS's population projections). This model takes as a starting point the data on the amounts of pension currently paid to pensioners overseas and an estimate of the amounts of contributions paid in past years by people under SPA who are believed to be currently overseas. This estimate in respect of former contributors who are believed to be currently overseas is based on data supplied on all contributors and former contributors by DWP by identifying those who do not participate in the National Insurance contribution system for two complete tax years. These starting data are then projected allowing for mortality, emigration and re-immigration of former emigrants, and awards of new pension for those reaching SPA. Allowance is made for those overseas cases whose pension rate is frozen. In 2012, the basic State Pension paid to those outside the UK was about 4.2% of total expenditure on basic State Pension. This proportion is projected to fall fairly steadily to 3.6% by 2040 after which it increases to reach 4.0% by the end of the projection period.

F.13 As deferral of pensions beyond SPA results in some deferral of expenditure but does not materially affect the Fund's long-term financial position we have allowed for a small amount of deferral of around 1.5% of GB resident pensioners initially and reducing to around 0.5% by 2020.

F.14 The estimated total number of men and women in receipt of a basic retirement pension in future, including people overseas in receipt of basic retirement pension, are shown in Table F2 below.

Table F2: Projected future numbers of basic retirement pensioners (millions)

	QR2010[1]			QR2005[2]		
Financial year	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
2020-21	5.8	7.0	**12.8**	6.2	7.4	**13.7**
2030-31	7.4	8.6	**16.0**	7.3	8.6	**16.0**
2040-41	8.3	9.7	**18.0**	8.2	9.6	**17.8**
2050-51	8.5	10.0	**18.5**	8.4	9.8	**18.2**
2060-61	9.3	10.7	**20.0**	9.5	10.9	**20.4**
2070-71	9.8	11.0	**20.8**	10.1	11.4	**21.6**

1 The figures for QR2010 assume SPA increases to age 65 by 2018 for women and then further legislated increases to age 66 between 2018 and 2020, age 67 between 2034 and 2036 and age 68 between 2044 and 2046 for men and women.

2 The figures for QR2005 assume SPA increases to age 65 by 2020 for women and then further to age 66 between 2024 and 2026, age 67 between 2034 and 2036 and age 68 between 2044 and 2046 for both men and women. Figure E3 in QR2005 which states it includes people overseas receiving a GB state pension in fact does not, which explains the difference between these numbers and QR2005 as published.

F.15 The number of male pensioners increases at a faster rate than for women. This is due chiefly to the increase in SPA for women which is being phased in between 2010 and 2018 and the increases in SPA for both men and women being phased in beyond then.

Graduated Retirement Benefit

F.16 We have based our estimates of expenditure on Graduated Retirement Benefit on the number of graduated units earned between 1961 and 1975. We allowed for the units of deceased men to be inherited by their widows who were under SPA at April 1975 and which would not come into payment until the widow reaches SPA. We modified the population mortality rates slightly to allow for the expected lighter mortality experienced by recipients of graduated pension to be in line with that assumed for recipients of Additional Pension. We made an allowance for the inheritance of graduated units by widows and, from 1979, by widowers and, from 2005, by surviving civil partners. We assumed that units in respect of people under SPA would be put into payment at SPA. The graduated unit rate is increased in line with prices (CPI).

Additional State Pension (SERPS and State Second Pension)

F.17 Our projections of Additional State Pension expenditure are carried out in two stages:

> first calculating Additional State Pension entitlement ignoring contracting-out, and then

> calculating and applying contracted-out deductions (CODs) in respect of periods of contracting-out.

F.18 Additional State Pension awards are calculated based on relevant earnings factors from payment of Class 1 National Insurance contributions, which are projected to SPA allowing for deaths in line with mortality rates modified to reflect those with rights to Additional State Pension and revalued according to the year before SPA. Data on revalued earnings factors are used for historic years, with future years' earnings factors derived based on the earnings used in projecting Class 1 contribution income. We also allow for accruals of credited earnings from 2002-03 onwards. Projected earnings factors are turned into amounts of Additional State Pension at award at SPA using the relevant accrual rate for each year of reaching SPA.

F.19 Projected expenditure in each future year is derived based on the amounts of new awards each year, allowing for mortality for those with Additional State Pension whose longevity can generally be expected to be longer than the population as a whole. Inherited Additional State Pension is projected by reference to projected deaths of those receiving Additional State Pension in their own right and the relevant inheritance provisions.

Contracted-out deductions

F.20 Contracted-out deductions (COD) are calculated in a similar manner to estimates of Additional State Pension expenditure, that is, they are based on earnings factors in respect of those contracted-out.

F.21 The assumptions made regarding the future number of employees who are contracted-out are the same as those used in the projection of Class 1 contribution income.

F.22 The mortality rates used in projecting the CODs, both before and after reaching SPA, are lower than those used for projecting additional State Pension expenditure because experience shows that occupational scheme pensioners generally experience lighter mortality by age than the population as a whole.

F.23 Where an employee leaves a contracted-out pension scheme with less than two years' service, the scheme may pay a state scheme premium which in effect cancels the COD. Allowance is made for around 1% of COD amounts relating to occupational pension schemes to be cancelled by the payment of state scheme premiums.

Bereavement Benefits

F.24 Bereavement Benefits (Bereavement Payment, Widowed Parent's Allowance and Bereavement Allowance) make up around 0.7% of total benefit expenditure (basic rates plus Additional State Pension paid with Widowed Parent's Allowance together), and the proportion is projected to continue falling, reaching less than 0.05% by the end of the projection period. For this reason we adopted a simple model for Bereavement Benefits which extrapolated short-term estimates (that is, up to 2016-

17) made by DWP, basic and additional Pension combined, in line with changes in the number of deaths in each year from then on.

F.25 These estimates make no allowance for changes to Bereavement Benefits being made by the Pensions Act 2014, but it is expected that these changes will not change the level of expenditure significantly. Given the small size of total expenditure on Bereavement benefits compared to total NIF expenditure, it is extremely unlikely that any changes in expenditure as a result of these measures would have a material effect on the Fund.

Incapacity Benefit/Employment and Support Allowance

F.26 Incapacity Benefit (IB) and Employment and Support Allowance (ESA) currently make up around 5% of total benefit expenditure (basic rates plus very small amounts of Additional State Pension paid with IB) and the proportion has fallen as ESA replaces IB for existing claimants as well as for new claimants. The proportion is projected to continue to fall as ESA is assumed to have a lower rate of up-rating each year than basic State Pension.

F.27 For this reason, we adopted a simple model for ESA and residual amounts of IB. As for bereavement benefits, we extrapolated, for future years, the estimates made by DWP for the contributory part of ESA in the short term, up to 2016-17, in line with changes in the number of economically inactive people at each age – that is, those who are not in employment, self-employment or unemployment. The projections of the numbers of people who are economically inactive are made consistent with the population projections used for all benefits and contributions, the projections of those in employment used for the projections of contributions and the projections of unemployment used for the projection of Jobseeker's Allowance. An approximate allowance was made for increases in SPA.

F.28 These estimates make no allowance for any changes to be made to the contributory part of ESA by the introduction of Universal Credit, but it is not expected that any such changes will change the level of expenditure from the Fund materially.

Jobseeker's Allowance

F.29 The contributory component of Jobseeker's Allowance makes up around 0.5% of total benefit expenditure and the proportion is falling. For this reason we adopted a simple model which extrapolated estimates made by DWP in the short term up to 2016-17, in line with changes in the number of unemployed in each year from then on. As with Incapacity Benefit/Employment and Support Allowance, no allowance was made for the introduction of Universal Credit.

Guardian's Allowance

F.30 The amount of Guardian's Allowance paid in 2010-11 was approximately £2mn. We estimated future expenditure by projecting this figure in line with projected number of children under the age of sixteen, taking into account the expected benefit increases.

Christmas bonus

F.31 We derived the estimated future expenditure on Christmas bonuses from the projected numbers eligible for those benefits which give entitlement to the lump sum, namely Retirement Pension, Widowed Parent's Allowance, Bereavement Allowance, Incapacity Benefit and Employment and Support Allowance. The benefit rate was assumed to remain fixed at £10 since there is no requirement in legislation for this to be increased. No allowance has been made for any further one-off bonuses following the award of £60 in 2008-09.

