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Report by the Government Actuary on:

The draft Social Security Benefits Up-rating Order 2015;

The Welfare Benefits Up-rating Order 2015; and

The draft Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2015

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Presented to Parliament pursuant to 142(1), 150(8) and 150A(5) of the Social Security Administration Act 1992 as amended by the Social Security Contributions (Transfer of Functions, etc.) Act 1999 and section 1(4) of the Welfare Benefits Up-rating Act 2013.

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

David Gauke MP, Financial Secretary to the Treasury

I am pleased to present my report on the potential effects on the National Insurance Fund of the draft Social Security Benefits Up-rating Order 2015; the draft Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2015 and the Welfare Benefits Up-rating Order 2015.

This report is made in accordance with sections 142(1), 150(8) and 150A(5) of the Social Security Administration Act 1992, as amended by the Social Security Contributions (Transfer of Functions, etc.) Act 1999 and section 1(4) of the Welfare Benefits Up-rating Act 2013.

This report also includes the potential effect on the National Insurance Fund of the proposed changes in the draft Social Security (Contributions) (Limits and Thresholds) (Amendment) Regulations 2015 and the proposed changes in the National Insurance Contributions Bill currently before the UK Parliament, together with the effect of the introduction of Class 3A voluntary contributions in the Social Security Class 3A Contributions (Units of Additional Pension) Regulations 2014.

Martin Clarke
Government Actuary
January 2015

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1 Executive summary

Legislative requirements

1.1 This report discusses the potential effect on the National Insurance Fund (the Fund, or NIF) of the up-rating of contributory benefits and changes to National Insurance contribution rates and thresholds announced at the time of the 3 December 2014 Autumn Statement. My report mainly concentrates on the impact of the announcements over the next financial year, but I also consider the projected position of the Fund over the next five financial years. This report also provides benefit expenditure projections to help inform decisions relating to the size of additional Treasury Grant payment(s) into the Fund.

1.2 This report has been prepared under sections 142(1), 150(8) and 150A(5) of the Social Security Administration Act 1992 (SSAA 92) and section 1(4) of the Welfare Benefits Up-rating Act 2013. It considers the potential effect on the NIF of:

> the draft Social Security Benefits Up-rating Order 2015 (the Up-rating Order)
> the draft Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2015 (the Re-rating and National Insurance Funds Payments Order)
> the Welfare Benefits Up-rating Order 2015.

1.3 This report also includes the potential effect on the Fund of:

> the draft Social Security (Contributions) (Limits and Thresholds) (Amendment) Regulations 2015 (the Limits and Thresholds Regulations) and
> the proposed changes in the National Insurance Contributions Bill currently before the UK Parliament,

together with the effect of the introduction of Class 3A voluntary contributions under the Social Security Class 3A Contributions (Units of Additional Pension) Regulations 2014.

1.4 This report is required to be laid by the Secretary of State for Work and Pensions before Parliament under sections 150(8) and 150A(5) of SSAA 92 and section 1(4) of the Welfare Benefits Up-rating Act 2013 in respect of the Up-rating Order and Welfare Benefits Up-rating Order, and by HM Treasury under section 142(1) of SSAA 92 in respect of the Re-rating and National Insurance Funds Payments Order.

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

Estimates for 2014-15

1.6 The updated estimates of benefit payments and contribution receipts in 2014-15 allowing for the Up-rating, Re-rating and changes to limits and thresholds set out in the 2014 Up-rating report are:

Table 1.1 – Comparison of current and previous 2014-15 estimates

£ billion	This review	Last year's estimates
Fund size as at 31 March 2014	23.2	22.0
Contribution receipts	81.8	83.0
Treasury Grants(1)	4.6	0.0
Benefit payments(2)	92.3	91.8
Fund size as at 31 March 2015	18.0	14.1
Fund size as at 31 March 2015 (as a % of benefit payments)	19.4%	15.3%

(1) £1.3bn of this amount has already been paid and we understand from HMRC that that the remaining £3.3bn is expected to be paid in March 2015.

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

1.7 The 2014-15 contribution receipts estimate above (together with the estimates for subsequent years in this report) is adjusted in line with HMRC in-year estimates, which currently indicate a decline in UK contributions from 2013-14 to 2014-15. These in-year estimates involve a number of assumptions and uncertainties and the outturn for 2014-15 could potentially be materially different. To provide an indication of the possible degree of uncertainty involved, this report also indicates what the estimates would be without any adjustment in line with the HMRC in-year estimates. Had this adjustment not been applied in Table 1.1 above, the estimated 2014-15 contributions would have been £83.5 billion, the Fund as at 31 March 2015 £19.6 billion and the Fund size as a proportion of benefit payments 21.2%.

1.8 The difference between the previously and currently projected Fund size as at 31 March 2015 is predominantly due to £4.6 billion in Treasury Grants expected to be paid into the NIF by 31 March 2015. Without this, the factors contributing to the change in estimates between last year's and this year's reports would have broadly offset one another and the estimated Fund as at 31 March 2015 would have remained at around £14 billion.

Financial effect of the draft Orders on the Fund in 2015-16

1.9 The financial effects of the draft Orders and other measures in 1.3 above on projected benefit payments and contribution receipts for 2015-16 compared to the projected situation had there been no changes in benefit rates and contribution rates and limits for that year are estimated as follows (details of proposed changes are shown in section 2 below):

Table 1.2 – Impact of the draft Orders on the Fund as at 31 March 2016

	£ million
Fund without changes	11,349
Impact of changes due to the draft Up-rating Order	(1,930)
Impact of changes due to the draft Re-rating and National Insurance Funds Payments Order	0
Impact of the Welfare Benefits Up-rating Order	(36)
Impact of draft Limits and Thresholds Regulations	(374)
Impact of the National Insurance Contributions Bill currently before the UK Parliament	3
Impact of the Social Security Class 3A Contributions (Units of Additional Pension) Regulations 2014	366
Fund with changes	9,378

1.10 Allowing for the above financial effects, during 2015-16 payments out of the Fund are estimated to exceed receipts by £8.6 billion. The balance in the Fund at 31 March 2016 is estimated at £9.4 billion, or 9.8% of the estimated benefit payments (including redundancy payments) of £96.1 billion in the year 2015-16. These estimates exclude the effect of any Treasury Grant that might be paid to the NIF during the year.

1.11 Table 1.2 and paragraph 1.10 allow for projected 2014-15 and 2015-16 contribution receipts to be adjusted in line with HMRC estimates based on in-year 2014-15 information. Had these adjustments not taken place, the estimated 31 March 2016 Fund before changes would have been £13.5 billion, the estimated 31 March 2016 Fund after changes would have been £11.5 billion, or 12.0% of the estimated benefit payments (including redundancy payments) and the impact of the draft Limits and Thresholds Regulations would have been a reduction of £376 million. All other estimates would be as in Table 1.2.

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

Requirement for a Treasury Grant in 2015-16

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

1.14 It has been the practice in recent decades that payment of a Treasury Grant to the GB Fund has been based on whether the balance in the Fund is projected to fall below 1/6th of estimated annual benefit expenditure.

1.15 Treasury Grants totalling £4.6 billion are intended to be paid in 2014-15. £1.3bn of this amount has already been paid and we understand from HMRC that the remaining £3.3bn is expected to be paid in March 2015.

1.16 The 2015-16 estimate of benefit expenditure (excluding statutory payments paid by employers) is £96.1 billion and consequently the maximum Treasury Grant permitted under the Social Security Act 1993, of 17% of benefit expenditure estimated by the Government Actuary, is £16.3 billion. This estimate uses the proposed benefit rates for 2015-16, so is not very sensitive to economic assumptions, and demographic factors are likely to affect it only slightly.

1.17 The 1/6th of estimated benefit expenditure measure is £16.0 billion, which when compared with the projected Fund balance at 31 March 2016 of £9.4 billion results in a shortfall of £6.6 billion, or 6.9% of estimated benefit expenditure. This estimate allows for projected contribution receipts to be adjusted in line with HMRC estimates based on in-year 2014-15 information. Had these adjustments not taken place, the 1/6th of estimated benefit expenditure measure of £16.0 billion would be compared with a projected Fund balance at 31 March 2016 of £11.5 billion, resulting in a shortfall of £4.5 billion, or 4.7% of estimated benefit expenditure. I therefore expect that a Treasury Grant will be needed in 2015-16.

