Government
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Report by the Government Actuary on:

The draft Social Security Benefits Up-rating Order 2017; and

The draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2017

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Presented to Parliament pursuant to section 142(1) of the Social Security Administration Act 1992, as amended by the Social Security Contributions (Transfer of Functions, etc.) Act 1999, sections 150(8), 150A(5) and 151A(6) of the Social Security Administration Act 1992 and section 11(5) of the Welfare Reform and Work Act 2016.

January 2017

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at enquiries@gad.gov.uk

Print ISBN 9781474139878
Web ISBN 9781474139885

ID 06011711 01/17

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

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To: The Right Hon. Damian Green MP, Secretary of State for Work and Pensions

Jane Ellison 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 2017 and the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2017.

This report is made in accordance with section 142(1) of the Social Security Administration Act 1992, as amended by the Social Security Contributions (Transfer of Functions, etc.) Act 1999, sections 150(8), 150A(5) and 151A(6) of the Social Security Administration Act 1992 and section 11(5) of the Welfare Reform and Work Act 2016.

Martin Clarke
Government Actuary
January 2017

Government Actuary's Department

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1 Executive summary

1.1 This report discusses the potential effect on the National Insurance Fund ("the Fund") of the up-rating of contributory benefits and changes to National Insurance contribution rates, limits and thresholds announced at the time of the Autumn Statement on 23 November 2016 as set out in:

> the draft Social Security Benefits Up-rating Order 2017 ("the Up-rating Order")

> the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2017 ("the Contribution Regulations")

1.2 My report focuses primarily on the impact of the announcements over the next financial year, but also considers 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 Treasury Grant payments into the Fund.

Estimates for 2017-18

1.3 Allowing for the up-rating of benefits and re-rating of contribution rates, limits and thresholds as proposed in the draft order and draft regulations, the estimated Fund balance as at 31 March 2018 is £20.9 billion. This is 20.8% of estimated benefit payments (including redundancy payments) of £100.5 billion in 2017-18.

1.4 In recent years, payment of a Treasury Grant[1] has been made if the balance of the Fund is projected to fall below one-sixth of estimated annual benefit expenditure (including redundancy receipts). For 2017-18 this would equate to a balance of £16.8 billion. Based on the projected end-year balance, I do not expect that a Treasury Grant will be required in 2017-18. However, it should be noted that the balance of the Fund may fluctuate throughout the financial year as there can be volatility in the pattern of contribution receipts.

1.5 Details of projected income, expenditure and fund balances for 2017-18 are provided in Table 1.1 overleaf.

[1] A 'Treasury Grant' is a payment into the Fund from money voted by Parliament as permitted under Section 2 of the Social Security Act 1993. HM Treasury may determine the size of such payments provided that they do not exceed a certain percentage (17%) of benefit expenditure for the financial year concerned as estimated by the Government Actuary or Deputy Government Actuary.

Table 1.1 – Projected income, expenditure and fund balances for 2017-18

	£ billion	
Fund balance as at 31 March 2017		**21.2**
Contribution receipts	99.2	
Other income	2.6	
Total receipts		**101.9**
Benefit payments	100.3	
Other expenditure	1.9	
Total payments		**102.1**
Excess of receipts over payments		-0.3
Fund balance as at 31 March 2018		**20.9**

Figures may not sum to totals shown due to rounding.

1.6 As shown in Table 1.1 payments out of the Fund are estimated to exceed receipts by £0.3 billion. The projected fund balance as at 31 March 2017 of £21.2 billion differs from that estimated in my 2016 Up-rating Report of £26.3 billion. This difference reflects:

- the Fund balance as at 31 March 2016 being £1.5 billion lower than that projected in my report last year;
- updated projections providing for a reduction in 2016-17 receipts of £3.3 billion, primarily due to lower assumed earnings increases; and
- an increase in projected payments in 2016-17 of £0.4 billion.

1.7 No Treasury Grants are expected to be paid into the Fund in 2016-17.

1.8 As the estimated receipts and payments are both 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 very sensitive to even small changes in assumptions and experience.

Financial effect of the draft Up-rating Order and the draft Contribution Regulations on the Fund in 2017-18

1.9 The draft Up-rating Order is estimated to increase benefit expenditure by £2.0 billion and the draft Contribution Regulations are estimated to increase contribution income by £0.3 billion. These effects are determined relative to the position had there been no changes in benefit rates and contribution rates, limits and thresholds in 2017-18.

Table 1.2 – Effect of the draft Up-rating Order and the draft Contribution Regulations on the Fund as at 31 March 2018

	£ million	
Fund balance without changes		**22,554**
Effect of changes due to the draft Up-rating Order	-1,952	
Effect of changes due to the draft Contribution Regulations	271	
Fund balance with changes		**20,872**

Figures may not sum to totals shown due to rounding.

Five-year projections

1.10 This report also provides projections for a five-year period, to 2021-22. Longer term projections of the Fund will be included in my next Quinquennial Review report which will have an effective date of April 2015.

1.11 The five-year projections show that the balance of the Fund is projected to decline in 2016-17 and 2017-18, as benefit expenditure exceeds contribution income. However, from 2018-19 and each year until 2021-22, contribution income is expected to exceed benefit expenditure and result in an increasing Fund balance. The smaller increases in benefit expenditure, over this period, are a result of the transition to a higher State Pension age, which reduces the number of new claimants of State Pension.

1.12 These projections suggest that payment of Treasury Grants will not be required during the period to 2021-22. However, as noted above, the size of the Fund, and the Fund as a percentage of benefit payments, can be very sensitive to even small changes in estimated receipts and payments. There can also be volatility in the pattern of contribution receipts within financial years which may cause the Fund balance to fall below one-sixth of estimated annual benefit expenditure.

Data, assumptions and sensitivities

1.13 The assumptions used in these projections are based on "determinant" output from the Office for Budget Responsibility (OBR) and the Office for National Statistics (ONS) 2014-based principal population projection for Great Britain, issued in November 2015, consistent with the central assumptions used by the OBR in its Economic and fiscal outlook (EFO) report published on 23 November 2016. Details of the key assumptions are given in Section 4 of this report.

1.14 Varying the key assumptions would change the estimates for benefit payments and contribution receipts and in turn the estimated balance of the Fund. Short-term estimates of future contribution income can vary quite significantly with changes in employment numbers and general earnings increases. Corresponding estimates of future benefit expenditure tend to be more stable as the number of beneficiaries is more closely linked to population numbers, and benefit rates for 2016-17 and 2017-18 are now known. However future benefit expenditure would vary in response to changes in earnings increases and CPI inflation.