Statutory Payments

F.32 As noted in paragraph C.84 above, the amounts of these benefits have little effect on the finances of the Fund itself because a payment is made each year from the Consolidated Fund broadly equal to the amounts deducted from National Insurance contributions by employers. After allowing for retrospective adjustments based on data on the actual amounts recovered by employers, the payments from the Consolidated Fund should exactly equal the amounts of statutory payments recovered for each year. As noted in paragraph C.84, the additional amounts that small employers can recover and which are not reimbursed to the Fund by the payment from the Consolidated Fund are immaterial in relation to the Fund as a whole.

F.33 Nonetheless, we estimate the amounts of each statutory payment recovered by employers. The amounts of SMP are projected based on amounts for recent years and taking into account projections of the number of births, the estimated proportion of women at child-bearing ages who are contributing employees, the benefit rate and, in the case of the earnings-related part, earnings. Amounts of SPP and SAP have been projected based on amounts in recent years allowing for projected changes in the number of births and benefit rates.

Maternity Allowance

F.34 Maternity Allowance makes up around 0.05% of total benefit expenditure. For this reason we adopted a simple model for Maternity Allowance which extrapolated estimates made by DWP, flat-rate and earnings-related combined, in the short term (up to 2016-17), in line with changes in the expected number of births in each year to economically active women.

Adult and child dependency increases

F.35 Some benefits are increased if the beneficiary has an adult dependant defined as a wife or other dependant, with earnings, if any, below a specified limit. The amount of the increase is generally about 60% of the insured person's benefit. No further adult dependency increases are awarded after April 2010. Existing increases will be paid until April 2020 while eligibility conditions remain satisfied.

F.36 Child dependency increases are payable with Retirement Pension, Incapacity Benefit and Widowed Parent's/Mother's Allowance awarded before April 2003. No child dependency increases are given for benefits awarded since April 2003.

F.37 Due to the small value, in the context of the Fund, of these payments we did not model these in detail.

Redundancy payments

F.38 The annual amount of redundancy payments net of recoveries was about £454mn in 2012-13, some 0.5% of Fund outgo. We based our future estimates on that amount increased in line with earnings.

Other expenditure and transfers to Northern Ireland

F.39 Amounts shown in the National Insurance Fund accounts as 'Other expenditure' was largely related to payments to the Isle of Man National Insurance Fund, and State Pension Deferred Lump Sum payments. For simplicity, other expenditure has been projected forward in line with earnings.

F.40 In 2012-13, the amount transferred to the Northern Ireland National Insurance Fund (see paragraphs C.87 and C.88) to ensure parity was £334mn. To estimate future transfers we have assumed that amounts will be a fixed proportion of the Fund at the start of the year. As these payments are volatile, we assumed that the proportion is equal to the average of that for the years 2005-13 (0.75%).

Administration costs

F.41 The cost of administration was around £917mn in 2012-13, about 1.0% of total expenditure. Of this amount, about 77% related to the role of the Department for Work and Pensions in administering the payment of benefits and the majority of the balance related to HM Revenue and Customs' collection of National Insurance contributions.

F.42 In future, whilst the numbers of contributors and those in receipt of benefits other than retirement pensions are relatively stable, the increase in the number of pensioners will tend to increase costs. On the other hand, this potential increase may be offset by improvements in the efficiency of administration. As administration costs are a relatively small proportion of total outgo, it has been assumed that they will increase in line with earnings.

Appendix G: Pensions Act 2014

G.1 This Appendix contains a summary of the provisions of the Pensions Act 2014 which affect the Fund. For details of how projections of Fund finances allowing for these provisions were made, please see section 5, paragraphs 5.3 to 5.17.

G.2 The provisions within the Pensions Act 2014 which will directly and potentially materially affect the Fund are:

- the introduction of the new State Pension
- the cessation of contracting-out and hence the payment of contracting-out rebates
- the acceleration of the increase of SPA to 67 between 2026 and 2028
- periodic reviews by the Secretary of State for Work and Pensions of the rules about pensionable age, with the Secretary of State's report on the first such review due by 7 May 2017, and
- the introduction of voluntary Class 3A contributions to purchase additional State Pension.

New State Pension

G.3 From 2016-17, the current two tier system of basic State Pension and Additional Pension will be replaced, for those who have not yet reached SPA, by a single-tier flat-rate system. The State Pension for those who have reached SPA before April 2016 will be based on the current system.

G.4 The amount of the full rate of the new State Pension will not be decided until autumn 2015, shortly before the new State Pension is introduced. It will be set above the basic level of means-tested support, that is, the Pension Credit standard minimum guarantee, £148.35 a week in 2014-15.

G.5 To receive the full rate of new State Pension a person will need to have paid National Insurance contributions or received credits for at least 35 qualifying years. Those who have not reached a minimum of 10 qualifying years will not be entitled to any new State Pension.

G.6 For those who have paid contributions under the current system certain transitional arrangements will apply. These transition arrangements will convert people's pre-implementation National Insurance records into a simple new State Pension 'starting amount'.

G.7 An individual's National Insurance record will be valued using the new State Pension rules as at the implementation of the new State Pension. Where an individual has previously been contracted out of the additional State Pension, a deduction will be applied, reflecting the fact that they have paid lower National Insurance contributions whilst they were contracted out, as is consistent with current practice.

G.8 A check will be carried out to see if the rules of the current system would give a better outcome. The higher valuation will then become that individual's starting amount.

G.9 Under this approach to transition, those reaching their SPA after the implementation of the new State Pension who have paid some contributions will fall into three distinct groups:

> Individuals with a starting amount which is equal to the full level of the new State Pension. These are likely to be people who have the necessary 35 qualifying years, little additional State Pension and have not been contracted out

> Individuals with a starting amount which is less than the full level of the new State Pension. These are likely to be younger people, with fewer qualifying years, or older people who have spent many years contracted out of the additional State Pension. These people will be able to increase their new State Pension up to the full level, at the rate of $1/35^{th}$ of the full rate for each additional qualifying year they gain before reaching their SPA

> Individuals with a starting amount which is more than the full level of the new State Pension. These are likely to be older people with many qualifying years, and who have not spent significant periods contracted out of the additional State Pension. These people will receive the difference between their starting amount and the full new State Pension amount as an extra payment on top of the full new State Pension weekly amount. This difference is known as the 'protected payment'. Protected payments will be paid alongside the new State Pension.

G.10 The full rate of new State Pension will be up-rated at least in line with average earnings growth but may be up-rated in line with triple lock or some other method depending on what the government of the day decides. The protected payments will be up-rated in line with CPI between the date of implementation of the new State Pension and SPA and after SPA.

Inheritance and derived rights under the transition to the new State Pension

G.11 Individuals will only receive new State Pension on the basis of their own contribution record. Therefore the derived rights and inheritance rights under the current system will, in the longer term, no longer apply.

G.12 Transitional arrangements for derived rights will apply depending on when the partners reach SPA as set out in the following examples. Derived rights will only apply in respect of contributions paid before April 2016.

a) Where the dependant reaches SPA in the current system and the contributor reaches SPA, or dies or divorces under SPA, in the new State Pension system, the dependant will continue to be able to derive an entitlement from the contributor's record, based on the contributions he or she made up to the introduction of the new State Pension system

b) Where the dependant reaches SPA in the new State Pension system and contributor reaches SPA or dies in the current system, the dependant will not be able to derive an entitlement to the basic State Pension (unless covered by the special transitional arrangements for women with an election to pay reduced-rate NICs). They may be able to inherit some additional State Pension

c) Where the dependant reaches SPA in the new State Pension system and the contributor reaches SPA (or dies or divorces under SPA) in the new State Pension system, individuals will not be able to derive entitlement to the basic State Pension (unless covered by the special transitional arrangements for women with an election to pay reduced-rate NICs). If the contributor has a 'protected payment', the dependant may be able to inherit 50% of it.

G.13 There will be no change to the current rules on inheriting state pension where both members of a couple reach, or would have reached, SPA before the new State Pension is implemented.