Assumptions and sensitivities

1.18 The assumptions used in my projections are based on "determinant" output from the OBR and, where appropriate, are consistent with the central assumptions used by the OBR in its Economic and fiscal outlook (EFO) report published on 3 December 2014. Details of the key assumptions are given in section 3 below.

1.19 Varying the key assumptions would change the estimates for benefit payments and contribution receipts and in turn the estimated balance of the Fund. Table 1.3 below illustrates the effect on contribution receipts of a 1% higher/lower earnings increase assumption in the current and next financial year, and also the effect on contribution receipts increasing/decreasing the estimated number of employees by 200,000. I have only shown the impact on contribution receipts as the impact on benefits in the two years would be relatively small and has consequently been ignored in the table below, particularly as benefit increases are already known or in the process of being brought in for these years and are thus not assumed to vary. The impact of these changes in assumptions on the projected Fund as at March 2016 would be broadly equal to the sum of the effects in 2014-15 and 2015-16.

Table 1.3 – Effect on contribution receipts of the National Insurance Fund in 2014-15 and 2015-16 of variations in economic assumptions

Variation £ million	Effect on receipts in 2014-15	Effect on receipts in 2015-16	Approximate effect on the 31 March 2016 Fund balance
1% lower employee earnings increases	-870	-2,010	-2,880
1% higher employee earnings increases	+880	+2,020	+2,900
Lower GB number of employees by 200,000 in 2015-16 only	+0	-560	-560
Higher GB number of employees by 200,000 in 2015-16 only	+0	+560	+560

5-year projections

1.20 In these projections I have allowed for the intended introduction of the new State Pension from 2016-17 onwards and the zero rate band for Class 1 employers NICs for apprentices below age 25 on earnings up to the UEL/UST that comes in from 6 April 2016. Longer term projections of the Fund will be included in my next Quinquennial Review report.

1.21 I have not considered the effect of any possible changes in State Pension age after 2019-20 as any such changes would not affect any of the figures in this report.

1.22 As the estimated payments and receipts are two large numbers, even relatively small changes in either or both of these numbers could produce a proportionately large change in the difference between them. Therefore the size of the Fund and the Fund as a percentage of benefit payments can be particularly sensitive to even small changes in assumptions and experience. To illustrate the sensitivity of the estimates to the earnings increase assumption in particular, in Appendix 6 I have prepared three additional sets of estimates for the projected Fund cash flow and balance, varying the earnings increase assumption. Table 1.4 below summarises the Fund balance situation at 31 March 2020 in each scenario. This illustration excludes the potential impact of the payment of additional Treasury Grants after 2014-15.

Table 1.4 - Projected Fund balance at 31 March 2020 of varying assumptions (excluding Treasury Grants)

Great Britain, £million **Figures include the effect of the HMRC in-year contribution alignment**	**31 March 2020 Fund balance**
Central assumptions	4,838
Earnings variant, 1% higher increases in each year	30,297
Earnings variant, 1% lower increases in each year	0[1]
Earnings variant, repeating past earnings increases (and CPI) in future	0[1]

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

2 Proposed changes to benefits and contributions

Up-rating Order 2015

2.1 The draft Up-rating Order proposes increasing the rates of some social security benefits paid from the Fund, from April 2015.

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

2.3 The basic State Pension must be up-rated by at least the growth in earnings but this Government has committed to up-rating it by the highest of growth in average earnings (AWE), prices (CPI) or 2.5%, the so-called "triple lock". The annual increase in the level of CPI to September 2014 was 1.2% and average earnings (AWE) increase over the year to May-July 2014 was 0.6%. The result of the triple lock is, therefore, that it is proposed that the basic state Pension will be up-rated by 2.5%. Further details are available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382867/proposed_benefit_and_pension_rates_2015_to_2016.pdf.

2.4 The draft Up-rating Order proposes increasing earnings-related additional pensions (under the state earnings-related pension scheme (SERPS), state second pension (S2P) and graduated retirement benefit) by 1.2%, in line with the increase in the CPI.

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

2.6 Table 2.1 below shows the proposed changes in the major benefit rates. Details of the proposed changes in other benefit rates are shown in Appendix 1.

Table 2.1 – Changes to the main state pension rates

	Weekly rate in 2014-15	Proposed increase in weekly rate	Weekly rate in 2015-16
Retirement pension – person claiming on their own or their deceased spouse's NI contributions – standard rate	£113.10	£2.85	£115.95
Retirement pension – person claiming on their spouse's NI contributions – standard rate	£67.80	£1.70	£69.50

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

Welfare Benefits Up-rating Order 2015

2.8 The Welfare Benefits Up-rating Order 2015 made under the Welfare Benefits Up-rating Act 2013 increases the main rates of most working age benefits, Tax Credits and statutory payments by 1% in 2015-16, so long as the increase in prices is more than 1%. The following table shows the proposed changes in the major benefit rates. Details of the proposed changes in other benefit rates are shown in Appendix 1.

Table 2.2 – Changes to welfare benefits rates

	Weekly rate in 2014-15	Proposed increase in weekly rate	Weekly rate in 2015-16
Contribution-based Jobseeker's Allowance single person 25 and over	£72.40	£0.70	£73.10
Employment and Support Allowance personal allowance age 25 or over including work-related activity component	£101.15	£1.00	£102.15
Maternity Allowance	£138.18	£1.40	£139.58

2.9 Further details on the benefit rates applicable from April 2015, proposed in the Welfare Benefits Up-rating Order and the draft Up-rating Order, are available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382867/proposed_benefit_and_pension_rates_2015_to_2016.pdf.

Re-rating and National Insurance Funds Payments Order 2015, the Limits and Thresholds Regulations 2015 and the National Insurance Contributions Bill currently before the UK Parliament

2.10 The draft Re-rating and National Insurance Funds Payments Order proposes increasing the Class 3 National Insurance contribution rate payable and the profits limits between and above which Class 4 National Insurance contributions are payable. The draft Limits and Thresholds Regulations propose increasing Class 1 earnings limits between and in some cases above which contributions are paid and introduce the Upper Secondary Threshold. The National Insurance Contributions Bill currently before the UK Parliament proposes increasing Class 2 National Insurance contribution (NIC) rates and replacing the Class 2 Small Earnings Exception with the Small Profits Threshold (SPT), setting the rate of the SPT for 2015-16. The following table shows the changes in the major contribution rates and limits. In addition, the table reflects the introduction of Class 3A voluntary contributions under the Social Security Class 3A Contributions (Units of Additional Pension) Regulations 2014.

Table 2.3 – Changes to the main limits and thresholds

Item	2014-15	2015-16
	Per week	
Lower Earnings Limit for Class 1 NICs	£111	£112
Upper Earnings Limit for Employees' (Primary) Class 1 NICs	£805	£815
Upper accrual point[1]	£770	£770
Primary Threshold	£153	£155
Secondary Threshold	£153	£156
Upper Secondary Threshold[2]	N/A	£815
Rate of Class 2 NICs for Self- employed	£2.75	£2.80
	Per annum	
Small Earnings Exception Level for Class 2 NICs	£5,885	N/A
Small Profits Threshold for Class 2 NICs	N/A	£5,965
	Per week	
Rate of (voluntary) Class 3 NICs	£13.90	£14.10
Rate of (voluntary) Class 3A NICs	N/A	Varies
	Per annum	
Class 4 NICs – Upper Profits Limit	£41,865	£42,385
Class 4 NICs – Lower Profits Limit	£7,956	£8,060

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

(2) The National Insurance Contributions Act 2014 introduced a zero band for Class 1 secondary NICs for employees under the age of 21 on earnings up to the UST, with effect from 6 April 2015.

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

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

2.12 The financial effects of the changes in rates and limits proposed in the draft Re-rating and National Insurance Funds Payments Order 2015, the draft Limits and Thresholds Regulations 2015 and the proposed changes in the National Insurance Contributions Bill currently before the UK Parliament are shown in section 4.