1.15 To illustrate the sensitivity of the estimates to economic assumptions, I have prepared variant estimates for the projected cash flow and balance of the Fund. These variant projections suggest that the Fund balance is particularly sensitive to the level of earnings growth. If earnings increases are lower than assumed in the central projections, there is a risk that Treasury Grants may be required within the next five years.

2 Introduction

2.1 The National Insurance Fund ("the Fund") is financed broadly on the pay-as-you-go principle. The Fund receives contribution income to fund current and future benefit expenditure, with a fund maintained to act as a reserve. In recent years, payment of a Treasury Grant, as permitted under Section 2 of the Social Security Act 1993, has been made if the balance of the Fund is projected to fall below one-sixth of estimated annual benefit expenditure (including redundancy receipts).

2.2 This report has been prepared under sections 142(1), 150(8), 150A(5) and 151A(6) of the Social Security Administration Act 1992 (SSAA 92) and section 11(5) of the Welfare Reform and Work Act 2016 (WRAWA 16). It considers the potential effect on the Fund of:

> the draft Social Security Benefits Up-rating Order 2017 ("the Up-rating Order")

> the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2017 ("the Contribution Regulations")

2.3 This report focuses on the Fund over the 2017-18 financial year but also includes projections for each financial year to 2021-22. Longer term projections of the Fund will be considered in my next Quinquennial Review of the Fund which will have an effective date of April 2015.

2.4 This report is required to be laid by the Secretary of State for Work and Pensions before Parliament under sections 150(8), 150A(5) and 151A(6) of SSAA 92 and section 11(5) of WRAWA 16, and by HM Treasury under section 142(1) of SSAA 92 in respect of the Contribution Regulations[2].

2.5 The results provided in this report are projections and depend on assumptions made about the future. The demographic, economic and benefit-specific assumptions underlying these projections are inevitably subject to a considerable degree of uncertainty. Therefore there is considerable uncertainty about the future progress of the Fund and actual experience could differ materially from the projections provided.

2.6 It should be noted that this report is confined to the National Insurance Fund in Great Britain. It does not consider the separate Northern Ireland National Insurance Fund. However, estimates are provided for transfers from the Great Britain National Insurance Fund to the Northern Ireland National Insurance Fund which are expected to be required to keep the balance in the Northern Ireland National Insurance Fund at 2.87% of the combined balance in the two funds. This proportion is based on analysis of the working populations in Great Britain and Northern Ireland as provided in the 2011 census.

[2] The functions of the Secretary of State under Part 10 of the Social Security Administration Act 1992 (review and alterations of benefits: Great Britain) so far as relating to guardian's allowance were transferred to the Treasury by section 49(3) of the Tax Credits Act 2002. Guardian's allowance will be up-rated by a separate Statutory Instrument made by the Treasury.

3 Proposed changes to benefits and contributions

Up-rating Order 2017

3.1 The draft Up-rating Order proposes increasing the rates of some social security benefits paid from the Fund from April 2017. The most significant benefit paid from the National Insurance Fund is state pensions. The proposed uprating of these is described below.

3.2 Current legislation requires the basic State Pension (pre-2016 awards) and full rate of new State Pension (post-April 2016 awards) to be up-rated by at least the growth in earnings. However, the current Government has committed to up-rating these benefits by the highest of growth in average earnings (AWE), prices (CPI) or 2.5%, referred to as "triple lock".

3.3 The annual increase in the level of CPI to September 2016 was 1.0% and average earnings (AWE) increase over the year to May-July 2016 was 2.4%. Therefore the result of the triple lock is that the proposal is to up-rate the basic State Pension and full rate of new State Pension from April 2017 by 2.5%.

3.4 The draft Up-rating Order proposes increasing other components of the pre-April 2016 State Pension, including earnings-related additional pensions (under the state earnings-related pension scheme (SERPS), the state second pension (S2P) and graduated retirement benefit) by 1.0%, in line with the September 2016 CPI increase. The draft Up-rating Order also proposes increasing amounts in excess of the full rate of the new State Pension (protected payments) and payments relating to State Pension deferral (increments and, in respect of pre-April 2016 State Pension only, lump-sum payments) in line with the CPI increase.

3.5 Table 3.1 below shows the proposed changes in the State Pension benefit rates.

Table 3.1 – Changes to the main state pension standard rates[1]

	Weekly rate in 2016-17	Proposed increase in weekly rate	Weekly rate in 2017-18
New State Pension (post-April 2016 awards)	£155.65	£3.90	£159.55
Pre-April 2016 Basic State Pension – person claiming on their own or their deceased spouse's contributions	£119.30	£3.00	£122.30
Pre-April 2016 Basic State Pension – person claiming on their spouse's contributions	£71.50	£1.80	£73.30

[1] Proportionate rates are paid to those with proportionate contribution records with a de minimis of ten years of contributions applying in respect of post-April 2016 awards.

3.6 The financial effects of the up-rating of benefits provided for in the draft Up-rating Order are shown in Section 5.

Welfare Reform and Work Act 2016

3.7 The WRAWA 16 maintains the 2015-16 benefit rates for contribution-based Employment and Support Allowance (excluding the Support Group component) and contribution-based Jobseeker's Allowance for the year 2017-18.

3.8 Full details of the rates of benefits provided from the National Insurance Fund are shown in Appendix A.

Contribution Regulations 2017

3.9 The draft Contribution Regulations propose increasing some National Insurance contributions ("NICs") rates and increasing some limits and thresholds between, and in some cases above, which contributions are paid. Table 3.2 below shows the changes in the major contribution rates, limits and thresholds.

Table 3.2 – Changes to the main rates, limits and thresholds

	2016-17	**2017-18**
	Per week	
Lower Earnings Limit for Class 1 NICs	£112	£113
Upper Earnings Limit for Employees' (Primary) Class 1 NICs	£827	£866
Primary Threshold	£155	£157
Secondary Threshold	£156	£157
Upper Secondary Threshold	£827	£866
Upper Secondary Threshold for under age 21 group	£827	£866
Upper Secondary Threshold for relevant apprentices	£827	£866
Rate of Class 2 NICs for Self- employed	£2.80	£2.85
	Per annum	
Small Profits Threshold for Class 2 NICs	£5,965	£6,025
	Per week	
Rate of (voluntary) Class 3 NICs	£14.10	£14.25
Rate of (voluntary) Class 3A NICs	Varies	N/A[1]
	Per annum	
Class 4 NICs – Lower Profits Limit	£8,060	£8,164
Class 4 NICs – Upper Profits Limit	£43,000	£45,000

1 Class 3A voluntary contributions will not be available after 5 April 2017.

3.10 Further details of the revised rates and limits are provided in Appendix B.

3.11 The financial effects of the draft Contributions Regulations are shown in Section 5.

4 Assumptions used to project receipts and payments (2016-17 & 2017-18)

4.1 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.