G.14 Transitional arrangements will allow inheritance of additional State Pension entitlement (determined under pre-Pensions Act 2014 rules) to continue under the circumstances set out below, where either the survivor or the deceased is in the new State Pension system:

a) Where the survivor reached SPA in the current system and the deceased died under SPA before the implementation of the new State Pension system

Current rules will apply as the survivor is in the current system and the deceased could only have made contributions prior to the implementation of the new State Pension

b) Where the survivor reached SPA in the current system and the deceased reached SPA under the new State Pension system, or died under SPA after the implementation of the new State Pension

Current rules will apply as the survivor is in the current system, but the inheritable amount will be based only on contributions made by the deceased prior to the implementation of the new State Pension. The maximum amount of additional State Pension the survivor will be able to inherit will be 50 per cent because the deceased's SPA will be after 5 October 2010

c) Where the survivor reached SPA under the new State Pension system, and the deceased reached SPA under the current system or died under SPA before the implementation of the new State Pension

As the deceased could only have made contributions prior to the implementation of the new State Pension, the survivor will be able to inherit an amount equal to the additional State Pension entitlement they could have inherited under current rules, with the additional condition that the marriage or civil partnership must have begun before the implementation of the new State Pension.

d) If the survivor is bereaved under SPA and after the new bereavement support payment is introduced, their inherited additional State Pension will not be reduced based on their age when bereaved or when their youngest child ceases to be dependent. The inherited amount will be paid in addition to the survivor's new State Pension.

G.15 In all cases a person who is under SPA when bereaved will not be able to inherit state pension from the deceased spouse or civil partner if he or she re-marries or forms a new civil partnership before SPA.

G.16 Even where neither partner reaches SPA before the new State Pension is implemented, inheritance will be possible in relation to the protected payment. The survivor will inherit 50 per cent of any protected payment to which the deceased was entitled, or would have been entitled to, had they not died under SPA. The marriage or civil partnership must have been in existence immediately prior to new State Pension implementation, and remained so until the point of bereavement. The inherited amount will be paid in addition to the survivor's new State Pension.

Pension sharing will not be applied to the new State Pension. However, existing share orders will be honoured and the rules will allow for sharing of protected payments where these are awarded.

Cessation of contracting-out

G.17 Under the new State Pension system the current additional State Pension system will be abolished, although existing additional State Pensions in payment will continue to be paid.

G.18 As there will no longer be an additional State pension there will be nothing to contract out of. Therefore there will no longer be any contracting-out rebates. As there are slight delays in receipts of some contributions there may still appear to be some rebates paid for a few years after 2016 but these will be in respect of years before 2016.

Increase in State Pension age (SPA)

G.19 The Pensions Act 2014 brought forward to between 2026 and 2028 the increase in SPA to 67. The increase in SPA to 68 between 2044 and 2046 as legislated for in the Pensions Act 2007 was not changed.

G.20 The following table sets out the effect on different age cohorts of the Pensions Act 2014 change:

Table G1: State Pension age by date of birth

Date of birth	SPA
6 April 1960 – 5 May 1960	66 years and 1 month
6 May 1960 – 5 June 1960	66 years and 2 months
6 June 1960 – 5 July 1960	66 years and 3 months
6 July 1960 – 5 August 1960	66 years and 4 months
6 August 1960 – 5 September 1960	66 years and 5 months
6 September 1960 – 5 October 1960	66 years and 6 months
6 October 1960 – 5 November 1960	66 years and 7 months
6 November 1960 – 5 December 1960	66 years and 8 months
6 December 1960 – 5 January 1961	66 years and 9 months
6 January 1961 – 5 February 1961	66 years and 10 months
6 February 1961 – 5 March 1961	66 years and 11 months
6 March 1961 – 5 April 1977[1]	67

1 For people born after 5 April 1969 but before 6 April 1977, under the Pensions Act 2007, SPA was already 67.

G.21 When we estimate the impact of the Pensions Act 2014 we do not make any allowance for behavioural changes in terms of longer working lives other than those directly related to the increase in SPA to 67 between 2026 and 2028.

Periodic reviews of pensionable age

G.22 The Pensions Act 2014 introduced a requirement on the Secretary of State for Work and Pensions to carry out a review of rules about pensionable age having regard to life expectancy and other factors the Secretary of State considers relevant.

G.23 The Secretary of State must prepare and publish a report on the outcome of the review. The first report must be published before 7 May 2017. Each subsequent report must be published within 6 years of the previous report.

G.24 As part of each review the Secretary of State must require the Government Actuary or Deputy Government Actuary to prepare a report on whether the rules about pensionable age mean that, on average, a person who reaches pensionable age within a specified period can be expected to spend a specified proportion of his or her adult life in retirement and, if not, ways in which the rules might be changed with a view to achieving that result. Both the 'specified period' and the 'specified proportion' will be set by the Secretary of State.

G.25 After the review has reported, the Government may then choose to bring forward changes to the SPA. Any proposals to do so would have to go through Parliament before becoming law.

G.26 The Government is not planning to revise the existing timetables for the equalisation of SPA to 65 or the rise in the SPA to 66 or 67. However the timetable for the increase in the SPA from 67 to 68 could change as a result of the review.

G.27 In the Autumn Statement on 5 December 2013, the Chancellor announced that the current Government believes that future generations should spend up to a third of their adult life in retirement. This principle implies that SPA should rise to 68 by the mid-2030s, and 69 by the late 2040s. We have therefore, in order to produce variant projections allowing for this, aligned to the OBR FSR2014 in using an assumption of SPA increasing to 68 in 2036 and to 69 in 2049. However, the Government is not currently legislating for this change; these dates are indicative only, showing a general direction of travel for possible future SPA changes.

Voluntary contributions

G.28 The Pensions Act 2014 introduced the possibility for those who have reached SPA before the implementation of the new State Pension to pay voluntary (Class 3A) contributions in order to increase their existing State Pension. The possibility of paying these voluntary contributions will start in October 2015 for a period of 18 months.

G.29 The payment of Class 3A contributions will entitle people to extra additional State Pension of between £1 a week and £25 a week. The payment required for each additional pension unit of £1 a week will depend on the person's age at payment. The rates vary from £890 for 65 year olds to £127 for 100 year olds[35]. The payments have been calculated at a level which is intended to be 'actuarially fair'.

[35] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/298208/state-pension-top-up-pricing-table.csv/preview

Appendix H: Detailed results on base-case assumptions and variant assumptions

H.1 The tables on the following pages show a more detailed breakdown of the projection results shown in the main body of this report, for the period to 2075, on the following sets of assumptions. All these projections are based on the pre-Pensions Act 2014 legislative position. All figures are in cash terms.

Table H1: Base-case assumptions

Table H2: 2012 ONS principal migration population projection variant

Table H3: 2012 ONS high life expectancy population projection variant

Table H4: 2012 ONS low life expectancy population projection variant

Table H5: 2012 ONS high fertility population projection variant

Table H6: 2012 ONS low fertility population projection variant

Table H7: Combined 'young' demographic variant

Table H8: Combined 'old' demographic variant

Table H9: High earnings variant (long-term assumption of 2.90% a year real)

Table H10: Low earnings variant (long-term assumption of 1.90% a year real)

Table H11: Higher triple lock variant (long-term assumption of earnings + 0.4% a year)

Table H12: Long-term economic assumptions throughout

Table H13: Higher unemployment variant (around 8.25%)

Table H14: Lower unemployment variant (around 2.75%)

Table H15: Earnings up-rating on all benefits

Table H16: Higher proportion of standard rate pension

Table H17: Lower proportion of standard rate pension

Table H1: Fund revenue accounts and balance on base-case assumptions

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	10	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	75	119	187	291	459	576
- Contracted out rebates deducted	2	2	2	2	4	7	11	15
- Net	31	47	73	116	183	284	448	561
Class 1 employer contributions								
- Gross	48	73	114	179	282	440	694	870
- Contracted out rebates deducted	5	5	5	6	10	17	28	35
- Net	43	69	109	173	272	423	666	834
Total Class 1 contributions	74	116	182	289	455	707	1,114	1,395
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	3	6	9	14	17
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	16	20
Contribution income	72	116	183	291	458	712	1,123	1,408
Consolidated Fund transfer	2	3	4	6	8	11	16	20
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	119	187	297	466	724	1,140	1,428
Basic (and graduated) retirement pension	56	85	167	298	480	814	1,339	1,717
AP pension (net of contracted out deductions)	14	21	36	65	120	246	423	544
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	212	374	614	1,079	1,785	2,289
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	114	214	377	619	1,087	1,798	2,304
Balance/(shortfall) of income over outgo	-6	6	-28	-81	-153	-363	-658	-876
Fund at end of year	43	16	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	25%	28%	29%	32%	34%	35%
Fund as a proportion of expenditure	54%	14%	0%	0%	0%	0%	0%	0%