3 Assumptions used to project receipts and payments in 2014-15 and 2015-16

3.1 The key assumptions underlying the estimates for benefit payments and contribution receipts are those for employment and unemployment levels, and the rate of increase in earnings and CPI. The assumptions used in my projections are based on "determinant" output from the OBR and, where appropriate, are consistent with the central assumptions used by the OBR in its Economic and fiscal outlook (EFO) report published on 3 December 2014.

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

Table 3.1 - Key assumptions(1)

	2014-15	2015-16
General earnings increase (%) (2)		
This year's report	1.8	2.1
Last year's report	2.5	3.4
Number of employees (millions) (3)		
This year's report	26.3	26.7
Last year's report	26.0	26.2

(1) These assumptions are consistent with those used by the OBR in its Economic and fiscal outlook published on 3 December 2014. The general earnings increases have been taken from the Table 4.1 of the OBR's Economic and fiscal outlook. The number of employees is based on Labour Force Statistics as projected by the OBR and provided directly to GAD.

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

(3) The number of employees refers to the number of people employed rather than the number of jobs as one person may have more than one job. Employees exclude the self-employed. These figures are for the whole of the UK although in our projections I exclude Northern Ireland employees.

3.3 The triple lock increases applied in each of years 2014-15 and 2015-16 are already determined and are not assumptions. However, at the time of last year's report, the 2015-16 triple lock increase was an assumption. Table 3.2 below therefore sets out information regarding how the triple lock increases have been determined, for comparison with Table 3.1.

Table 3.2 – Triple lock

	2014-15	2015-16
Previous year's average May to July annual earnings increase (%)		
This year's report	1.2	0.6
Last year's report	1.2	1.1 (assumed)
Previous year's September CPI increase (%)		
This year's report	2.7	1.2
Last year's report	2.7	2.2 (assumed)
Triple lock increase (%)		
This year's report	2.7	2.5
Last year's report	2.7	2.5 (assumed)

3.4 The estimates of future receipts and payments have used a 2012-based low migration population projection for Great Britain, derived from population projections issued by ONS in November 2013, as this is consistent with the population growth assumptions used by the OBR in its 3 December 2014 Economic and fiscal outlook.

3.5 Contribution estimates in all years are adjusted in line with HMRC estimates based on in-year 2014-15 information, which currently indicate a decline in UK contributions from 2013-14 to 2014-15.

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

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

4 Estimates of receipts, payments and fund balance

4.1 Table 4.1 below provides estimates of receipts and payments of the Fund for 2015-16 along with our latest estimates for 2014-15.

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

Great Britain, £ million		2014-15		2015-16	
Receipts					
	Contributions (1)	84,252		88,818	
	Less recoveries of statutory payments (and abatements)	2,471		2,553	
Net contribution receipts			81,781		86,265
Treasury Grant			4,600		0
Compensation from Consolidated Fund for statutory payments recoveries			2,464		2,545
Income from investments			103		95
State scheme premiums			49		49
Other receipts (2)			40		34
Total receipts (3)			89,036		88,989
Payments					
Benefits (4)	At present rates		92,278	93,780	
	Increase due to proposed changes			1,966	
	Total				95,746
Personal and stakeholder pensions c/out rebates			7		0
Administration costs			920		939
Redundancy fund payments (net) (2)(5)			280		330
Transfer to Northern Ireland			609		386
Other payments			173		175
Total payments (3)			94,267		97,576
Statement of balances					
Balance at beginning of year (6)			23,196		17,965
Excess of receipts over payments			-5,231		-8,587
Balance at end of year			17,965		9,378
Balance at end of year as percentage of annual benefit payments (7)			19.4%		9.8%

(1) Includes the effects of the extension of the Employment Allowance to care and support workers and the zero rate band for employer NICs for employees under the age of 21 on earnings up to the Upper Secondary Threshold. The impact on contributions has been provided by HM Revenue and Customs.

(2) The figures for 2014-15 are provisional estimates supplied by other government departments on the basis of amounts received or paid so far in this year.

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

(4) The effect of the Social Security Benefits Up-rating Order 2015 and the effect of the Welfare Benefits Up-rating Order 2015 are shown separately in Tables 4.2 and 4.3 below. In 2014-15, the

split of benefits between these two Tables is £88,640 million/£3,637 million and in 2015-16 the split is £91,812 million/£3,934 million.

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

(6) The balance at 31 March 2014 is taken from the published accounts of the Fund for the year 2013-14.

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

Estimates for 2014-15

4.2 The estimates shown in Table 4.1 above for 2014-15 may be compared with the estimates for the same period included in my predecessor's report of January 2014. A full comparison is included in Appendix 5.

4.3 In my predecessor's January 2014 report he estimated that payments during the year 2014-15 would exceed receipts by £8.0 billion. My updated estimate for the excess of payments over receipts during the year 2014-15 is £5.2 billion as shown in Table 4.1 above. However, the 2014-15 contribution receipts estimate is adjusted in line with HMRC in-year estimates, which currently indicate a decline in UK contributions from 2013-14 to 2014-15. Had this adjustment not taken place, my updated estimate for the excess of payments over receipts during the year 2014-15 would be £3.6 billion.

4.4 This improvement in the projected shortfall for the year 2014-15 is predominantly due to £4.6 billion in Treasury Grants expected to be paid into the NIF by 31 March 2015. Without this, and setting aside the contribution receipts adjustment in 4.3, the factors contributing to the change in estimates between last year's and this year's reports would have broadly offset one another and the projected shortfall would have remained largely the same. Further information regarding the difference between the estimates for 2014-15 in this report and last year's report is in Appendix 5.

4.5 Transfers are made from the Great Britain National Insurance Fund to the Northern Ireland National Insurance Fund in order to keep the balance in the Northern Ireland National Insurance Fund at 2.87% of the combined balance in the two funds. The transfer to Northern Ireland estimated for 2014-15 has increased from £340 million to £609 million. This is because the 2013-14 accounts for Northern Ireland indicate that experience for the year was less favourable than expected, predominantly due to lower levels of employment and earnings increases than expected resulting in lower contributions than estimated. This meant that the transfer to Northern Ireland of £315 million in 2013-14 was insufficient to maintain the 2.87% relationship and the 2014-15 transfer to Northern Ireland is consequently increased to compensate, as well as reflecting a slightly greater need for a transfer in respect of 2014-15 itself.

Estimates for 2015-16

4.6 The size of the Fund as a percentage of benefit payments is projected to fall from 19.4% at the end of 2014-15 (including a Treasury Grant of £4.6 billion) to 9.8% at the end of 2015-16. However, contribution receipts estimates are being adjusted in line with HMRC in-year estimates, which currently indicate a decline in UK contributions from 2013-14 to 2014-15. Had this adjustment not taken place, these percentages would have been 21.2% and 12.0%, respectively.

4.7 I estimate that the potential increase in benefit payments in 2015-16 as a result of the proposed measures in the draft Up-rating Order will be £1.9 billion, taking estimated total benefit payments from £89.9 billion to £91.8 billion. A breakdown of the £91.8 billion is shown in the final column of Table 4.2 below.

Table 4.2 - Estimated payments from the National Insurance Fund for benefits, and the effect of the draft Up-rating Order on payments in 2015-16

Great Britain **£ million**	**Estimated total payments in 2014-15**	**Estimated total payments in 2015-16 before the draft Up-rating Order**	**Estimated extra payments in 2015-16 as a result of the draft Up-rating Order**	**Estimated total payments in 2015-16 after the draft Up-rating Order**
Retirement Pensions – Basic [1]	68,828	69,683	1,619	71,302
Retirement Pensions – Additional Pensions	17,612	17,982	289	18,271
Incapacity Benefit – Basic	241	8	0	8
Incapacity Benefit – Additional Pensions	5	0	0	0
Widows'/Bereavement Benefits – Basic	504	481	4	485
Widows'/Bereavement Benefits – Additional Pensions	54	48	1	48
Employment and Support Allowance [2]	1,271	1,555	17	1,571
Guardian's Allowance	2	2	0	2
Christmas Bonus	123	123	0	123
Total [3]	88,640	89,882	1,930	91,812
Redundancy payments (net) [4]	280	330	0	330

(1) Includes payments of Graduated Retirement Benefit.
(2) ESA Support Group component only
(3) Figures may not sum to totals due to rounding
(4) Redundancy payments are shown net of redundancy recoveries. The payments cover both payment in lieu of missing wages and missing pension contributions.