4.2 The assumptions used in these projections are based on "determinant" output from the Office for Budget Responsibility (OBR) and the 2014-based principal population projection for Great Britain, from population projections issued by the Office for National Statistics (ONS) in November 2015, consistent with the central assumptions used by the OBR in its Economic and fiscal outlook (EFO) report published on 23 November 2016.

4.3 Table 4.1 below provides details of the key assumptions underlying the estimates, along with last year's equivalents.

Table 4.1 - Key assumptions for projections of contribution receipts[1]

	2016-17	2017-18
General earnings increase (%)[2]		
This year's report	2.5	2.4
Last year's report	3.5	3.7
Number of employees (millions)[3]		
This year's report	27.0	27.0
Last year's report	27.0	27.1

1 These assumptions are consistent with those used by the OBR in its EFO published on 23 November 2016. The general earnings increases have been taken from Table 4.1 of the EFO itself and the number of employees is taken from Table 1.6 of the supplementary economy tables published alongside the EFO.

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 EFO.

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 my projections I exclude Northern Ireland employees.

4.4 The benefit increases to be applied in the years 2016-17 and 2017-18 are already determined and are not assumptions. However, at the time of last year's report, the 2017-18 benefit increase was an assumption. Table 4.2 overleaf sets out information regarding benefit increases and how the triple lock increases have been determined, for comparison with Table 4.1.

Table 4.2 – Key assumptions for benefit up-rating

	2016-17	2017-18
Previous year's average May to July annual earnings increase (%)		
This year's report	2.9	2.4
Last year's report	2.9	3.2 (assumed)
Previous year's September CPI increase (%)		
This year's report	-0.1	1.0
Last year's report	-0.1	1.0 (assumed)
Triple lock increase (%)		
This year's report	2.9	2.5
Last year's report	2.9	3.2 (assumed)

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

4.6 Section 6 illustrates the impact of using different economic assumptions from those set out above.

5 Estimates for receipts payments and fund balance (2016-17 & 2017-18)

5.1 Table 5.1 below provides estimates of receipts and payments of the Fund for 2017-18 along with my latest estimates for 2016-17.

Table 5.1 – Estimated receipts and payments and statement of balances of the National Insurance Fund

Great Britain, £ million		**2016-17**		**2017-18**	
Receipts					
	Contributions	97,785		101,824	
	Less recoveries of statutory payments (and abatements)	2,536		2,607	
Net contribution receipts			95,249		99,217
Treasury Grant			0		0
Compensation from Consolidated Fund for statutory payments recoveries			2,285		2,599
Income from investments			68		44
State scheme premiums			15		0
Other receipts			0		0
Total receipts[1]			97,616		101,860
Payments					
Benefits[2]	At present rates		97,836	98,319	
	Increase due to proposed changes			1,952	
Total					100,272
Administration costs			821		841
Redundancy fund payments (net)[3]			275		274
Transfer to Northern Ireland			534		575
Other payments			173		177
Total payments[1]			99,639		102,139
Statement of balances					
Balance at beginning of year[4]			23,174		21,151
Excess of receipts over payments			-2,023		-279
Balance at end of year			21,151		20,872
Balance at end of year as percentage of annual benefit payments[5]			21.6%		20.8%

1 Figures may not sum to totals shown due to rounding.

2 The effect of the draft Up-rating Order 2017 is shown in Table 5.2. In 2016-17, £94,279 million of benefits are covered by the Up-rating Order with £3,557 million of benefits falling outside the Up-rating Order. The split of benefits between these two categories in 2017-18 is £96,737 million and £3,535 million respectively.

3 Redundancy payments are shown net of redundancy recoveries, as provided by the Insolvency Service.

4 The balance at 31 March 2016 is taken from the published accounts of the Fund for the year 2015-16.

5 Percentages of benefit payments allow for net redundancy payments.

Estimates for 2016-17

5.2 The estimates shown in Table 5.1 for 2016-17 may be compared with the estimates for the same period included in my report of January 2016. A full comparison is included in Appendix E.

5.3 In my January 2016 report it was estimated that receipts during the year 2016-17 would exceed payments by £1.6 billion. My updated estimate is that payments during the year 2016-17 will exceed receipts by £2.0 billion as shown in Table 5.1.

5.4 This change from an operating surplus to an operating deficit is primarily due to a £3.3 billion reduction in estimated receipts, largely resulting from lower assumed earnings increases, together with a £0.4 billion increase in estimated expenditure. Further information regarding the difference between the estimates for 2016-17 in this report and last year's report is provided in Appendix E.

5.5 These projections include an updated estimate for the transfer 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). This has decreased from £632 million in last year's report to £534 million in this year's report. This primarily reflects slightly higher assumed increases in contribution income in the Northern Ireland Fund relative to the Great Britain Fund.

Estimates for 2017-18

5.6 The size of the Fund as a percentage of benefit payments is projected to decrease, from 21.6% at the end of 2016-17 to 20.8% at the end of 2017-18.

Effects of the draft Social Security Benefits Up-rating Order 2017: a report under Section 150(8), 150A(5) and 151A(6) of the Social Security Administration Act 1992

5.7 I estimate that the potential increase in benefit payments in 2017-18 as a result of the proposed measures in the draft Up-rating Order will be £2.0 billion, taking estimated expenditure on the relevant benefits from £94.8 billion to £96.8 billion. A breakdown of this estimate by benefit is shown in the final column of Table 5.2 overleaf.

Effects of the Welfare Reform and Work Act 2016: a report under Section 11(5) of the Act

5.8 The WRAWA 16 maintains the 2015-16 benefit rates for contribution-based Employment and Support Allowance (excluding the Support Group component) and contribution-based Jobseeker's Allowance for the year 2017-18. Therefore there is no increase in benefit payments in 2017-18 in respect of these benefits.