Table H2: Fund revenue accounts and balance on 2012 ONS principal migration population projection variant

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	11	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	77	123	196	308	491	619
- Contracted out rebates deducted	2	2	2	3	4	7	12	16
- Net	31	47	75	120	192	301	479	603
Class 1 employer contributions								
- Gross	48	74	116	185	296	467	742	935
- Contracted out rebates deducted	5	5	5	6	11	18	29	38
- Net	43	69	111	179	285	449	713	897
Total Class 1 contributions	74	117	186	299	477	750	1,192	1,500
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	4	6	9	15	18
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	12	17	21
Contribution income	72	117	186	300	480	755	1,201	1,512
Consolidated Fund transfer	2	3	4	6	9	12	17	21
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	120	190	307	488	767	1,219	1,534
Basic (and graduated) retirement pension	56	85	167	299	483	829	1,386	1,793
AP pension (net of contracted out deductions)	14	21	36	65	121	249	431	556
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	13	16	18
Total incapacity/ESA benefits	7	5	6	8	10	13	16	18
Jobseeker's Allowance	1	0	1	1	1	1	1	2
Maternity Allowance	0	0	1	1	1	2	2	3
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	212	375	619	1,097	1,842	2,377
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	114	215	379	624	1,105	1,855	2,393
Balance/(shortfall) of income over outgo	-6	6	-24	-72	-135	-337	-636	-859
Fund at end of year	43	17	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	25%	27%	28%	31%	33%	34%
Fund as a proportion of expenditure	54%	15%	0%	0%	0%	0%	0%	0%

Table H3: Fund revenue accounts and balance on 2012 ONS high life expectancy population projection variant

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	9	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	77	123	197	310	494	623
- Contracted out rebates deducted	2	2	2	3	4	7	12	16
- Net	31	47	75	120	193	303	482	607
Class 1 employer contributions								
- Gross	48	74	117	186	297	470	747	941
- Contracted out rebates deducted	5	5	5	6	11	18	30	38
- Net	43	69	111	180	286	451	717	903
Total Class 1 contributions	74	117	186	300	479	754	1,200	1,511
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	4	6	9	15	19
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	9	12	17	21
Contribution income	72	117	186	301	482	759	1,209	1,523
Consolidated Fund transfer	2	3	4	6	9	12	18	22
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	120	191	307	490	772	1,227	1,545
Basic (and graduated) retirement pension	56	85	171	315	534	957	1,664	2,189
AP pension (net of contracted out deductions)	14	21	37	68	128	269	478	627
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	13	16	18
Total incapacity/ESA benefits	7	5	6	8	10	13	16	18
Jobseeker's Allowance	1	0	1	1	1	1	1	2
Maternity Allowance	0	0	1	1	1	2	2	3
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	113	217	395	677	1,244	2,167	2,844
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	115	219	398	682	1,252	2,179	2,860
Balance/(shortfall) of income over outgo	-6	6	-29	-91	-192	-481	-952	-1,315
Fund at end of year	43	14	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	25%	28%	30%	35%	38%	40%
Fund as a proportion of expenditure	54%	13%	0%	0%	0%	0%	0%	0%

Table H4: Fund revenue accounts and balance on 2012 ONS low life expectancy population projection variant

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	12	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	77	122	195	306	486	612
- Contracted out rebates deducted	2	2	2	3	4	7	12	15
- Net	31	47	74	120	191	299	474	596
Class 1 employer contributions								
- Gross	48	74	116	185	294	463	734	924
- Contracted out rebates deducted	5	5	5	6	11	18	29	38
- Net	43	69	111	179	283	445	705	886
Total Class 1 contributions	74	117	185	298	474	744	1,179	1,482
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	4	6	9	14	18
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	12	17	21
Contribution income	72	117	186	300	477	749	1,189	1,495
Consolidated Fund transfer	2	3	4	6	9	12	17	21
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	120	190	306	486	761	1,206	1,516
Basic (and graduated) retirement pension	56	84	164	282	433	705	1,123	1,416
AP pension (net of contracted out deductions)	14	21	35	63	113	226	376	474
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	2	2
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	2	2
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	13	16	18
Total incapacity/ESA benefits	7	5	6	8	10	13	16	18
Jobseeker's Allowance	1	0	1	1	1	1	1	2
Maternity Allowance	0	0	1	1	1	2	2	3
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	208	356	560	950	1,524	1,919
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	113	210	360	566	959	1,537	1,935
Balance/(shortfall) of income over outgo	-6	7	-20	-54	-80	-197	-330	-419
Fund at end of year	43	19	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	24%	26%	25%	27%	28%	28%
Fund as a proportion of expenditure	54%	17%	0%	0%	0%	0%	0%	0%

Table H5: Fund revenue accounts and balance on 2012 ONS high fertility population projection variant

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	11	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	77	125	203	326	533	681
- Contracted out rebates deducted	2	2	2	3	5	8	13	17
- Net	31	47	75	122	198	318	520	664
Class 1 employer contributions								
- Gross	48	74	116	188	306	493	805	1,029
- Contracted out rebates deducted	5	5	5	6	11	19	32	42
- Net	43	69	111	182	295	474	773	987
Total Class 1 contributions	74	117	186	304	493	791	1,293	1,652
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	4	6	10	16	20
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	9	12	19	23
Contribution income	72	117	186	305	495	797	1,302	1,663
Consolidated Fund transfer	2	3	4	6	9	13	19	24
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	120	190	311	505	810	1,322	1,688
Basic (and graduated) retirement pension	56	85	168	299	484	831	1,391	1,799
AP pension (net of contracted out deductions)	14	21	36	65	121	250	435	564
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	11	13	17	20
Total incapacity/ESA benefits	7	5	6	8	11	13	17	20
Jobseeker's Allowance	1	0	1	1	1	1	1	2
Maternity Allowance	0	0	1	1	1	2	2	3
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	213	376	620	1,101	1,852	2,393
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	114	215	379	625	1,109	1,865	2,409
Balance/(shortfall) of income over outgo	-6	6	-24	-68	-121	-299	-543	-721
Fund at end of year	43	17	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	25%	27%	27%	30%	31%	31%
Fund as a proportion of expenditure	54%	15%	0%	0%	0%	0%	0%	0%

Table H6: Fund revenue accounts and balance on 2012 ONS low fertility population projection variant

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	11	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	77	121	190	292	452	560
- Contracted out rebates deducted	2	2	2	3	4	7	11	14
- Net	31	47	74	118	186	285	440	546
Class 1 employer contributions								
- Gross	48	74	116	183	286	442	682	846
- Contracted out rebates deducted	5	5	5	6	10	17	27	34
- Net	43	69	111	177	276	425	655	812
Total Class 1 contributions	74	117	186	295	461	710	1,096	1,358
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	4	6	9	13	17
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	16	19
Contribution income	72	117	186	296	464	715	1,105	1,370
Consolidated Fund transfer	2	3	4	6	8	11	16	19
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	120	190	302	473	727	1,122	1,390
Basic (and graduated) retirement pension	56	85	168	299	484	831	1,391	1,799
AP pension (net of contracted out deductions)	14	21	36	65	120	248	427	549
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	13	15	17
Total incapacity/ESA benefits	7	5	6	8	10	13	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	213	376	619	1,097	1,841	2,375
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	114	215	379	624	1,105	1,854	2,390
Balance/(shortfall) of income over outgo	-6	6	-24	-77	-152	-379	-732	-1,000
Fund at end of year	43	17	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	25%	27%	29%	33%	36%	37%
Fund as a proportion of expenditure	54%	15%	0%	0%	0%	0%	0%	0%

Table H7: Fund revenue accounts and balance on combined 'young' demographic variant