Effects of the Welfare Benefits Up-rating Order 2015: a report under Section 1(4) of the Welfare Benefits Up-rating Act 2013

4.8 I estimate that the potential increase in benefit payments in 2015-16 as a result of the proposed measures in the Welfare Benefits Up-rating Order 2015 will be £36 million, taking estimated total benefit payments from £3.90 billion to £3.93 billion. A breakdown of the £3.93 billion is shown in the final column of Table 4.3 below.

Table 4.3 - Estimated payments from the National Insurance Fund for benefits, and the effect of Welfare Benefits Up-rating Order on payments in 2015-16

Great Britain **£ million**	**Estimated total payments in 2014-15**	**Estimated total payments in 2015-16 before the draft Up-rating Order**	**Estimated extra payments in 2015-16 as a result of the draft Up-rating Order**	**Estimated total payments in 2015-16 after the draft Up-rating Order**
Employment and Support Allowance [1]	2,841	3,156	29	3,185
Contribution-based Jobseeker's Allowance	383	314	3	317
Maternity Allowance	413	428	4	433
Total [2]	3,637	3,898	36	3,934

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

Effects of the draft Re-rating and National Insurance Funds Payments Order 2015, draft Limits and Thresholds Regulations 2015 and the National Insurance Contributions Bill currently before the UK Parliament

4.9 I estimate that the effect of the measures proposed in the draft Re-rating and National Insurance Funds Payments Order 2015, the draft Limits and Thresholds Regulations 2015 and the proposed changes in the National Insurance Contributions Bill currently before the UK Parliament will be a reduction in contribution receipts to the Fund in 2015-16 of £371 million. A breakdown of this is shown in Table 4.4.

Table 4.4 – Estimated effects of the draft Re-rating and National Insurance Funds Payments Order, the draft Limits and Thresholds Regulations on contribution receipts in 2015-16 and the proposed changes in the National Insurance Contributions Bill currently before the UK Parliament

Great Britain £ million	2014-15 contribution receipt estimates	2015-16 contribution receipt estimates[1]					
		Before the draft Order and Regulations	Impact of the draft Order	Impact of the draft Regulations	Impact of the draft Bill	Impact of the draft Order, Regulations and Bill	After the draft Order, Regulations and Bill
Class 1	81,274	85,722	+0	-374[2]	+0	-374	85,348
Class 2	323	319	+0	+0	+3	+3	322
Class 3	28	27	+0	+0	+0	+0	27
Class 3A	N/A	366[3]	+0	+0	+0	+0	366
Class 4	1,497	1,590	+0	+0	+0	+0	1,590
Total[4]	83,123	88,024	+0	-374	+3	-371	87,654

(1) The above table reflects the effect of the draft Order, Regulations and Bill on 2015-16 contribution receipts. The effect on contribution accruals will be slightly different, due to the delay between when contributions are accrued and the date that they go on to be paid.

(2) Contribution receipts estimates are being adjusted in line with HMRC in-year estimates, which currently indicate a decline in UK contributions from 2013-14 to 2014-15. Had this adjustment not taken place, this figure would have been -376.

(3) Introduced in the Social Security Class 3A Contributions (Units of Additional Pension) Regulations 2014.

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

4.10 The main reason for the reduction in receipts as a result of the draft Re-rating and National Insurance Funds Payments Order, the draft Limits and Thresholds Regulations and the proposed changes in the National Insurance Contributions Bill currently before the UK Parliament is that the effect of the proposed increases in the primary threshold and secondary threshold is greater than the increases in the Upper Earnings Limit.

Fund balance

4.11 I estimate that the balance in the Fund at 31 March 2016, allowing for the measures proposed in the draft Up-rating and Re-rating and National Insurance Funds Payments Orders, the draft Limits and Thresholds Regulations, the proposed changes in the National Insurance Contributions Bill currently before the UK Parliament and the Welfare Benefits Up-rating Orders will be £ 9.4 billion. However, contribution receipts are being adjusted in line with HMRC estimates based on in-year 2014-15 information, which currently indicate a decline in UK contributions from 2013-14 to 2014-15. Had this adjustment not taken place, the figure would have been £11.5 billion. As both figures are lower than one-sixth of estimated benefit payments including redundancy payments (that is, one-sixth of £96.1 billion, or £16.0 billion) I expect that a Treasury Grant will be needed in 2015-16.

Treasury Grant

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

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

4.14 Following GAD's equivalent report last year, Parliamentary approval was sought at the beginning of 2014 to provide for a potential Treasury Grant of up to 5% of benefit expenditure (£4.6 billion) in order to ensure the recommended balance was maintained. In September 2014 £1.3 billion was drawn down as recommended by GAD. Continued monitoring during the year has indicated that the Fund balance would decline further and a second payment of £3.3 billion is expected in March 2015, taking the total payment for the year to the £4.6 billion approved by Parliament.

4.15 The 2015-16 estimate of benefit expenditure (excluding statutory payments paid by employers) is £96.1 billion[1] and consequently the maximum Treasury Grant permitted under the Social Security Act 1993, 17% of benefit expenditure estimated by the Government Actuary, is £16.3 billion. This estimate uses the proposed benefit rates for 2015-16, so is not very sensitive to economic assumptions, and demographic factors are likely to affect it only slightly.

4.16 The 1/6th of estimated benefit expenditure measure is £16.0 billion. When compared with the projected Fund balance at 31 March 2016 of £9.4 billion, this results in a shortfall of £6.6 billion, or 6.9% of estimated benefit expenditure[1]. This estimate allows for projected contribution receipts to be adjusted in line with HMRC estimates based on in-year 2014-15 information. Had these adjustments not taken place, the 1/6th of estimated benefit expenditure measure of £16.0 billion would be compared with a projected Fund balance at 31 March 2016 of £11.5 billion, resulting in a shortfall of £4.5 billion, or 4.7% of estimated benefit expenditure[1]. I therefore expect that a Treasury Grant will be needed in 2015-16.

4.17 Consistently with last year, the Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2015 is expected to include provision for a Treasury Grant for 2015-16. Taking a power to make a bigger Treasury Grant than is suggested by 4.16 would allow additional payments to be made to protect against adverse experience during the year. Appendix 6 contains projections of the amounts of Treasury Grant that may be required in the years 2015-16 to 2019-20, on a number of different sets of assumptions. These estimates suggest that at the moment such a bigger grant may not need to approach the maximum permitted under legislation (17% of benefit expenditure or £16.3 billion) in order to protect against even fairly substantial negative deviation from the assumptions.

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[1] This amount includes, as required by the legislation,

- expenditure by HMRC on Guardians Allowance,
- expenditure on Christmas bonus to people whose qualifying benefits is paid from the NI Fund,
- (net) expenditure by the Insolvency Service of the Department for Business Innovation & Skills on benefits under the Employment Rights Act 1996 and section 124 of the Pension Schemes Act 1993.

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

5 Sensitivity of estimates to economic assumptions

5.1 My projections are dependent on the following key variables: earnings increases and employment levels. To provide an indication of the broad impact of alternative assumptions in this regard, Table 5.1 below shows the effects of changes in these assumptions on contribution receipts for the National Insurance Fund. I have only shown the impact on contribution receipts as the impact on benefits in the two years would be relatively small and has consequently been ignored in the table below, particularly as benefit increases are already known or in the process of being brought in and are thus not assumed to vary. I have, however, included 5-year projections in Appendix 6 that project the effect of these alternative earnings increase assumptions for both contributions and benefits.