5.9 The estimated total benefit payments in 2017-18 in respect of these benefits is £3,409 million. My updated estimate for expenditure on these benefits in 2016-17 of £3,431 million is an increase of £28 million from the £3,403 million projected in my report last year. Details of estimated expenditure on these benefits is also provided in Table 5.2.

Table 5.2 - Estimated benefit payments from the National Insurance Fund and the effect of the draft Up-rating Order on payments in 2017-18

Great Britain £ million	Estimated total payments in 2016-17	Estimated total payments in 2017-18 before the draft Up-rating Order	Estimated extra payments in 2017-18 as a result of the draft Up-rating Order	Estimated total payments in 2017-18 after the draft Up-rating Order
New State Pension[1]	1,441	4,698	108	4,806
Retirement Pensions – Basic[2]	72,157	69,978	1,582	71,560
Retirement Pensions – Additional Pensions	18,178	17,668	241	17,909
Incapacity Benefit – Basic	16	0	0	0
Incapacity Benefit – Additional Pensions	0	0	0	0
Widows'/Bereavement Benefits – Basic	510	490	4	494
Widows'/Bereavement Benefits – Additional Pensions	44	42	0	42
Contribution-based Employment and Support Allowance[3]	1,485	1,455	13	1,467
Maternity Allowance	448	454	4	458
Total of benefits covered by the Up-rating Order[4]	**94,279**	**94,785**	**1,952**	**96,737**
Guardian's Allowance	2	2	0	2
Christmas Bonus	124	124	0	124
Contribution-based Employment and Support Allowance[5]	3,130	3,078	0	3,078
Contribution-based Jobseeker's Allowance	301	331	0	331
Total of benefits not covered by the Up-rating Order[4]	**3,557**	**3,535**	**0**	**3,535**
Total Benefits[4]	**97,836**	**98,319**	**1,952**	**100,272**

1 Includes amounts of Protected Payments
2 Includes payments of Graduated Retirement Benefit
3 ESA Support Group component and Transitional Protection
4 Figures may not sum to totals due to rounding
5 ESA Personal Allowance & Work Related Activity Group component

Effects of the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2017 a report under Section 142(1) of the Social Security Administration Act 1992

5.10 I estimate that the effect of the measures proposed in the draft Contribution Regulations will be an increase in contribution receipts to the Fund in 2017-18 of £271 million. A breakdown of this estimate is shown in Table 5.3.

Table 5.3 – Estimated contribution receipts to the National Insurance Fund and the effect of the draft Contribution Regulations on receipts in 2017-18

Great Britain £ million	2016-17 contribution receipt estimates	2017-18 contribution receipt estimates				
		Before the Regulations	Impact of changes in limits and thresholds	Impact of changes in rates	Impact of the draft Contributions Regulations	After the Regulations
Class 1	94,290	98,069	271	0	271	98,340
Class 1A and 1B	1,223	1,266	0	0	0	1,266
Class 2	380	383	0	0	0	383
Class 3	30	30	0	0	0	30
Class 3A	56	0	0	0	0	0
Class 4	1,806	1,805	0	0	0	1,805
Total	97,785	101,553	271	0	271	101,824

Figures may not sum to totals shown due to rounding.

5.11 Table 5.3 shows the effect of the Regulations on 2017-18 contribution receipts. The reason for the increase in estimated receipts in 2017-18 is the effect of the increases in limits and thresholds for Class 1 contributions. The effect of changes for Classes 2 and 4 are not observable due to the delay between when contributions are accrued and the date that they go on to be paid.

Fund Balance

5.12 I estimate that the balance in the Fund at 31 March 2018, allowing for the measures proposed in the draft Up-rating Order and the draft Contribution Regulations, will be £20.9 billion. As this exceeds one-sixth of estimated benefit payments including redundancy payments (that is, one-sixth of £100.5 billion, or £16.8 billion) I expect that a Treasury Grant will not be required in 2017-18.

5.13 Table 5.4 below provides projections for the five-year period from 2017-18 to 2021-22, including details of amount of any Treasury Grants that may be required. These projections suggest that payment of Treasury Grants will not be required during the period to 2021-22. It should be noted that the smaller increases in benefit expenditure over this period are a result of the transition to a higher State Pension age, which reduces the number of new claimants of State Pension.

Table 5.4 – Fund projections from 2015-16 to 2021-22

Great Britain, £ million	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total receipts[1]	98,811	97,616[2]	101,860	105,036	108,895	113,708	118,533
Total payments	96,573	99,639	102,139	104,561	106,827	109,429	114,840
Excess of receipts over payments[1]	2,239	-2,023	-279	476	2,068	4,278	3,693
Balance in fund at end of year[1]	23,174	21,151	20,872	21,348	23,415	27,694	31,387
Balance at end of year as a percentage of benefit payments[1]	24.4%	21.6%	20.8%	20.7%	22.3%	25.7%	27.8%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[3]	N/A	N/A	0	0	0	0	0

1 Ignoring the effect of any Treasury Grants, apart from those paid in 2015-16.

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. This effect is, however, obscured in comparing 2015-16 with 2016-17 due to the £9.6 billion Treasury Grant paid in 2015-16.

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.

5.14 These projections allow for estimated 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.

5.15 Even relatively short term projections of the Fund are highly sensitive to the assumptions made and therefore need to be treated with caution. Furthermore, the requirement for a Treasury Grant has only been considered based on the projected end-year balance. Receipt of contribution income, in particular, can be volatile and hence the within year Fund balance could fall below one-sixth of estimated benefit expenditure.

5.16 Details of the assumptions underlying these five-year projections are provided in Appendix F.

6 Sensitivity of results to economic assumptions

6.1 The results provided in this report are projections and depend on assumptions made about the future. Key assumptions such as earnings increases, CPI inflation and employment levels are inevitably subject to a considerable degree of uncertainty.

6.2 This section provides projections based on variant assumptions to demonstrate how different experience could affect the progress of the Fund.

6.3 Short-term estimates of future contribution income can vary quite significantly with changes in employment numbers and general earnings increases. Corresponding estimates of future benefit expenditure tend to be more stable as the number of beneficiaries is more closely linked to population numbers.

6.4 Table 6.1 below shows the effects of changes in earnings increases and employment levels on contribution receipts for the National Insurance Fund for the years 2016-17 and 2017-18. Varying these assumptions would not be expected to affect benefit expenditure significantly for these years as the rates at which benefits are payable in these years are now known.