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	13	18	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	50	78	128	211	341	561	718
- Contracted out rebates deducted	2	2	2	3	5	8	14	18
- Net	31	48	76	125	206	333	547	700
Class 1 employer contributions								
- Gross	48	74	119	194	318	516	847	1,085
- Contracted out rebates deducted	5	5	5	7	12	20	34	44
- Net	43	70	113	187	306	496	813	1,041
Total Class 1 contributions	74	117	189	313	512	829	1,360	1,741
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	4	6	10	17	21
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	9	13	20	25
Contribution income	72	117	190	314	515	834	1,369	1,752
Consolidated Fund transfer	2	3	4	6	9	13	20	25
Investment income	0	1	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	121	194	320	524	847	1,389	1,778
Basic (and graduated) retirement pension	56	84	164	283	435	716	1,162	1,476
AP pension (net of contracted out deductions)	14	21	35	63	114	230	387	492
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	2	2
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	2	2
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	11	14	18	21
Total incapacity/ESA benefits	7	5	6	8	11	14	18	21
Jobseeker's Allowance	1	0	1	1	1	1	2	2
Maternity Allowance	0	0	1	1	1	2	3	3
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	208	357	564	967	1,576	2,000
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	113	211	361	570	975	1,589	2,016
Balance/(shortfall) of income over outgo	-6	8	-16	-41	-45	-128	-199	-238
Fund at end of year	43	21	2	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	24%	25%	24%	25%	25%	25%
Fund as a proportion of expenditure	54%	19%	1%	0%	0%	0%	0%	0%

Table H8: Fund revenue accounts and balance on combined 'old' demographic variant

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	8	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	75	117	182	276	424	523
- Contracted out rebates deducted	2	2	2	2	4	7	10	13
- Net	31	47	73	115	178	270	413	509
Class 1 employer contributions								
- Gross	48	73	114	177	274	418	640	789
- Contracted out rebates deducted	5	5	5	6	10	16	25	32
- Net	43	69	109	171	264	402	614	757
Total Class 1 contributions	74	116	182	286	442	672	1,027	1,267
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	3	5	8	13	16
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	15	18
Contribution income	72	116	183	287	444	677	1,037	1,279
Consolidated Fund transfer	2	3	4	6	8	11	15	18
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	119	187	293	453	688	1,053	1,298
Basic (and graduated) retirement pension	56	85	171	314	530	939	1,607	2,098
AP pension (net of contracted out deductions)	14	21	37	68	127	265	466	607
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	0	0
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	0	0
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	14	16
Total incapacity/ESA benefits	7	5	6	8	10	12	14	16
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	113	217	393	671	1,221	2,095	2,729
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	115	219	396	676	1,229	2,107	2,745
Balance/(shortfall) of income over outgo	-6	5	-32	-103	-223	-541	-1,055	-1,447
Fund at end of year	43	13	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	25%	29%	32%	38%	43%	45%
Fund as a proportion of expenditure	54%	12%	0%	0%	0%	0%	0%	0%

Table H9: Fund revenue accounts and balance on high earnings variant (long-term assumption of 2.90% a year real in excess of CPI)

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	11	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	80	132	218	356	590	757
- Contracted out rebates deducted	2	2	2	3	5	9	15	19
- Net	31	48	77	129	213	347	575	738
Class 1 employer contributions								
- Gross	48	74	121	199	329	538	889	1,142
- Contracted out rebates deducted	5	5	5	7	12	21	36	47
- Net	43	70	116	192	317	517	853	1,095
Total Class 1 contributions	74	117	193	321	530	864	1,428	1,833
Class 1A and 1B contributions	1	1	2	3	5	9	14	18
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	4	7	11	18	23
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	9	13	19	24
Contribution income	72	117	194	323	534	871	1,442	1,851
Consolidated Fund transfer	2	3	4	6	9	13	19	24
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	121	198	329	543	885	1,462	1,876
Basic (and graduated) retirement pension	56	85	176	329	555	989	1,704	2,239
AP pension (net of contracted out deductions)	14	21	37	68	132	284	509	670
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	113	221	408	701	1,290	2,236	2,935
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	114	224	412	706	1,298	2,249	2,951
Balance/(shortfall) of income over outgo	-6	6	-26	-82	-164	-414	-787	-1,075
Fund at end of year	43	17	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	25%	27%	28%	32%	33%	34%
Fund as a proportion of expenditure	54%	15%	0%	0%	0%	0%	0%	0%

Table H10: Fund revenue accounts and balance on low earnings variant (long-term assumption of 1.90% a year real in excess of CPI)

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	10	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	71	107	160	238	358	438
- Contracted out rebates deducted	2	2	2	2	4	6	9	11
- Net	31	47	69	104	157	232	349	428
Class 1 employer contributions								
- Gross	48	73	108	161	242	359	540	661
- Contracted out rebates deducted	5	5	5	5	9	14	21	26
- Net	43	68	103	156	233	346	519	635
Total Class 1 contributions	74	115	171	260	390	578	868	1,063
Class 1A and 1B contributions	1	1	2	3	4	6	9	11
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	3	5	7	11	13
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	5	7	10	14	16
Contribution income	72	115	172	261	392	582	875	1,071
Consolidated Fund transfer	2	3	4	5	8	10	14	17
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	118	176	266	400	592	889	1,088
Basic (and graduated) retirement pension	56	84	159	269	414	669	1,049	1,314
AP pension (net of contracted out deductions)	14	21	36	62	109	214	352	443
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	203	342	537	901	1,425	1,784
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	114	205	346	543	909	1,437	1,799
Balance/(shortfall) of income over outgo	-6	5	-29	-79	-143	-317	-548	-711
Fund at end of year	43	14	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	25%	28%	29%	33%	35%	36%
Fund as a proportion of expenditure	54%	13%	0%	0%	0%	0%	0%	0%

Table H11: Fund revenue accounts and balance on higher triple lock variant (long-term assumption of earnings + 0.4% a year)

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	10	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	75	119	187	291	459	576
- Contracted out rebates deducted	2	2	2	2	4	7	11	15
- Net	31	47	73	116	183	284	448	561
Class 1 employer contributions								
- Gross	48	73	114	179	282	440	694	870
- Contracted out rebates deducted	5	5	5	6	10	17	28	35
- Net	43	69	109	173	272	423	666	834
Total Class 1 contributions	74	116	182	289	455	707	1,114	1,395
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	3	6	9	14	17
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	16	20
Contribution income	72	116	183	291	458	712	1,123	1,408
Consolidated Fund transfer	2	3	4	6	8	11	16	20
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	119	187	297	466	724	1,140	1,428
Basic (and graduated) retirement pension	56	85	169	304	494	846	1,404	1,810
AP pension (net of contracted out deductions)	14	21	36	65	120	246	423	544
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	214	380	628	1,110	1,851	2,381
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	114	216	383	633	1,118	1,863	2,397
Balance/(shortfall) of income over outgo	-6	5	-29	-87	-167	-394	-723	-969
Fund at end of year	43	16	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	25%	28%	29%	33%	35%	36%
Fund as a proportion of expenditure	54%	14%	0%	0%	0%	0%	0%	0%

Table H12: Fund revenue accounts and balance on long-term economic assumptions throughout

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	24	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	51	79	125	197	306	483	605
- Contracted out rebates deducted	2	2	2	3	4	7	12	15
- Net	31	49	77	122	192	298	471	590
Class 1 employer contributions								
- Gross	48	79	122	192	302	471	742	931
- Contracted out rebates deducted	5	5	5	6	11	18	29	37
- Net	43	74	117	185	291	453	713	894
Total Class 1 contributions	74	123	194	307	483	752	1,184	1,484
Class 1A and 1B contributions	1	1	2	3	5	8	12	15
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	2	2	4	6	9	15	19
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	17	20
Contribution income	72	123	195	309	487	758	1,196	1,499
Consolidated Fund transfer	2	3	4	6	8	12	17	21
Investment income	0	1	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	128	199	315	496	770	1,213	1,520
Basic (and graduated) retirement pension	56	90	179	318	512	870	1,430	1,834
AP pension (net of contracted out deductions)	14	21	37	68	126	259	445	572
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	118	225	397	653	1,146	1,898	2,433
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	120	227	401	658	1,155	1,910	2,449
Balance/(shortfall) of income over outgo	-6	8	-28	-85	-162	-384	-697	-929
Fund at end of year	43	32	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	25%	28%	29%	32%	34%	35%
Fund as a proportion of expenditure	54%	27%	0%	0%	0%	0%	0%	0%

Table H13: Fund revenue accounts and balance on higher unemployment variant (around 8.25%)

