Government Actuary's Department

Report by the Government Actuary on:

The draft Social Security Benefits Up-rating Order 2018; and

The draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2018

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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.

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Government Actuary's Department

To: The Right Hon. Esther McVey MP, Secretary of State for Work and Pensions

The Right Hon. Mel Stride 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 2018 and the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2018.

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 2018

Government Actuary's Department

Contents

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 Budget on 22 November 2017 as set out in:

> the draft Social Security Benefits Up-rating Order 2018 ("the draft Up-rating Order")

> the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2018 ("the draft Contribution Regulations").

1.2 My report focuses primarily on the impact over the next financial year of these announcements, 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 2018-19

1.3 Allowing for the up-rating of benefits and re-rating of contribution rates, limits and thresholds as proposed in the draft Up-rating Order and draft Contribution Regulations, the estimated Fund balance as at 31 March 2019 is £26.2 billion. This is 25.6% of estimated benefit payments (including redundancy payments) of £102.4 billion in 2018-19.

1.4 In several recent years, payment of a Treasury Grant[1] has been made to the Fund. A payment is usually made if the balance of the Fund is projected to fall below one-sixth of estimated annual benefit expenditure (including redundancy receipts). For 2018-19 this would equate to a balance of £17.1 billion. Based on the projected end-year balance, I do not expect that a Treasury Grant will be required in 2018-19. 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 2018-19 are provided in Table 1.1 overleaf. As shown in the table receipts to the Fund are estimated to exceed payments out by £2.2 billion, increasing the balance in the Fund between 31 March 2018 and 31 March 2019.

[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 2018-19

	£ billion	
Fund balance as at 31 March 2018		**24.0**
Contribution receipts	103.3	
Other income	2.9	
Total receipts		**106.1**
Benefit payments	102.1	
Other expenditure	1.8	
Total payments		**103.9**
Excess of receipts over payments		2.2
Fund balance as at 31 March 2019		**26.2**

Figures may not sum to totals shown due to rounding.

1.6 The projected Fund balance as at 31 March 2018 of £24.0 billion differs from that estimated in my 2017 Up-rating Report of £20.9 billion. This difference reflects:

> the actual Fund balance as at 31 March 2017 being £0.8 billion higher than that estimated in my report last year;

> updated projections providing for an increase in 2017-18 receipts of £1.5 billion, primarily due to the adoption of revised economic assumptions (higher assumed cumulative earnings increases and employment) produced by the Office for Budget Responsibility (see Section 4); and

> a reduction in projected payments in 2017-18 of £0.8 billion due largely to revised assumptions and modelling of benefits resulting in lower projected State Pension expenditure.

1.7 No Treasury Grants are expected to be paid into the Fund in 2017-18.

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 2018-19

1.9 The draft Up-rating Order is estimated to increase benefit expenditure by £2.9 billion and the draft Contribution Regulations are estimated to reduce contribution income by £0.8 billion. These effects are determined relative to the position had there been no changes in benefit rates and contribution rates, limits and thresholds in 2018-19.

Table 1.2 – Effect of the draft Up-rating Order and the draft Contribution Regulations on the Fund as at 31 March 2019

	£ million	
Fund balance without changes		**29,847**
Effect of changes due to the draft Up-rating Order	-2,887	
Effect of changes due to the draft Contribution Regulations	-773	
Fund balance with changes		**26,187**

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 2022-23. Longer term projections of the Fund are included in my Quinquennial Review of the National Insurance Fund as at April 2015 published on 19 October 2017[2], which illustrates that the short term positive trend in the Fund finances is not expected to continue over the longer term.

1.11 The five-year projections show that the balance of the Fund is projected to increase steadily up to 2022-23, as contribution income is expected to exceed benefit expenditure in each year and result in an increasing Fund balance. The smaller increases in benefit expenditure compared to contribution income up to 2020-21 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 2022-23. 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) 2016-based principal population projection for Great Britain, published in October 2017. These assumptions are consistent with the central financial and demographic assumptions used by the OBR in its Economic and fiscal outlook (EFO) report published on 22 November 2017. Details of the key assumptions are given in Section 4 of this report.