Table 6.1 – Effect on contribution receipts of the National Insurance Fund in 2016-17 and 2017-18 of variations in economic assumptions

Variation £ million	Effect on receipts in 2016-17	Effect on receipts in 2017-18	Approximate effect on the 31 March 2018 Fund balance
1% lower employee earnings increases	-1,047	-2,310	-3,356
1% higher employee earnings increases	+1,041	+2,319	+3,360
Variant assuming 1% lower earnings increases each year combined with CPI inflation set to earnings growth plus 0.5% ('low earnings, high CPI')	-1,047	-2,310	-3,356
Lower GB number of employees by 200,000 in 2017-18 only	0	-667	-667
Higher GB number of employees by 200,000 in 2017-18 only	0	+667	+667

6.5 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.

6.6 The figures in Table 6.1 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.

6.7 Tables 6.2, 6.3 and 6.4 show the effect of changes in earnings increases and CPI inflation on the projected cash flow and balance of the Fund over the five-year period from 2017-18 to 2021-22. Projections of the 'Fund as a percentage of benefit payments', allowing for relevant transfers to the Northern Ireland National Insurance Fund, are also provided along with any Treasury Grant required to ensure that the Fund does not fall below one-sixth of benefit payments.

6.8 The variant scenarios considered assume that:

> earnings increases are 1% higher than the central assumption each year ("1% higher earnings increases")

> earnings increases are 1% lower than the central assumption each year ("1% lower earnings increases")

> earnings increases are 1% lower than the central assumptions each year and CPI inflation is 0.5% higher than earnings growth ("low earnings, high CPI")

6.9 The "low earnings, high CPI" scenario provides for high CPI relative to earnings increases. In some years the resulting CPI assumption is lower than that assumed under the central projections.

Table 6.2 – Variant fund projections from 2015-16 to 2021-22 – 1% higher earnings increases

Great Britain, £ million	2015-16[4]	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total receipts[1]	98,811	98,648[2]	104,184	108,714	114,037	120,442	126,983
Total payments	96,573	99,646	102,155	105,182	108,204	111,630	118,000
Excess of receipts over payments[1]	2,239	-998	2,029	3,531	5,833	8,812	8,983
Balance in fund at end of year[1]	23,174	22,176	24,205	27,736	33,569	42,382	51,364
Balance at end of year as a percentage of benefit payments[1]	24.4%	22.6%	24.1%	26.8%	31.5%	38.6%	44.2%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[3]	N/A	N/A	0	0	0	0	0

Table 6.3 – Variant fund projections from 2015-16 to 2021-22 – 1% lower earnings increases

Great Britain, £ million	2015-16[4]	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total receipts[1]	98,811	96,578[2]	99,546	101,404	103,839	107,126	110,338
Total payments	96,573	99,631	102,122	104,535	106,656	108,666	113,237
Excess of receipts over payments[1]	2,239	-3,054	-2,577	-3,131	-2,818	-1,540	-2,899
Balance in fund at end of year[1]	23,174	20,120	17,544	14,413	11,595	10,055	7,157
Balance at end of year as a percentage of benefit payments[1]	24.4%	20.5%	17.4%	14.0%	11.0%	9.4%	6.4%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[3]	N/A	N/A	0	2,739	5,898	7,758	11,403

Table 6.4 – Variant fund projections from 2015-16 to 2021-22 – low earnings, high CPI

Great Britain, £ million	2015-16[4]	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total receipts[1]	98,811	96,578[2]	99,546	101,562	104,021	106,952	109,806
Total payments	96,573	99,631	102,122	104,357	106,548	109,087	114,472
Excess of receipts over payments[1]	2,239	-3,054	-2,577	-2,795	-2,527	-2,135	-4,666
Balance in fund at end of year[1]	23,174	20,120	17,544	14,749	12,222	10,087	5,421
Balance at end of year as a percentage of benefit payments[1]	24.4%	20.5%	17.4%	14.4%	11.7%	9.4%	4.8%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[3]	N/A	N/A	0	2,372	5,253	7,798	13,351

Notes to the three tables above:

1 Ignoring the effect of any Treasury Grants, apart from those paid in 2015-16.

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. This effect is, however, obscured in comparing 2015-16 with 2016-17 due to the £9.6 billion Treasury Grant paid in 2015-16.

3 This row is separate from the others. This row shows the Treasury Grants that would be needed in the relevant year to ensure that the Fund is always at least one-sixth of benefit payments, assuming no Treasury Grants are paid in any prior years (apart from those paid in 2015-16).

4 Figures for 2015-16 are from the National Insurance Fund accounts.

6.10 It should be noted that these projections are purely illustrations of sensitivity of the results to economic assumptions and that actual future experience could be very different.

6.11 These variants focus on the impact of changes in earnings growth assumptions as Fund cash flows are particularly sensitive to changes in this assumption. Changes in earnings growth have a direct impact on the level of contributions received. Benefit payments are affected by changes in earnings growth and how it compares to increases in CPI inflation, in respect of the full rate of new State Pension benefits and pre-2016 basic State Pension benefits, due to the triple lock mechanism.

6.12 The variants highlight the significance of earnings growth. In particular, should earnings growth be lower than assumed in the central projections, a Treasury Grant may be required to support the Fund in the near future.

6.13 Further details of the assumptions underlying these five-year projections are provided in Appendix F.

7 Conclusion

7.1 The balance in the National Insurance Fund at 31 March 2017, as set out in Table 5.1 of this report, is estimated to be £21.2 billion. This is £5.2 billion lower than the estimate in my report in January 2016. This difference reflects:

> the Fund balance as at 31 March 2016 being £1.5 billion lower than that projected in my report last year;

> updated projections providing for a reduction in 2016-17 receipts of £3.3 billion, primarily due to lower assumed earnings increases; and

> an increase in payments of £0.4 billion.

7.2 No Treasury Grants are expected to be paid into the Fund in 2016-17.

7.3 I estimate the balance of the Fund at 31 March 2018, allowing for the proposed increases in benefits and changes in contributions in 2017-18 that would arise from the proposed draft Up-rating Order and the draft Contribution Regulations in 2017-18, to be £20.9 billion. As this estimated end-year Fund balance is larger than one-sixth of benefit payments during the year (equivalent to £16.8 billion), I expect, on the basis of the assumptions that I have used, that a payment would not be required during 2017-18 to the Fund out of money provided by Parliament in accordance with Section 2(2) of the Social Security Act 1993.