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	7	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	48	73	115	182	283	446	559
- Contracted out rebates deducted	2	2	2	2	4	7	11	14
- Net	31	46	71	113	178	276	435	545
Class 1 employer contributions								
- Gross	48	71	111	174	274	428	674	845
- Contracted out rebates deducted	5	5	5	6	10	17	27	34
- Net	43	67	106	168	264	411	647	811
Total Class 1 contributions	74	113	177	281	442	687	1,082	1,356
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	3	5	8	13	17
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	5	8	11	16	19
Contribution income	72	113	178	283	445	692	1,092	1,368
Consolidated Fund transfer	2	3	4	6	8	11	16	19
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	116	181	288	453	704	1,108	1,388
Basic (and graduated) retirement pension	56	85	167	298	480	814	1,339	1,717
AP pension (net of contracted out deductions)	14	21	36	65	119	243	416	534
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	1	1	1	1	2	2	2
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	113	212	374	613	1,076	1,778	2,279
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	114	215	377	618	1,084	1,791	2,295
Balance/(shortfall) of income over outgo	-6	2	-33	-89	-165	-380	-683	-906
Fund at end of year	43	9	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	22%	26%	28%	30%	33%	35%	36%
Fund as a proportion of expenditure	54%	8%	0%	0%	0%	0%	0%	0%

Table H14: Fund revenue accounts and balance on lower unemployment variant (around 2.75%)

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	11	3	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	50	77	122	192	299	472	592
- Contracted out rebates deducted	2	2	2	3	4	7	12	15
- Net	31	48	75	120	188	292	460	577
Class 1 employer contributions								
- Gross	48	75	117	184	290	453	713	894
- Contracted out rebates deducted	5	5	5	6	11	18	28	36
- Net	43	70	112	178	280	435	685	858
Total Class 1 contributions	74	118	187	298	468	727	1,145	1,435
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	4	6	9	14	18
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	17	20
Contribution income	72	118	188	299	470	732	1,155	1,447
Consolidated Fund transfer	2	3	4	6	8	12	17	21
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	122	192	305	479	744	1,172	1,468
Basic (and graduated) retirement pension	56	85	167	298	480	814	1,339	1,717
AP pension (net of contracted out deductions)	14	21	36	65	121	249	430	554
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	0	0	0	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	212	374	615	1,081	1,792	2,298
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	114	214	377	620	1,089	1,804	2,314
Balance/(shortfall) of income over outgo	-6	8	-22	-73	-141	-345	-633	-845
Fund at end of year	43	19	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	24%	27%	28%	32%	33%	34%
Fund as a proportion of expenditure	54%	17%	0%	0%	0%	0%	0%	0%

Table H15: Fund revenue accounts and balance on earnings up-rating on all benefits

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	8	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	75	119	187	291	459	576
- Contracted out rebates deducted	2	2	2	2	4	7	11	15
- Net	31	47	73	116	183	284	448	561
Class 1 employer contributions								
- Gross	48	73	114	179	282	440	694	870
- Contracted out rebates deducted	5	5	5	6	10	17	28	35
- Net	43	69	109	173	272	423	666	834
Total Class 1 contributions	74	116	182	289	455	707	1,114	1,395
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	3	6	9	14	17
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	16	20
Contribution income	72	116	183	291	458	712	1,123	1,408
Consolidated Fund transfer	2	3	4	6	8	11	16	20
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	119	187	297	466	724	1,140	1,428
Basic (and graduated) retirement pension	56	84	161	278	435	716	1,144	1,447
AP pension (net of contracted out deductions)	14	24	51	95	169	331	576	748
Bereavement Benefits								
- Flat rate	1	1	1	1	2	2	3	4
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	2	2	3	4
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	8	13	21	33	52	66
Total incapacity/ESA benefits	7	5	8	13	21	33	52	66
Jobseeker's Allowance	1	0	1	1	2	3	4	6
Maternity Allowance	0	1	1	1	2	3	5	6
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	115	223	391	632	1,091	1,788	2,280
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	116	226	395	638	1,099	1,801	2,295
Balance/(shortfall) of income over outgo	-6	3	-39	-98	-171	-375	-661	-867
Fund at end of year	43	10	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	26%	29%	30%	33%	34%	35%
Fund as a proportion of expenditure	54%	9%	0%	0%	0%	0%	0%	0%

Table H16: Fund revenue accounts and balance on higher proportion of standard rate pension

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	9	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	75	119	187	291	459	576
- Contracted out rebates deducted	2	2	2	2	4	7	11	15
- Net	31	47	73	116	183	284	448	561
Class 1 employer contributions								
- Gross	48	73	114	179	282	440	694	870
- Contracted out rebates deducted	5	5	5	6	10	17	28	35
- Net	43	69	109	173	272	423	666	834
Total Class 1 contributions	74	116	182	289	455	707	1,114	1,395
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	3	6	9	14	17
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	16	20
Contribution income	72	116	183	291	458	712	1,123	1,408
Consolidated Fund transfer	2	3	4	6	8	11	16	20
Investment income	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	119	187	297	466	724	1,140	1,428
Basic (and graduated) retirement pension	56	85	169	303	488	830	1,365	1,752
AP pension (net of contracted out deductions)	14	21	36	65	120	246	423	544
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	113	214	379	622	1,094	1,812	2,323
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	114	216	382	628	1,102	1,824	2,338
Balance/(shortfall) of income over outgo	-6	5	-30	-86	-162	-378	-684	-910
Fund at end of year	43	14	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	25%	28%	29%	33%	35%	35%
Fund as a proportion of expenditure	54%	12%	0%	0%	0%	0%	0%	0%

Table H17: Fund revenue accounts and balance on lower proportion of standard rate pension

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	13	0	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	75	119	187	291	459	576
- Contracted out rebates deducted	2	2	2	2	4	7	11	15
- Net	31	47	73	116	183	284	448	561
Class 1 employer contributions								
- Gross	48	73	114	179	282	440	694	870
- Contracted out rebates deducted	5	5	5	6	10	17	28	35
- Net	43	69	109	173	272	423	666	834
Total Class 1 contributions	74	116	182	289	455	707	1,114	1,395
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	3	6	9	14	17
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	16	20
Contribution income	72	116	183	291	458	712	1,123	1,408
Consolidated Fund transfer	2	3	4	6	8	11	16	20
Investment income	0	1	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	120	187	297	466	724	1,140	1,428
Basic (and graduated) retirement pension	56	84	162	285	457	775	1,274	1,635
AP pension (net of contracted out deductions)	14	21	36	65	120	246	423	544
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	111	207	361	591	1,039	1,721	2,206
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	0	0	0	0	0	0
Total outgo	80	113	209	365	596	1,047	1,733	2,222
Balance/(shortfall) of income over outgo	-6	7	-22	-68	-130	-323	-593	-793
Fund at end of year	43	20	0	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	21%	24%	27%	28%	31%	33%	34%
Fund as a proportion of expenditure	54%	18%	0%	0%	0%	0%	0%	0%

Appendix I: Detailed results on Pensions Act 2014 variant assumptions

I.1 The tables on the following pages show a detailed breakdown of the projection results for the variants which allow for the Pensions Act 2014, and possible further developments, as described in Table 5.5. All figures are in cash terms.