Table 5.1 – Effect on contribution receipts of the National Insurance Fund in 2014-15 and 2015-16 of variations in economic assumptions

Variation £ million	Effect on receipts in 2014-15	Effect on receipts in 2015-16	Approximate effect on the 31 March 2016 Fund balance
1% lower employee earnings increases	-870	-2,010	-2,880
1% higher employee earnings increases	+880	+2,020	+2,900
Lower GB number of employees by 200,000 in 2015-16 only	+0	-560	-560
Higher GB number of employees by 200,000 in 2015-16 only	+0	+560	+560

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

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

5.4 I also considered the effect on the projected Fund cash flow and balance over the next five years, of varying the assumption for future earnings increases. Table 5.2 below summarises the Fund balance situation at 31 March 2020 in each scenario. This illustration excludes the potential impact of the payment of Treasury Grants after 2014-15. Appendix 6 sets out details of these projections.

Table 5.2 - Projected Fund balance at 31 March 2020 of varying assumptions (excluding Treasury Grants)

Great Britain, £million Figures include the effect of the HMRC in-year contribution alignment	31 March 2020 Fund balance
Central assumptions	4,838
Earnings variant, 1% higher increases in each year	30,297
Earnings variant, 1% lower increases in each year	0[1]
Earnings variant, repeating past earnings increases (and CPI) in future	0[1]

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

6 Conclusion

6.1 The balance in the National Insurance Fund at 31 March 2015, as set out in Table 4.1 of this report, is estimated to be £18.0 billion. This is £3.9 billion larger than the estimate in my predecessor's report in January 2014. These estimates allow for contribution receipts to be adjusted in line with HMRC estimates based on in-year 2014-15 information, which currently indicate a decline in UK contributions from 2013-14 to 2014-15. Had this adjustment not taken place, the 31 March 2015 Fund balance is estimated to be £19.6 billion.

6.2 I estimate the balance of the Fund at 31 March 2016, allowing for the proposed increases in benefits and changes in contributions in 2015-16 that would arise from the proposed Up-rating, Re-rating and National Insurance Funds Payments, Welfare Benefits Up-rating Orders, Limits and Thresholds Regulations and the proposed changes in the National Insurance Contributions Bill currently before the UK Parliament, also allowing for the effect of the introduction of Class 3A voluntary contributions in the Social Security Class 3A Contributions (Units of Additional Pension) Regulations 2014, to be £9.4 billion (£11.5 billion before allowing for contribution receipts to be adjusted in line with HMRC estimates based on in-year 2014-15 information). As this estimated Fund balance is lower than one-sixth of benefit payments during the year (equivalent to £16.0 billion), I expect, on the basis of the assumptions that I have used, that a payment would be required during 2015-16 to the Fund out of money provided by Parliament in accordance with section 2(2) of the Social Security Act 1993.

6.3 If economic conditions depart from the assumptions used, the balance of the Fund at 31 March 2016 could be different from that given above. The effect of variations in some of these assumptions is described in section 5. These variation effects indicate that at the moment a 2015-16 Treasury Grant is not expected to need to approach the maximum permitted under legislation (17% of benefit expenditure or £16.3 billion) in order to protect against even fairly substantial negative deviation from the assumptions.

6.4 However, based on estimates for the period beyond 2015-16 up to 2019-20, it would seem that payments of Treasury Grant will be required in a number of years, albeit at a declining level under the central assumptions. Estimates are given in Appendix 6 including the effect of using alternative assumptions for earnings growth and are summarised below.

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

Great Britain, £millions	2015-16	2016-17	2017-18	2018-19	2019-20
Central assumptions	6,610	4,116	2,341	819	0
Central assumptions, had contributions not been aligned with HMRC in-year estimates	3,820	2,915	854	0	0
Earnings variant, 1% higher increases in each year	3,741	813	0	0	0
Earnings variant, 1% lower increases in each year	9,467	7,377	6,896	6,746	5,738
Earnings variant, repeating past earnings increases (and CPI) in future	5,689	5,406	7,581	9,352	9,184

Martin Clarke
Government Actuary
January 2015

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

All figures in £s	Weekly rate in 2014-15	Weekly rate proposed from April 2015
State Pension		
Category A or B (paid to individuals over State Pension age based on their own contributions or those made by a deceased spouse or civil partner)	113.10	115.95
Category BL (paid to an individual over State Pension age based on their spouse or civil partner's contributions while the spouse/civil partner is alive)	67.80	69.50
Non-contributory rate (paid to those over age 80 with inadequate contributions)	67.80	69.50
Increase for spouse or other adult dependant (retirement pension only)	64.90	65.70
Graduated retirement benefit (unit)	0.1314	0.1330
Bereavement benefits[1]		
Widowed parent's/mother's allowance and bereavement allowance/widow's pension (standard rate))	111.20	112.55
Bereavement payment (lump sum)	2000.00	2000.00
Employment and Support Allowance [4]		
*Personal allowance (age 25 or over)	72.40	73.10
*Work-related activity component	28.75	29.05
Support component	35.75	36.20
Incapacity Benefit long-term rate [2]		
Personal benefit	104.10	105.35
Transitional invalidity allowance higher rate	11.00	11.15
Transitional invalidity allowance middle rate	6.15	6.20
Transitional invalidity allowance lower rate	6.15	6.20
Wife or other adult dependant	60.45	61.20
Age increase higher rate [3]	11.00	11.15
Age increase lower rate [3]	6.15	6.20
Incapacity Benefit short-term (under State Pension age)		
Personal benefit higher rate	92.95	94.05
Personal benefit lower rate	78.50	79.45
Wife or other adult dependant	47.10	47.65
Incapacity Benefit short-term (over State pension age)		
Personal benefit higher rate	104.10	105.35
Personal benefit lower rate	99.90	101.10
Wife or other adult dependant	58.20	58.90
Jobseeker's Allowance (contribution-based) [5]		
*Personal benefit for those aged 18 to 24	57.35	57.90
*Personal benefit for those aged 25 and over	72.40	73.10
*Maternity Allowance [6]	138.18	139.58
Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay (including Statutory Shared Parental Pay from April 2015)		
*Standard rate [6]	138.18	139.58
Guardian's allowance		
First child/other children	16.35	16.55

Increases for the children of widows, widowers, retirement pensioners and those on long-term rate and higher short-term rate of incapacity benefit and recipients of Incapacity Benefit over pension age		
First child	8.05	8.00
Other children	11.35	11.35
Christmas bonus to pensioners (lump sum)	10.00	10.00

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

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

(3) The Employment and Support Allowance (Up-rating Modification) (Transitional) Regulations 2008 permit the modification to the rates of age additions, as part of the transition from Incapacity benefit to Employment and Support Allowance (ESA). The aim is that the total benefit (personal benefit plus age increase) is up-rated by no more than half the increase in CPI.

(4) Employment and Support Allowance replaced Incapacity Benefit for new claims from 27 October 2008. The benefit contains many allowances depending on the circumstances of the recipients. However, everyone who satisfies the work capability assessment will receive a personal allowance and either the work-related activity component or the support component. The process is underway to review Incapacity Benefit claims to assess if they can be transferred to ESA.

(5) Unemployed people who meet certain conditions, primarily relating to the payment of National Insurance contributions in the period recently before they become unemployed, can claim contribution-based Jobseeker's Allowance. Other unemployed people who either exhaust or have no entitlement to the contributory benefit may receive income-based Jobseeker's Allowance/Universal Credit.

(6) The first 6 weeks of Statutory Maternity Pay and Statutory Adoption Pay are paid at 90% of the recipient's average weekly earnings with no upper limit. Thereafter the remaining weeks (maximum 33) are paid at the standard rate or, if lower, 90% of her average weekly earnings. Maternity Allowance is paid at the amount shown or 90% of the woman's average weekly earnings if this calculation results in a figure which is less. Self-employed women who hold a certificate of small earnings exception receive Maternity Allowance equal to 90% of the Maternity Allowance threshold (£30 a week).

* Benefits up-rated with the Welfare Benefits Up-rating Order 2015.