7.4 If economic conditions differ from the assumptions adopted, the balance of the Fund at 31 March 2018 could be different from that given above, potentially giving rise to the need for a Treasury Grant. The effect of variations in some of these assumptions is illustrated in Section 6.

7.5 The five-year projections show that the balance of the Fund is projected to decline in 2016-17 and 2017-18 but increase in 2018-19 and each year until 2021-22. These projections suggest that payment of Treasury Grants will not be required during the period to 2021-22. However, variant projections indicate that payment of Treasury Grants may be required in the near future if earnings increases are lower than the assumptions adopted for the central projections. Additionally, the size of the Fund, and the Fund as a percentage of benefit payments, can be very sensitive to even small changes in estimated receipts and payments and there can be volatility in the pattern of contribution receipts within financial years.

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

All figures in £s	Weekly rate in 2016-17	Weekly rate proposed from April 2017
State Pension		
New State Pension	155.65	159.55
Category A or B (paid to individuals over State Pension age as at 5 April 2016 based on their own contributions or those made by a deceased spouse or civil partner)	119.30	122.30
Category BL (paid to an individual over State Pension age as at 5 April 2016 based on their spouse or civil partner's contributions while the spouse/civil partner is alive)	71.50	73.30
Non-contributory rate (paid to those over age 80 with inadequate contributions)	71.50	73.30
Increase for spouse or other adult dependant (pre-April 2016 State Pension only)	65.70	66.35
Graduated retirement benefit (unit)	0.1330	0.1343
Bereavement benefits[1]		
Widowed parent's/mother's allowance and bereavement allowance/widow's pension (standard rate)	112.55	113.70
Bereavement payment (lump sum)	2,000.00	2,000.00
Employment and Support Allowance (contribution-based)[2]		
Personal allowance (age 25 or over)[3]	73.10	73.10
Work-related activity component[3]	29.05	29.05
Support component	36.20	36.55
Incapacity Benefit long-term rate		
Personal benefit	105.35	106.40
Transitional invalidity allowance higher rate	11.15	11.25
Transitional invalidity allowance middle rate	6.20	6.25
Transitional invalidity allowance lower rate	6.20	6.25
Wife or other adult dependant	61.20	61.80
Age increase higher rate	11.15	11.25
Age increase lower rate	6.20	6.25
Incapacity Benefit short-term (under State Pension age)		
Personal benefit higher rate	94.05	95.00
Personal benefit lower rate	79.45	80.25
Wife or other adult dependant	47.65	48.15
Incapacity Benefit short-term (over State pension age)		
Personal benefit higher rate	105.35	106.40
Personal benefit lower rate	101.10	102.10
Wife or other adult dependant	58.90	59.50
Jobseeker's Allowance (contribution-based)[4]		
Personal benefit for those aged 18 to 24[3]	57.90	57.90
Personal benefit for those aged 25 and over[3]	73.10	73.10
Maternity Allowance[5]	139.58	140.98

Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay (including Statutory Shared Parental Pay from April 2015)		
Standard rate[5]	139.58	140.98
Guardian's allowance		
First child/other children	16.55	16.70
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	8.00	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 Employment and Support Allowance (ESA) replaced Incapacity Benefit for new claims from 27 October 2008. The benefit contains some extra additions dependent on the circumstances of the recipients. Everyone who satisfies the Work Capability Assessment will receive a personal allowance and either the work-related activity component or the support component. However, from April 2017 the Welfare Reform and Work Act 2016 provides that new ESA claimants placed in the work–related activity group will no longer receive the work-related activity component. The process to review Incapacity Benefit claims to assess if they can be transferred to ESA is now largely complete.

3 These benefits are included in the Welfare Reform and Work Act 2016.

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

5 The first six 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 the recipient's average weekly earnings. Maternity Allowance is paid to employed women for up to 39 weeks at the amount shown or 90% of the woman's average weekly earnings if this calculation results in a figure which is less. The amount of Maternity Allowance a self-employed woman may receive depends on how many Class 2 National Insurance contributions they have paid in the 66 weeks immediately preceding the week their baby is due.

Appendix B: Main features of the contribution system

		Rate in 2016-17	Rate proposed from April 2017
Class 1			
Lower earnings limit (LEL)		£112 a week	£113 a week
Upper earnings limit (UEL)		£827 a week	£866 a week
Primary threshold		£155 a week	£157 a week
Secondary threshold		£156 a week	£157 a week
Upper secondary threshold for under age 21 group		£827 a week	£866 a week
Upper secondary threshold for relevant apprentices		£827 a week	£866 a week
Upper secondary threshold		£827 a week	£866 a week
Contribution rates (NI Fund and NHS combined)			
Primary (employee)	On earnings between the primary threshold and UEL	12.00%	12.00%
	Reduced rate on earnings between the primary threshold and UEL for married women and widow optants	5.85%	5.85%
	On earnings above the UEL	2.00%	2.00%
	NHS allocation included in above		
	– percentage of earnings between the primary threshold and UEL	2.05%	2.05%
	– percentage of earnings above the UEL	1.00%	1.00%
Secondary (employer)	On all earnings above the secondary threshold	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)[1]	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 2016-17	Rate proposed from April 2017
Class 2		
Flat-rate contribution	£2.80 a week	£2.85 a week
Small profits threshold	£5,965 a year	£6,025 a year
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 3		
Flat-rate contribution	£14.10 a week	£14.25 a week
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 3A[2]		
Contribution	Varies	N/A
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 4		
Lower Profits Limit (LPL)	£8,060 a year	£8,164 a year
Upper Profits Limit (UPL)	£43,000 a year	£45,000 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 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.

2 Class 3A voluntary contributions are distinct from the Class 3 voluntary contributions. They were introduced from 2015-16, under the Social Security Class 3A Contributions (Units of Additional Pension) Regulations 2014. Class 3A contributions differ by age, sex and amount of State Pension top up to be purchased (up to a maximum). Class 3A voluntary contributions will not be available after 5 April 2017.

Appendix C: Methods

C.1 This Appendix describes the methods adopted to project contribution income and benefit expenditure.

Contributions

C.2 Contributions are estimated separately for each class of National Insurance contributions (NICs). Modelled estimates of NICs for future years are adjusted in line with data provided by HM Revenue & Customs (HMRC) on actual NIC receipts in recent years and figures taken from the audited National Insurance Fund accounts. Adjustments are also made to allow for HMRC estimates of the effect of certain measures announced in successive Budgets and Autumn Statements that are either too new or too small to be included in the main modelling.