Table I1:	Pensions Act 2014 changes as currently legislated
Table I2:	Pensions Act 2014 allowing for increasing SPA to 68 in 2036 and 69 in 2049
Table I3:	Pensions Act 2014 allowing for increasing SPA to 68 in 2036 and 69 in 2049, and replacing triple lock with earnings up-rating (CPI and 2.40% a year real earnings growth) from 2020
Table I4:	Pensions Act 2014 allowing for increasing SPA to 68 in 2036 and 69 in 2049, earnings up-rating (CPI and 2.40% real earnings growth), and National Insurance contributions increased to 23.5% from 2020
Table I5:	Pensions Act 2014 allowing for increasing SPA to 68 in 2036 and 69 in 2049, and replacing triple lock with up-rating by CPI and 2.1% a year

Table I1: Pensions Act 2014 changes as currently legislated

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	34	103	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	76	119	187	291	459	576
- Contracted out rebates deducted	2	0	0	0	0	0	0	0
- Net	31	49	76	119	187	291	459	576
Class 1 employer contributions								
- Gross	48	74	115	180	282	440	694	870
- Contracted out rebates deducted	5	0	0	0	0	0	0	0
- Net	43	74	115	180	282	440	694	870
Total Class 1 contributions	74	123	192	298	469	731	1,153	1,445
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	3	6	9	14	17
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	16	20
Contribution income	72	123	192	300	472	736	1,162	1,458
Consolidated Fund transfer	2	3	4	6	8	11	16	20
Investment income	0	1	3	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	127	199	306	481	748	1,179	1,478
Basic (and graduated) retirement pension	56	87	177	355	589	1,013	1,669	2,143
AP pension (net of contracted out deductions) and protected payments	14	19	16	9	3	0	0	0
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	113	201	375	606	1,031	1,693	2,170
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	1	0	0	0	0	0
Total outgo	80	114	204	378	612	1,039	1,705	2,186
Balance/(shortfall) of income over outgo	-6	13	-5	-73	-131	-291	-526	-708
Fund at end of year	43	47	99	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	20%	23%	27%	28%	30%	32%	32%
Fund as a proportion of expenditure	54%	41%	48%	0%	0%	0%	0%	0%

Table I2: Pensions Act 2014 allowing for increasing SPA to 68 in 2036 and 69 in 2049

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	35	104	0	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	76	120	190	295	465	583
- Contracted out rebates deducted	2	0	0	0	0	0	0	0
- Net	31	49	76	120	190	295	465	583
Class 1 employer contributions								
- Gross	48	74	115	181	285	444	700	877
- Contracted out rebates deducted	5	0	0	0	0	0	0	0
- Net	43	74	115	181	285	444	700	877
Total Class 1 contributions	74	123	192	302	474	739	1,165	1,460
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	4	6	9	14	18
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	16	20
Contribution income	72	123	192	303	477	744	1,174	1,473
Consolidated Fund transfer	2	3	4	6	8	11	16	20
Investment income	0	1	3	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	127	199	309	486	756	1,191	1,493
Basic (and graduated) retirement pension	56	87	176	337	561	964	1,602	2,049
AP pension (net of contracted out deductions) and protected payments	14	19	16	9	3	0	0	0
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	201	357	578	983	1,626	2,076
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	1	0	0	0	0	0
Total outgo	80	114	204	361	583	991	1,638	2,091
Balance/(shortfall) of income over outgo	-6	13	-4	-52	-98	-235	-447	-598
Fund at end of year	43	47	100	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	20%	23%	26%	26%	29%	30%	31%
Fund as a proportion of expenditure	54%	41%	49%	0%	0%	0%	0%	0%

Table I3: Pensions Act 2014 allowing for increasing SPA to 68 in 2036 and 69 in 2049, and replacing triple lock with earnings up-rating (CPI and 2.40% a year real earnings growth) from 2020

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	35	127	4	0	0	0	0
Class 1 employee contributions								
- Gross	33	49	76	120	190	295	465	583
- Contracted out rebates deducted	2	0	0	0	0	0	0	0
- Net	31	49	76	120	190	295	465	583
Class 1 employer contributions								
- Gross	48	74	115	181	285	444	700	877
- Contracted out rebates deducted	5	0	0	0	0	0	0	0
- Net	43	74	115	181	285	444	700	877
Total Class 1 contributions	74	123	192	302	474	739	1,165	1,460
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	4	6	9	14	18
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	16	20
Contribution income	72	123	192	303	477	744	1,174	1,473
Consolidated Fund transfer	2	3	4	6	8	11	16	20
Investment income	0	1	4	0	0	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	127	200	309	486	756	1,191	1,493
Basic (and graduated) retirement pension	56	87	171	318	513	857	1,384	1,745
AP pension (net of contracted out deductions) and protected payments	14	19	16	9	3	0	0	0
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	195	338	530	876	1,408	1,772
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	1	0	0	0	0	0
Total outgo	80	114	199	341	535	884	1,420	1,787
Balance/(shortfall) of income over outgo	-6	13	2	-32	-50	-128	-229	-294
Fund at end of year	43	48	129	0	0	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	20%	22%	24%	24%	26%	26%	26%
Fund as a proportion of expenditure	54%	42%	65%	0%	0%	0%	0%	0%

Table I4: Pensions Act 2014 allowing for increasing SPA to 68 in 2036 and 69 in 2049, earnings up-rating (CPI and 2.40% real earnings growth), and National Insurance contributions increased to 23.5% from 2020

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	35	259	378	302	2	0	0
Class 1 employee contributions								
- Gross	33	53	82	130	204	317	500	627
- Contracted out rebates deducted	2	0	0	0	0	0	0	0
- Net	31	53	82	130	204	317	500	627
Class 1 employer contributions								
- Gross	48	79	124	195	306	478	753	944
- Contracted out rebates deducted	5	0	0	0	0	0	0	0
- Net	43	79	124	195	306	478	753	944
Total Class 1 contributions	74	132	206	324	510	795	1,253	1,571
Class 1A and 1B contributions	1	1	2	3	5	8	12	15
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	2	2	4	6	9	15	19
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	9	12	17	21
Contribution income	72	132	207	326	513	801	1,263	1,585
Consolidated Fund transfer	2	3	4	6	9	12	18	22
Investment income	0	1	8	12	9	0	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	137	220	344	532	813	1,282	1,607
Basic (and graduated) retirement pension	56	87	171	318	513	857	1,384	1,745
AP pension (net of contracted out deductions) and protected payments	14	19	16	9	3	0	0	0
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	195	338	530	876	1,408	1,772
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	2	3	2	0	0	0
Total outgo	80	114	200	344	538	884	1,420	1,787
Balance/(shortfall) of income over outgo	-6	23	20	0	-6	-71	-139	-180
Fund at end of year	43	57	279	378	295	0	0	0
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	20%	22%	24%	24%	26%	26%	26%
Fund as a proportion of expenditure	54%	50%	140%	110%	55%	0%	0%	0%

Table I5: Pensions Act 2014 allowing for increasing SPA to 68 in 2036 and 69 in 2049, and replacing triple lock with up-rating by CPI and 2.1% a year

All figures in £bn	2010 -2011	2020 -2021	2030 -2031	2040 -2041	2050 -2051	2060 -2061	2070 -2071	2075 -2076
Fund at start of year	49	35	153	171	89	51	0	8
Class 1 employee contributions								
- Gross	33	49	76	120	190	295	465	583
- Contracted out rebates deducted	2	0	0	0	0	0	0	0
- Net	31	49	76	120	190	295	465	583
Class 1 employer contributions								
- Gross	48	74	115	181	285	444	700	877
- Contracted out rebates deducted	5	0	0	0	0	0	0	0
- Net	43	74	115	181	285	444	700	877
Total Class 1 contributions	74	123	192	302	474	739	1,165	1,460
Class 1A and 1B contributions	1	1	2	3	5	7	11	14
Self-employed contributions								
- Class 2	0	0	0	0	1	1	1	1
- Class 4	1	1	2	4	6	9	14	18
Class 3 voluntary contributions	0	0	0	0	0	0	0	0
Age-related rebates (APPs and COMPs)	2	0	0	0	0	0	0	0
Deduction for SSP	0	0	0	0	0	0	0	0
Deduction for SMP, SPP and SAP	2	3	4	6	8	11	16	20
Contribution income	72	123	192	303	477	744	1,174	1,473
Consolidated Fund transfer	2	3	4	6	8	11	16	20
Investment income	0	1	5	5	3	1	0	0
Other income	0	0	0	0	0	0	0	1
Total income	75	127	201	314	488	757	1,191	1,494
Basic (and graduated) retirement pension	56	86	165	296	462	747	1,167	1,446
AP pension (net of contracted out deductions) and protected payments	14	19	16	9	3	0	0	0
Bereavement Benefits								
- Flat rate	1	1	1	1	1	1	1	1
- Earnings related (AP)	0	0	0	0	0	0	0	0
Total bereavement benefits	1	1	1	1	1	1	1	1
Incapacity Benefits/ESA								
- Incapacity Benefit	6	0	0	0	0	0	0	0
- Employment and Support Allowance	1	5	6	8	10	12	15	17
Total incapacity/ESA benefits	7	5	6	8	10	12	15	17
Jobseeker's Allowance	1	0	1	1	1	1	1	1
Maternity Allowance	0	0	1	1	1	1	2	2
Guardian's allowance	0	0	0	0	0	0	0	0
Redundancy benefit (net)	0	0	1	1	2	2	4	5
Christmas bonus	0	0	0	0	0	0	0	0
Total benefit expenditure	79	112	189	316	479	766	1,190	1,473
Administration costs	1	1	2	3	4	7	11	13
Other payments	0	0	0	1	1	1	2	2
Transfers to N Ireland	0	0	1	1	1	0	0	0
Total outgo	80	114	193	321	485	774	1,203	1,488
Balance/(shortfall) of income over outgo	-6	13	9	-7	3	-17	-11	5
Fund at end of year	43	48	162	165	92	33	0	13
Joint Class 1 contribution rate required to balance income and expenditure in year (% of relevant earnings)	21%	20%	21%	23%	22%	22%	22%	22%
Fund as a proportion of expenditure	54%	42%	84%	51%	19%	4%	0%	1%