Appendix 2: Main features of the contribution system

		Rate in 2014-15	Rate proposed from April 2015
Class 1			
Lower earnings limit (LEL)		£111 a week	£112 a week
Upper earnings limit (UEL)		£805 a week	£815 a week
Upper accrual point (UAP) (1)		£770 a week	£770 a week
Primary threshold		£153 a week	£155 a week
Secondary threshold		£153 a week	£156 a week
Upper secondary threshold(2)		N/A	£815 a week
Contribution rates (NI Fund and NHS combined)			
Primary (employee)	On earnings between the primary threshold and UEL (3)	12.00%	12%
	Reduced rate on earnings between the primary threshold and UEL for married women and widow optants	5.85%	5.85%
	On earnings above the UEL	2.00%	2.00%
	NHS allocation included in above		
	– percentage of earnings between the primary threshold and UEL	2.05%	2.05%
	– percentage of earnings above the UEL	1.00%	1.00%
Secondary (employer)	On all earnings above the secondary threshold (3)	13.80%	13.80%
	NHS allocation included in above (percentage of all earnings on which contributions are paid for employees earning above the primary threshold) (4)	1.90%	1.90%
Class 1A and Class 1B			
Contribution rate (employer only)		13.80%	13.80%
NHS allocation included in above		1.90%	1.90%

	Rate in 2014-15	Rate proposed from April 2015
Class 2		
Flat-rate contribution	£2.75 a week	£2.80 a week
Small earnings exception	£5,885 a year	N/A
Small profits threshold[5]	N/A	£5,965 a year
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 3		
Flat-rate contribution	£13.90 a week	£14.10 a week
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 3A[6]		
Contribution	N/A	Varies
NHS allocation included in above (percentage of contribution)	N/A	15.50%
Class 4		
Lower Profits Limit (LPL)	£7,956 a year	£8,060 a year
Upper Profits Limit (UPL)	£41,865 a year	£42,385 a year
Contribution rate		
On profits between the LPL and UPL	9.00%	9.00%
On profits above the UPL	2.00%	2.00%
NHS allocation included in above		
Percentage of profits between the LPL and UPL	2.15%	2.15%
Percentage of profits above the UPL	1.00%	1.00%

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

(2) The National Insurance Contributions Act 2014 introduced a zero band for Class 1 secondary NICs for employees under the age of 21 on earnings up to the UST, with effect from 6 April 2015.

(3) The contracted-out rebate for primary contributions in 2014-15 and 2015-16 is 1.4% of earnings between the LEL and UAP for COSRS. The contracted out rebate for secondary contributions in 2014-15 and 2015-16 is 3.4% of earnings between the LEL and UAP for COSRS.

(4) The amount of the secondary Class 1 NICs apportioned to the NHS is calculated as the relevant percentage (currently 1.9%) of the total earnings of those employees who earn above the primary threshold. This is in line with the interpretation of subsections (5) and (5A) of section 162 of the Social Security Administration Act 1992 provided to GAD by HMRC.

(5) The replacement of the SEE by the SPT is in the National Insurance Contributions Bill currently before the UK Parliament.

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

Appendix 3: Methods

This Appendix describes the methods adopted for years 2014-15 and 2015-16, the focus of this report. Additional methods covering 5-year projections are described in Appendix 6.

Contributions

1. Contributions are estimated separately for each class of National Insurance contribution. Actual known National Insurance Contribution amounts in recent years from HMRC, including figures from the audited National Insurance Fund accounts, are used to adjust modelled estimates for future years. Adjustments are also made to allow for HMRC estimates of the effect of certain measures announced in successive Budgets and Autumn Statements are either too new or too small to add to our main modelling.

2. Estimates of Class 1 contributions are made separately for gross contributions and amounts of contracted-out rebates. Estimates of gross contributions are made using earnings distributions based on the Annual Survey of Hours and Earnings (ASHE) produced by the Office for National Statistics and the Survey of Personal Incomes published by HMRC. Estimates of COSR rebates are made using earnings distributions for employees in contracted-out employment based on ASHE alone.

3. Class 1 contributions for 2014-15 onwards have additionally been adjusted downward in line with HMRC in-year estimates, which currently indicate a decline in UK Class 1 contributions from 2013-14 to 2014-15. These in-year estimates involve a number of assumptions and uncertainties and the outturn for 2014-15 could potentially be materially different. To provide an indication of the possible degree of uncertainty involved, this report also indicates what the estimates would be without any adjustment in line with the HMRC in-year estimates.

4. The in-year estimates in 3. above have been prepared by HMRC in a manner consistent with the National Insurance Fund accounts and reviewed by OBR. There are two main features in these in-year estimates. The first is a downward revision of 2014-15 National Insurance Contributions (NICs) of around 2% that is assumed to apply in all years from 2014-15. The second is an assumed split of receipts estimates between income tax and NICs that results in an increased delay between their being incurred during 2014-15 and their subsequent payment, reducing 2014-15 NIC receipts by around a further 1%, then increasing 2015-16 NIC receipts to compensate.

5. My estimates already allowed for a deferral of bonuses between 2012-13 and 2013-14 among certain high earners as a result of a change in their highest rate of tax, a feature that should not be included in 2014-15 and subsequent years. This allowance was based on an estimate of deferred bonuses provided by HMRC. This allowance would account for less than 1/6th of the combined 3% downward revision in 2014-15 Class 1 UK contributions in 4. above. I also observed a decline in Northern Ireland Class 1 contribution receipts from 2012-13 to 2013-14, but were this decline to continue into 2014-15 it would not account for the remainder of the downward revision in Class 1 UK contributions. It has not been possible for GAD to account for the remainder of this downward revision using available ONS information regarding employment and earnings or payment patterns. HMRC are not currently aware of any specific reason for the indicated decline. Consequently, while this report provides an indication of the possible degree of uncertainty as regards the outturn for 2014-15 in comparison with the in-year estimate, GAD also proposes to engage further with HMRC regarding in-year estimates and their development, to help refine our estimates going forward.

6. Although this report concerns the National Insurance Fund of Great Britain, transfers from the Great Britain National Insurance Fund to the Northern Ireland National Insurance Fund are made (see paragraph 23 below). For the purpose of estimating these transfers, I have assumed that the observed decline in Northern Ireland Class 1 contribution receipts from 2012-13 to 2013-14 is reversed by 2015-16, as there is an observed improvement in the available Northern Ireland Labour Force Survey employment data for 2014-15 in comparison with 2013-14 in the absence of other sources on likely take-up.

7. Other classes of National Insurance contributions, which generate substantially lower revenues than Class 1, are estimated using simplified models. Class 1A and Class 1B contributions are estimated using data and projections provided by HM Revenue & Customs on contributions paid in previous years. Estimates of Class 2 and Class 4 contributions are estimated using data on the earnings of the self-employed received from HM Revenue & Customs, adjusted for earnings increases. These data are combined with information on contributions received in the past, the assumed numbers of self-employed in the future, and the Class 2 and Class 4 contribution rates. Class 3 contributions are estimated by adjusting the contributions paid in earlier years for the changes in the contribution rate. The underlying numbers of people paying Class 3 contributions are based on HM Revenue & Customs assumptions. I have also allowed for the introduction of Class 3A voluntary contributions for those current and prospective pensioners reaching SPa before 6 April 2016, adopting DWP's estimates of the Class 3A contributions that will be received in 2015-16 and 2016-17.

8. Statutory payments include

- Statutory Maternity Pay (SMP)
- Statutory Paternity Pay (SPP) including Additional Statutory Paternity Pay (ASPP)
- Statutory Shared Parental Pay (SShPP) and
- Statutory Adoption Pay (SAP)

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

Other receipts

9. The estimates given for receipts from state scheme premiums are based on information provided by HM Revenue & Customs.

10. The investment income has been estimated for future years by applying an assumed

rate of investment return to the average balance in the Fund during each future year. The investment return on the National Insurance Fund is expected to be close to the Official Bank of England Rate (Bank Rate) given that the assets of the National Insurance Fund are deposited with the Commissioners for the Reduction of National Debt. The assumed rate of investment return is based on the OBR`s Economic and fiscal outlook (EFO) report published on 3 December 2014.