C.3 Estimates of Class 1 contributions are made using assumptions about earnings distributions, the numbers of people in employment and their earnings growth. The assumed earnings distributions are derived from the Annual Survey of Hours and Earnings (ASHE) produced by the Office for National Statistics and the Survey of Personal Incomes published by HMRC.

C.4 Other classes of NICs, 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 HMRC.

C.5 Class 2 and Class 4 contributions made by the self-employed are estimated using data on self-employed earnings received from HMRC. These data are then combined with the assumed future numbers of self-employed and their earnings increases.

C.6 Class 3 contributions are a very small part of total NICs and have been estimated approximately by assuming that the contributions received each year are unchanged from those received in 2015-16. I have also allowed for Class 3A voluntary contributions paid by those current and prospective pensioners reaching SPa before 6 April 2016. For this purpose I have adopted DWP's estimates of the contributions that will be received in 2016-17; no further such contributions are expected in subsequent years.

C.7 HMRC also make estimates of NICs using their own models. I have compared my contribution estimates with those made by HMRC and can confirm that my figures for 2016-17 and 2017-18 are close to those of HMRC. I will continue to liaise with HMRC in relation to the consistency of our projections.

C.8 The Upper Earnings Limit and Upper Profits Limit are currently aligned with the Higher Rate Threshold (HRT) used for tax calculations. In the 2016 Autumn Statement, the Government recommitted to raising the HRT to £50,000 by the end of the Parliament. However, in line with the approach adopted for OBR's November 2016 EFO (see paragraph 4.13 of that report), this report does not include any allowance for this commitment.

C.9 Employers are able to reclaim a proportion of statutory payments made to employees from the amounts of Class 1 National Insurance they pay. The National Insurance Fund is compensated for the amounts recovered by way of money paid out the Consolidated Fund. Statutory payments include:

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

C.10 Recovery of Statutory Sick Pay (SSP) ceased in respect of periods of sickness from April 2014, with small amounts recoverable after that date, until April 2016, in respect of periods of sickness before April 2014. ASPP was introduced for births with a due date between April 2011 and April 2015. ShPP applies for births with a due date from April 2015.

C.11 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, in respect of adoption), 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. Estimates are made based on data from HMRC which are considered final about two years after the end of the relevant financial year.

Other receipts

C.12 The estimates given for receipts from state scheme premiums are based on information taken from the National Insurance Fund accounts. These premiums relate to individuals who have been contracted-out of part of the State pension, which ceased to be possible from 6 April 2016. Therefore I have assumed that no more state scheme premiums will be received from 2017-18.

C.13 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 EFO report published on 23 November 2016.

C.14 In the accounts of the National Insurance Fund "Other receipts" include small amounts of recoveries from European countries for their citizens, resident in the UK, who have been paid unemployment benefit in the UK. Historically, "Other receipts" also included contributions relating to contracting-out via personal pensions and recoveries of compensation payments. From 2015-16 recoveries of compensation payments have been offset against benefit payments and are not reported separately.

Benefits

C.15 Benefits are estimated separately for each of the contributory benefits, for the new State Pension (nSP) and pre-2016 awards of the basic flat-rate state pension and additional earnings related pensions (SERPS and S2P). Allowance has been made for the increases in female State Pension age during 2016-17 to 2019-20 and male State Pension age during 2018-19 to 2019-20.

C.16 Pre-2016 awards of basic state pension remain the largest amount of benefit payable. Estimates of expenditure on this benefit use the 2014-based principal 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 state pension. Allowance is made for trends in the average amounts of benefit and the changing mix in categories of state pension for women arising from the increasing trend for women to have entitlement on their own contributions. 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.

C.17 For those reaching SPa on or after April 2016 who will receive the nSP, 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 nSP transitional arrangements. This database shows 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 nSP, the difference becomes the individual's protected payment and is payable alongside the new State Pension.

C.18 As the database provided by DWP only included data up to the end of the financial year 2014-15, I extrapolated the records up to 2016 assuming, where necessary, an allowance for mortality. I also assumed that each individual will receive a full qualifying year based on contributions or a credit for those surviving the year 2015 to 2016. Protected payments are projected for years after 2016 allowing for CPI up-rating and mortality before and after coming into payment. Allowance is made for inheritance of protected payments consistent with the rules regarding inheritance of additional State Pension.

C.19 The nSP entitlements excluding the protected payments are converted to an average proportion of the full amount that individuals would achieve on average at SPa. This takes into account both the starting amounts as described in paragraph C17 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. We have liaised with DWP to align our approach to setting an appropriate assumption by age and sex with DWP's emerging modelling. Forecasts assume the new State Pension will be up-rated in line with the triple lock.

C.20 A separate model is used to estimate the amounts of state 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. Allowance is also made for the effects of the introduction of new State Pension for those reaching State Pension age from April 2016 in terms of different eligibility conditions, a different rate of benefit and the effects of transition provisions.

C.21 Estimates are also made for amounts of additional pension payable to those reaching SPa before 6 April 2016 based on data provided from DWP relating to amounts in payment at the end of March 2016. These amounts of additional pension are projected forward using mortality rates based on the ONS's 2014-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 the DWP data on benefit expenditure. 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 contracted-out deductions, including adjustments made to the mortality rates to allow for generally lighter mortality for those contracted out.

C.22 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 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.

C.23 The estimates of benefits for widows, bereavement, incapacity, employment and support, jobseekers, maternity, and Christmas bonus are based on information provided by the DWP. DWP have informed me that the introduction of Universal Credit for those of working-age should not materially affect amounts paid out of the National Insurance Fund. Estimates for Guardian's Allowance are derived from recent data, adjusted in line with the projected number of children in the population.

Other payments

C.24 The administration costs are based on those incurred in 2015-16 as recorded in the Fund accounts, with future costs estimated as the 2015-16 costs increased in line with CPI inflation.

C.25 Redundancy payments estimates (net of redundancy receipts) are provided by the Insolvency Service.

C.26 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 the 2011 census.