Appendix J: Glossary of abbreviations and terms

Term	Abbreviation	Description
Appropriate Personal Pension	APP	A personal pension plan used to contract out of the *State Second Pension* on a money purchase basis
Base-case assumptions sustainability	BCA sustainability	The Fund is projected to not be exhausted before 2060
Break-even contribution rate		The level of National Insurance contributions which would be required to make the annual income, excluding investment income, equal to expenditure
Category A	Cat A	Basic retirement pension payable by virtue of a person's own *qualifying years* and earnings
Category B	Cat B	Basic retirement pension payable by virtue of a spouse's own *qualifying years* and earnings
Category BL	Cat BL	Basic retirement pension at a reduced rate payable to a married woman retiring before April 2010 by virtue of her husband's *qualifying years* and earnings
Class 1 National Insurance contributions		Contributions payable by employers and employees on earnings falling within certain bands
Class 1 primary National Insurance contributions		Contributions payable by employees
Class 1 secondary National Insurance contributions		Contributions payable by employers
Class 2 National Insurance contributions		Flat-rate contributions payable by self-employed persons
Class 3 National Insurance contributions		Voluntary contributions paid to enhance their benefit entitlement by those not liable to pay contributions as employed or self-employed persons
Class 4 National Insurance contributions		Earnings-related contributions payable by self-employed persons with profits above the *Lower Profits Limit*

Consumer Prices Index	CPI	A measure of consumer price inflation published by the ONS, used in the Government's target for inflation, and for purposes such as up-rating pensions and other benefits
Contracted-out Deduction	COD	The reduction in additional retirement pension earned between 6 April 1978 and 5 April 1997 by someone who was contracted out of the *State Earnings Related Pension Scheme* during that period
Contracted-out money purchase pension scheme	COMP	A money purchase occupational pension scheme in which part of the fund (known as Protected Rights) takes the place of additional retirement pension
Contracted-out rebate		For members of occupational contracted-out schemes, the amount by which National Insurance contributions are reduced for them and their employers as a result of being in contracted-out employment For members of Appropriate Personal Pensions the amount paid by HMRC into the pension
Contracted-out salary-related pension scheme	COSR	An occupational pension scheme providing a pension related to earnings which satisfies an overall test of scheme quality. Before 6 April 1997, the pension provided could not be less than the *Guaranteed Minimum Pension*
Department for Work and Pensions	DWP	Sets policy for and administers benefits
Economic and fiscal outlook	EFO	Twice-yearly publication by the *OBR*, setting out medium-term forecasts for the economy and the public finances, and an assessment of whether the Government is likely to meet the fiscal objectives it has set itself
Employment and Support Allowance	ESA	A Fund benefit replacing *Incapacity Benefit* for new claims from 27 October 2008
Fiscal Sustainability Report	FSR	Annual publication by the *OBR* assessing the long-term sustainability of public finances
Fund exhaustion		When the balance in the Fund reaches zero
Gross Domestic Product	GDP	A measure of the economic activity taking place in UK economic territory, equivalent to the value added to the economy by this activity
Guaranteed Minimum Pension	GMP	A minimum level of pension which had to be provided by *contracted-out salary-related pension schemes* before 6 April 1997

Her Majesty's Revenue and Customs	HMRC	Sets policy for and administers the majority of *NICs*, and undertakes general administration of the *NIF*
Incapacity Benefit	IB	A Fund benefit on incapacity. Replaced by *Employment and Support Allowance* for new claims from 27 October 2008
Jobseeker's Allowance	JSA	A benefit based on unemployment, which in certain circumstances is payable out of the Fund
Low Earnings Threshold	LET	Band 1 *State Second Pension* accrues on earnings between the *Lower Earnings Limit* and this level
Lower Earnings Limit	LEL	Contracted-out rebates are applied to earnings between this level and the *Upper Earnings Limit*
Lower Profits Limit	LPL	*Class 4 contributions* are paid on profits above this level
Maternity Allowance Threshold	MAT	The minimum level of earnings required to receive Maternity Allowance (£30 a week from April 2009)
National Insurance contributions	NICs	Contributions of all classes to the *NIF*
National Insurance Fund	NIF	The fund established under section 161 of the Social Security Administration Act 1992. The *NICs* minus the elements that fund the NHS are paid into the *NIF* from which contributory benefit payments are funded
New State Pension		Reform of State Pension system introduced by the Pensions Act 2014
Office for Budget Responsibility	OBR	Produces forecasts for the economy and public finances and assess the long-term sustainability of the public finances
Office for National Statistics	ONS	Producer of UK official statistics related to the economy, population and society, including population projections
Primary Threshold	PT	*Class 1 primary contributions* are paid on earnings above this level
Protected payment		Any excess by an individual's *starting amount* under the *new State Pension* exceeds the full level of the *new State Pension*
Qualifying year	QY	A year of contributions or credits counting towards basic retirement pension entitlement

Quinquennial review	QR	Review of the *NIF* by the Government Actuary carried out every 5 years under the Social Security Administration Act 1992
	QR2005	The Government Actuary's review of the National Insurance Fund as at April 2005
	QR2010	The Government Actuary's review of the National Insurance Fund as at April 2010
Secondary Threshold	ST	*Class 1 secondary contributions* are paid on earnings above this level
Small Earnings Exception		*Class 2 contributions* are not payable by those earning below this level
State Earnings-Related Pension Scheme	SERPS	The earnings-related additional retirement pension scheme for those with earnings over the *Lower Earnings Limit* between April 1978 and April 2002
State Pension Age	SPA	The age from which the basic and additional retirement pensions are payable to an individual
State Second Pension	S2P	The additional retirement pension scheme replacing *SERPS* from April 2002 for those with earnings over the *Lower Earnings Limit*
Statutory Adoption Pay	SAP	A Fund benefit on adoption, payable for up to 39 weeks
Statutory Maternity Pay	SMP	A Fund benefit on the birth of a child, payable for up to 39 weeks
Statutory Paternity Pay	SPP	A Fund benefit on the birth of a child, payable for up to 2 weeks
Statutory Sick Pay	SSP	A Fund benefit payable for up to 28 weeks to employees who are unable to work owing to illness
Starting amount		The value of an individual's rights accrued before April 2016 under the *new State Pension*
Treasury Grant		A payment made under the Social Security Act 1993 into the *National Insurance Fund* out of money provided by Parliament (other general taxation receipts). Previous payments from general taxation receipts were made under different legislation at earlier times
Triple Lock		Method of up-rating benefits that guarantees that increases will be set at the maximum of 2.5%, average earnings or CPI growth over the previous year
Upper Accrual Point	UAP	Band 3 *State Second Pension* accrues on earnings between the *Upper Earnings Threshold* and this level. Fixed at £40,040 pa

Upper Earnings Limit	UEL	The point at which liability for *Class 1 NICs* at the main primary percentage (12%) ceases and the liability at the additional primary percentage (2%) begins
Upper Earnings Threshold	UET	Band 2 *State Second Pension* accrues on earnings between the *Low Earnings Threshold* and this level
Upper Profits Limit	UPL	The point at which the Class 4 *NICs* rate (paid on business profits) changes from 9% to 2%. It is aligned with the *UEL* and the higher rate tax limit

Government Actuary’s Department

Finlaison House, 15-17 Furnival Street, London, EC4A 1AB

Fax: +44 (0)20 7211 2650

Switchboard: +44 (0)20 7211 2601

Email enquiries: enquiries@gad.gov.uk

Web: www.gov.uk/gad