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

Benefits

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

13. The estimate of basic retirement pension, by far the largest amount of benefit payable, uses a 2012-based low migration population projection for Great Britain, derived from population projections issued by ONS, as a basis for the number of people over State Pension age. The estimates allow for different proportions of the population at different ages in any given year above State Pension age receiving basic retirement pension. Allowance is made for trends in the average amounts of benefit and the changing mix in categories of retirement pension for women arising from the increasing trend for women to have entitlement on their own contributions.

14. Allowance has been made for the increases in female State Pension age during 2014-15 to 2019-20 and male State Pension age during 2018-19 to 2019-20.

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

16. Estimates of amounts of additional pension paid with retirement pension are derived from age-specific data on past earnings from the data provided from DWP. For future years, earnings factors are derived from the output of the National Insurance Class 1 contributions model, with adjustments for the difference between earnings on which contributions are paid and earnings counting for accruals of additional pension, and with allowance for different accrual rates on different bands of earnings in the State Second Pension (S2P). Allowance is also made for accruals of S2P-credited earnings from 2002-03 onwards, including the changes introduced by the Pensions Act 2007, based on information from DWP. Accrued earnings are projected to pension age based on population mortality rates from the ONS 2012-based population projections. At State Pension age, the projected accrued earnings are converted to amounts of awards of additional pension. These amounts of additional pension are projected forward using mortality rates based on the ONS's 2012-based population projection, with adjustment to allow for lighter mortality rates for amounts of additional pension than for lives in the population as observed in DWP`s data . Allowance is made for additional pension which is inherited by surviving widows and widowers after the death of a pensioner. A similar method is used for guaranteed minimum pensions and contracted-out

deductions, with further adjustment made to the mortality rates to allow for generally lighter mortality for those contracted out.

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

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

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

20. Allowance has also been made for the impact of the Welfare Benefits Up-Rating Act 2013 on working age benefits payable from the Fund. I have not allowed for the impact of any capping of benefit payments as I have assumed that any such capping would not affect the payments made from the Fund.

Other payments

21. The administration costs for 2014-15 are based on estimates provided by HM Revenue & Customs. Future costs have been estimated as the 2014-15 costs increased in line with average earnings growth.

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

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

24. The figures for "Other payments" are based on an extrapolation of amounts shown in the accounts of the National Insurance Fund for this item in previous years.

Appendix 4: Analysis of contribution receipts

Great Britain, £ million			2014-15		2015-16	
National Insurance Fund						
Class 1 (1)	Primary	Gross	35,177		36,827	
	Contracted-out rebate (2)		1,615		1,598	
		Net		33,561		35,228
	Secondary	Gross	51,642		54,002	
	Contracted-out rebate (2)		3,923		3,882	
		Net		47,719		50,120
	Total	Gross	86,819		90,829	
	Contracted-out rebate (2)		5,538		5,480	
		Net		81,281		85,348
Classes 1A and 1B				1,123		1,165
Class 2				323		322
Class 3				28		27
Class 3A				0		366
Class 4				1,497		1,590
Total National Insurance Fund contributions(3)				**84,252**		**88,818**
National Health Service						
Class 1	Primary		8,093		8,480	
	Secondary		11,613		12,157	
	Total			19,706		20,638
Classes 1A and 1B				179		186
Class 2				59		59
Class 3				5		5
Class 3A				0		67
Class 4				592		630
Total National Health Service contributions(4)				**20,541**		**21,584**

Appendix 4 (cont)

Great Britain £ million			2014-15		2015-16	
All contributions						
Class 1 [1]	Primary	Gross	43,269		45,307	
	Contracted-out rebate [2]		1,615		1,598	
		Net		41,654		43,708
	Secondary	Gross	63,256		66,160	
	Contracted-out rebate [2]		3,923		3,882	
		Net		59,333		62,278
	Total	Gross	106,525		111,466	
	Contracted-out rebate [2]		5,538		5,480	
		Net		100,987		105,986
Classes 1A and 1B				1,303		1,351
Class 2				382		381
Class 3				33		32
Class 3A				0		433
Class 4				2,089		2,220
Total contributions [4]				**104,794**		**110,403**

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

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

(3) These figures appear in Table 4.1 in the main report.

(4) Figures may not sum to totals shown due to rounding. Note that the figures in this Appendix 4 allow for Class 1 contribution receipts to be adjusted in line with HMRC estimates based on in-year 2014-15 information, which currently indicate a decline in UK contributions from 2013-14 to 2014-15. Had this adjustment not taken place, the estimated total contributions would have been £106.9 billion for 2014-15 and £111.0 billion for 2015-16.

Appendix 5: Comparison of current and January 2014 2014-15 cash flow estimates

The table below compares the 2014-15 estimates in this report with those in last year's report.

Great Britain £ million		2014-15 current estimates, on the assumptions in Section 4 and detailed in Appendix 3		2014-15 estimates in the January 2014 Up-rating Report
Receipts				
Contributions(1)	84,252		85,491	
Less recoveries of statutory payments (and abatements)	2,471		2,489	
Net contribution receipts(3)		81,781		83,001
Treasury Grant		4,600		0
Compensation from Consolidated Fund for statutory payments recoveries		2,464		2,481
Income from investments		103		90
State scheme premiums		49		37
Other receipts		40		40
Total receipts (3)		**89,036**		**85,648**
Payments(2)				
Benefits		92,278		91,814
Personal and stakeholder pensions contracted-out rebates		7		7
Administration costs		920		962
Redundancy fund payments (net)		280		318
Transfer to Northern Ireland		609		340
Other payments		173		172
Total payments (3)		**94,267**		**93,613**
Excess of receipts over payments(3)		-5,231		-7,965

(1) The reduction of £1.2 billion in contributions is due to a downward revision in assumed earnings growth for 2014-15 (partially offset by an increase in the number of people assumed to be employed and other miscellaneous effects) and a downward adjustment in contribution levels in line with HMRC estimates based on in-year 2014-15 information. When the expected receipt of Treasury Grants of £4.6 billion in 2014-15 is also taken into account, there is a net increase in receipts of around £3.4 billion. Deducting the increase in payments of around £0.7 billion, results in a net increase in cash flow to the Fund of around £2.7 billion in comparison with the estimates from last year. This, together with the £1.2 billion improvement in the 1 April 2014 Fund value outturn compared to last year's estimate accounts for the improvement in the estimated 31 March 2015 Fund value in Table 1.1.

(2) The relatively small difference of £0.7 billion is due to revised assumptions raising projected costs, together with a number of small differences between the projections including higher projected ESA and IB payments, offset to an extent by lower revised redundancy fund payments and lower estimated administration costs.

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

Appendix 6: Projections beyond April 2016

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

Assumptions

2. I have assumed that decisions regarding future increases in contribution limits and rates and increases in benefits from 2016-17 onwards are made in line with the same policies and approaches as used for the increases for 2015-16.

3. Unless otherwise stated the methods and assumptions used for these projections are the same as the methods and assumptions used for the results shown earlier in this report. In particular CPI, earnings growth and triple lock assumptions are based on Table 4.1 in OBR's 3 December 2014 Economic and fiscal outlook. Also, Class 1 contribution estimates in all years are adjusted in line with HMRC estimates based on in-year 2014-15 information, which currently indicate a decline in UK Class 1 contributions from 2013-14 to 2014-15.

4. These projections allow for the effect of the introduction of new State Pension legislation from 2016-17 onwards and the cessation of contracting-out. For this purpose, I have assumed that the new State Pension will commence at a rate of £154.30 a week in 2016-17, based on this report's assumptions about the up-rating that will apply next year and the rounding of the rate. These projections also allow for the zero rate band for Class 1 employers NICs for apprentices below age 25 on earnings up to the UEL/UST that comes in from 6 April 2016.

5. Modelling of State pension expenditure for pensioners retiring before 2016-17 follows the methods described in Appendix 3. For those people reaching SPa on or after April 2016, I have used a database provided by DWP of anonymised data which included records on over 450,000 individuals who would be affected by the new State Pension transitional arrangements. This database showed past earnings and contribution record history. Based on this data I calculated, for each individual (a) their entitlement at the introduction of the new State Pension based on the pre-Pensions Act 2014 system, and (b) their entitlement assuming the new State Pension system had always been in place. The higher of these two amounts is the individual's 'starting amount'. If the starting amount is greater than the full rate of the new State Pension, the difference becomes the individual's protected payment and is payable alongside the new State Pension.