Appendix D: Analysis of contribution receipts

Great Britain, £ million			2016-17		2017-18	
National Insurance Fund						
Class 1[1]	Primary	Gross	38,486		40,037	
	Contracted-out rebate[2]		167		0	
		Net		38,318		40,037
	Secondary	Gross	56,377		58,303	
	Contracted-out rebate[2]		406		0	
		Net		55,971		58,303
	Total	Gross	94,863		98,340	
	Contracted-out rebate[2]		573		0	
		Net		94,290		98,340
Classes 1A and 1B				1,223		1,266
Class 2				380		383
Class 3				30		30
Class 3A[3]				56		0
Class 4				1,806		1,805
Total National Insurance Fund contributions[4]				**97,785**		**101,824**
National Health Service						
Class 1	Primary		9,052		9,380	
	Secondary		12,900		13,254	
	Total			21,952		22,634
Classes 1A and 1B				195		202
Class 2				72		72
Class 3				6		6
Class 3A[3]				67		67
Class 4				747		745
Total National Health Service contributions[5]				**22,982**		**23,658**

Great Britain £ million			2016-17		2017-18	
All contributions						
Class 1[1]	Primary	Gross	47,538		49,417	
	Contracted-out rebate[2]		167		0	
		Net		47,371		49,417
	Secondary	Gross	69,278		71,557	
	Contracted-out rebate[2]		406		0	
		Net		68,872		71,557
	Total	Gross	116,816		120,973	
	Contracted-out rebate[2]		573		0	
		Net		116,242		120,973
Classes 1A and 1B				1,418		1,468
Class 2				452		456
Class 3				36		36
Class 3A[3]				66		0
Class 4				2,554		2,550
Total contributions[5]				**120,767**		**125,482**

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.

2 Contracting-out ceased from April 2016 but some small amounts of rebates will be recovered in 2016-17.

3 Class 3A voluntary contributions will not be available after 5 April 2017.

4 These figures appear in Table 5.1 in the main report.

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

Appendix E: Comparison of 2016-17 cashflow estimates in this report with those in last year's report

E.1 The table below compares the 2016-17 estimates in this report with those provided in last year's report.

Great Britain £ million	2016-17 current estimates, on the assumptions in Section 4 and detailed in Appendix C		2016-17 estimates in last year's Report	
Receipts				
Contributions[1]	97,785		100,736	
Less recoveries of statutory payments (and abatements)	2,536		2,609	
Net contribution receipts[3]		95,249		98,127
Treasury Grant		0		0
Compensation from Consolidated Fund for statutory payments recoveries		2,285		2,601
Income from investments		68		165
State scheme premiums		15		16
Other receipts		0		23
Total receipts[3]		**97,616**		**100,933**
Payments[2]				
Benefits		97,836		97,351
Administration costs		821		859
Redundancy fund payments (net)		275		275
Transfer to Northern Ireland		534		632
Other payments		173		169
Total payments[3]		**99,639**		**99,286**
Excess of receipts over payments[3]		-2,023		1,647

1 The decrease of £3.3 billion in contributions is due to a downward revision in assumed earnings growth for 2016-17 and updates to contribution modelling using more recent information sources. Adding in the net increase in payments of around £0.4 billion results in a net decrease in cash flow to the fund of around £3.7 billion.

2 The relatively small difference of £0.4 billion is due largely to revised assumptions and modelling of benefits including lower projected ESA payments, lower administration costs and a decrease in the transfer to Northern Ireland.

3 Figures may not sum to totals due to rounding.

Appendix F: Assumptions beyond April 2018

F.1 This section provides details of the assumptions underlying the five-year projections, both those on the central assumptions and those on the variant assumptions. 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.

Assumptions

F.2 I have assumed that future increases in contribution limits and thresholds will be in line with CPI increases in each year and that increases in benefits from 2018-19 onwards are made in line with the policies and approaches as used for the increases for 2017-18. Allowance has been made for the abolition of Class 2 contributions with effect from 2018-19.

F.3 The assumed number of employees are taken from Table 1.6 of the supplementary economy tables published alongside the OBR's 23 November 2016 Economic and fiscal outlook (EFO). CPI, earnings growth and triple lock assumptions are based on Table 4.1 of the EFO.

Table F.1 – Employees[1]

Financial year	UR2016 people-based (millions)	UR2017 people-based (millions)	Change (millions)
2015-16	26.70	26.80	0.10
2016-17	27.00	27.00	0.00
2017-18	27.10	27.00	-0.10
2018-19	27.30	27.10	-0.20
2019-20	27.40	27.20	-0.20
2020-21	27.50	27.40	-0.10
2021-22	N/A	27.50	N/A

[1] Section 5 separately discusses the impact in 2016-17 of a 200,000 increase and reduction in employee numbers.

Table F.2 – Annual increase in September CPI

Financial year	UR2016	UR2017		
	%	Central %	Change %	-1% earnings & CPI earnings +0.5%
2015-16	-0.1 (actual)	-0.1 (actual)	nil	-0.10
2016-17	1.00	1.00	nil	1.00
2017-18	1.80	2.50	0.70	1.80
2018-19	1.90	2.50	0.60	2.60
2019-20	2.00	2.00	nil	2.90
2020-21	2.00	2.00	nil	3.20
2021-22	N/A	2.00	N/A	3.20

Table F.3 – Earnings growth[3] from one financial year to the next

Financial year	UR2016 %	UR2017 Central %	Change %	+1% earnings variant	-1% earnings variant	-1% earnings & CPI of earnings +0.5%
2015-16	2.9	1.8	-1.1	1.8	1.8	1.8
2016-17	3.5	2.5	-1.0	3.5	1.5	1.5
2017-18	3.7	2.4	-1.3	3.4	1.4	1.4
2018-19	3.7	3.0	-0.7	4.0	2.0	2.0
2019-20	3.7	3.4	-0.3	4.4	2.4	2.4
2020-21	4.0	3.7	-0.3	4.7	2.7	2.7
2021-22	N/A	3.8	N/A	4.8	2.8	2.8

Table F.4 – Triple Lock

Date from which triple lock increase applicable	UR2016 %	UR2017 Central %	Change %	+1% earnings variant	-1% earnings variant	-1% earnings & CPI of earnings +0.5%
01-Apr-16	2.9	2.9	nil	2.9	2.9	2.9
01-Apr-17	3.2	2.5	-0.7	2.5	2.5	2.5
01-Apr-18	3.7	2.5	-1.2	3.4	2.5	2.5
01-Apr-19	3.6	2.7	-0.9	3.7	2.5	2.6
01-Apr-20	3.7	3.3	-0.4	4.3	2.5	2.9
01-Apr-21	3.9	3.6	-0.3	4.6	2.6	3.2

[3] As shown in Table 4.2, there are different earnings increase measures for general earnings increases and for the triple lock mechanism.

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ISBN 978-1-4741-3987-8

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