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

7. 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

above and qualifying years that individuals might accrue after 2016. In the long term I would expect this average proportion to stabilise close to but less than 100% of the full new State Pension in 4. above. 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, I 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%). 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.

8. We have discussed with DWP the extent to which our modelling of new State Pension aligns with theirs and there are differences. Both we and DWP are in the process of developing our modelling in this regard. At this stage, I 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 I have good confidence in the overall picture being presented. It would seem inappropriate to do so under the legislative framework for this review and therefore more detailed analysis should be undertaken.

9. The earnings variants assume in turn that earnings increases are 1% higher than assumed each year, 1% lower each year than assumed and that the past five years of earnings increases and CPI (2009-10 to 2013-14) repeat over the next five years (2015-16 to 2019-20). It should be noted that these are purely illustrations of sensitivity of the results to the earnings increase assumption and that future actual experience could be completely different.

Employees[(1)]

Financial year	UR2014 people-based (millions)	UR2015 people-based (millions)	Change (millions)
2013-14	25.8	25.9 (actual)	+0.1
2014-15	26.0	26.3	+0.3
2015-16	26.2	26.7	+0.5
2016-17	26.4	26.8	+0.4
2017-18	26.7	26.9	+0.2
2018-19	26.9	27.0	+0.1
2019-20	N/A	27.1	N/A

(1) Separately, section 5 discusses the impact in 2015-16 of a 200,000 increase and reduction in employee numbers.

Annual increase in September CPI

Year	UR2014 %	UR2015 %	Change %
2013	2.7 (actual)	2.7 (actual)	nil
2014	2.2	1.2 (actual)	-1.0
2015	2.1	1.2	-0.9
2016	2.0	1.8	-0.2
2017	2.0	2.0	nil
2018	2.0	2.0	nil
2019	N/A	2.0	N/A

Earnings growth from one financial year to the next

Financial year	UR2014	UR2015					
	%	Central %	Change %	+1% earnings variant	-1% earnings variant	Past earnings variant	CPI for past earnings variant
2013-14	2.4	1.7	-0.7	1.7	1.7	1.7	2.7
2014-15	2.5	1.8	-0.7	2.8	0.8	1.8	1.2
2015-16	3.4	2.1	-1.3	3.1	1.1	3.1	1.1
2016-17	3.6	3.3	-0.3	4.3	2.3	0.8	3.1
2017-18	3.7	4.0	+0.3	5.0	3.0	0.9	5.2
2018-19	3.7	3.9	+0.2	4.9	2.9	2.3	2.2
2019-20	N/A	3.8	N/A	4.8	2.8	1.7	2.7

Triple Lock

Date from which triple lock increase applicable	UR2014	UR2015				
	%	Central %	Change %	+1% earnings variant	-1% earnings variant	Past earnings variant
1 April 2014	2.7 (actual)	2.7 (actual)	nil	2.7 (actual)	2.7 (actual)	2.7 (actual)
1 April 2015	2.5	2.5 (proposed)	nil	2.5 (proposed)	2.5 (proposed)	2.5 (proposed)
1 April 2016	3.3	2.5	-0.8	2.5	2.5	2.5
1 April 2017	3.5	3.0	-0.5	4.0	2.5	3.1
1 April 2018	3.7	3.8	+0.1	4.8	2.8	5.2
1 April 2019	3.8	4.0	+0.2	5.0	3.0	2.5

Projections

10. The variants shown here focus on the impact of changes in earnings growth as the size of the Fund is particularly sensitive to changes in this assumption. Changes in earnings growth have a direct impact of the level of contributions received. However the impact of changes in earnings growth on benefit payments – where this reduces to below CPI or 2.5% – will be limited due to the Basic State Pension triple lock mechanism. Figures for 2013-14 are from the National Insurance Fund accounts.

Tables of results

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

Central Assumptions – Fund value from 2014-2020

Great Britain, £ million	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Income[(1)]	84,767	89,036	88,989	96,922[(2)]	101,672	106,440	111,222
Payments	90,654	94,267	97,576	100,638	103,710	106,991	109,456
Excess of receipts over payments[(1)]	-5,887	-5,231	-8,587	-3,716	-2,039	-552	1,766
Balance in fund at end of year[(1)]	23,196	17,965	9,378	5,663	3,624	3,072	4,838
Balance at end of year as a percentage of benefit payments[(1)]	26.0%	19.4%	9.8%	5.7%	3.5%	2.9%	4.5%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[(3)]	N/A	N/A	6,610	4,116	2,341	819	0

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

The Class 1 contribution estimates have been adjusted in line with HMRC estimates based on in-year 2014-15 information, which currently indicate a decline in UK Class 1 contributions from 2013-14 to 2014-15. Had this adjustment not taken place, the above table would have appeared as follows:

Central Assumptions – Fund value from 2014-2020

Great Britain, £ million	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Income [(1)]	84,767	90,727	89,514	97,815[(2)]	102,869	107,752	111,549
Payments	90,654	94,314	97,591	100,663	103,743	107,027	109,462
Excess of receipts over payments[(1)]	-5,887	-3,587	-8,077	-2,848	-874	725	2,088
Balance in fund at end of year[(1)]	23,196	19,609	11,531	8,684	7,810	8,535	10,622
Balance at end of year as a percentage of benefit payments[(1)]	26.0%	21.2%	12.0%	8.8%	7.6%	8.1%	9.9%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[(3)]	N/A	N/A	4,469	3,275	1,236	0	0

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

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

Great Britain, £ million	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Balance in fund at end of year[(1)]	22,033	14,068	6,040	4,189	4,458	6,800

(1) Ignoring the effect of any Treasury Grants.

Earnings variant 1% higher increases in each year - Fund value from 2014-2020

Great Britain, £ million	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Income(1)	84,767	89,904	91,023	100,298(2)	106,482	112,819	119,368
Payments	90,654	94,273	97,588	100,659	103,739	107,029	109,505
Excess of receipts over payments(1)	-5,887	-4,369	-6,565	-361	2,743	5,790	9,863
Balance in fund at end of year(1)	23,196	18,827	12,262	11,901	14,645	20,434	30,297
Balance at end of year as a percentage of benefit payments(1)	26.0%	20.3%	12.8%	12.0%	14.3%	19.4%	28.2%
Treasury Grants required to maintain Fund at one-sixth of benefit payments(3)	N/A	N/A	3,741	813	0	0	0

Earnings variant 1% lower increases in each year - Fund value from 2014-2020

Great Britain, £ million	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Income(1)	84,767	88,173	86,967	93,583(2)	96,948	100,215	103,317
Payments	90,654	94,261	97,562	100,617	103,682	106,954	109,408
Excess of receipts over payments(1)	-5,887	-6,088	-10,596	-7,034	-6,734	-6,739	-6,091
Balance in fund at end of year(1)	23,196	17,108	6,512	0(4)	0	0	0
Balance at end of year as a percentage of benefit payments(1)	26.0%	18.5%	6.8%	0%	0%	0%	0%
Treasury Grants required to maintain Fund at one-sixth of benefit payments(3)	N/A	N/A	9,467	7,377	6,896	6,746	5,738

Earnings variant repeating past earnings increases (and CPI) in future - Fund value from 2014-2020

Great Britain, £ million	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Income(1)	84,767	89,095	89,865	95,623(2)	96,351	97,673	99,876
Payments	90,654	94,267	97,581	100,630	103,679	106,944	109,392
Excess of receipts over payments(1)	-5,887	-5,172	-7,717	-5,007	-7,328	-9,271	-9,515
Balance in fund at end of year(1)	23,196	18,024	10,307	5,300	0(4)	0	0
Balance at end of year as a percentage of benefit payments(1)	26.0%	19.5%	10.7%	5.3%	0%	0%	0%
Treasury Grants required to maintain Fund at one-sixth of benefit payments(3)	N/A	N/A	5,689	5,406	7,581	9,352	9,184

Notes to the three tables above:

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

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