[2] https://www.gov.uk/government/publications/government-actuarys-quinquennial-review-of-the-national-insurance-fund-as-at-april-2015

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 2017-18 and 2018-19 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, during the projection period, 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 which is primarily expected to fund current benefit expenditure rather than build up reserves. A small positive balance is maintained in the Fund to act as a reserve to manage cash-flow variations. In several recent years, payment of a Treasury Grant, as permitted under Section 2 of the Social Security Act 1993, has been made to the Fund. A payment is usually 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 for Parliament 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 2018 ("the draft Up-rating Order")

> the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2018 ("the draft Contribution Regulations").

2.3 Additionally several further orders, listed below, have been laid since my last Up-rating Report dated January 2017. These orders affect the level of benefits payable from the Fund and have been allowed for within our projections. These orders do not require a report from the Government Actuary but this report does include the financial impact of these orders. These orders are:

> The Social Security Revaluation of Earnings Factors Order 2017 (SI 2017/287)

> The State Pension Debits and Credits (Revaluation) Order 2017 (SI 2017/375)

> The State Pension Revaluation for Transitional Pensions Order 2017 (SI 2017/1151)

> The State Pension Debits and Credits (Revaluation) (No 2) Order 2017 (SI 2017/1152).

2.4 This report focuses on the Fund over the 2018-19 financial year but also includes projections for each financial year to 2022-23. Longer term projections of the Fund are considered in my Quinquennial Review of the National Insurance Fund as at April 2015 published on 19 October 2017.

2.5 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[3].

2.6 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.

2.7 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.

2.8 This work has been carried out in accordance with the applicable Technical Actuarial Standards: TAS 100 and TAS 300 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

[3] 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

Draft Up-rating Order 2018

3.1 The draft Up-rating Order proposes increasing the rates of some social security benefits paid from the Fund from April 2018. 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-April 2016 awards) and new State Pension (post-April 2016 awards) to be up-rated by at least the growth in earnings. However, for the duration of this Parliament, the current Government has committed to annually up-rating the full amounts of the basic and new State Pensions 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 2017 was 3.0% and average earnings (AWE) increase over the year to May-July 2017 was 2.2%. Therefore the result of the triple lock is that the proposal is to up-rate the full amounts of basic State Pension and new State Pension from April 2018 by 3.0%.

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 3.0%, in line with the September 2017 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) 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

	Weekly rate in 2017-18	Proposed increase in weekly rate	Weekly rate in 2018-19
New State Pension (post-April 2016 awards)[1]	£159.55	£4.80	£164.35
Pre-April 2016 Basic State Pension – person claiming on their own or their deceased spouse's contributions[2]	£122.30	£3.65	£125.95
Pre-April 2016 Basic State Pension – person claiming on their spouse's contributions	£73.30	£2.20	£75.50

[1] For people under transitional arrangements this is not a standard rate; awards are based on an individual's National Insurance record. A *de minimis* of ten years of contributions applies in respect of post-April 2016 awards.

[2] Proportionate rates are paid to those with proportionate contribution records.

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 contributory Employment and Support Allowance (excluding the Support Group component) and contribution-based Jobseeker's Allowance for the year 2018-19.

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

Draft Contribution Regulations 2018

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

	2017-18	**2018-19**
	Per week	
Lower Earnings Limit for Class 1 NICs	£113	£116
Upper Earnings Limit for Employees' (Primary) Class 1 NICs	£866	£892
Primary Threshold	£157	£162
Secondary Threshold	£157	£162
Upper Secondary Threshold for under age 21 group	£866	£892
Upper Secondary Threshold for relevant apprentices	£866	£892
Rate of Class 2 NICs for Self-employed	£2.85	£2.95
	Per annum	
Small Profits Threshold for Class 2 NICs	£6,025	£6,205
	Per week	
Rate of (voluntary) Class 3 NICs	£14.25	£14.65
	Per annum	
Class 4 NICs – Lower Profits Limit	£8,164	£8,424
Class 4 NICs – Upper Profits Limit	£45,000	£46,350

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

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

4 Assumptions used to project receipts and payments (2017-18 & 2018-19)

4.1 The key assumptions underlying the estimates for benefit payments and contribution receipts are those for employment and unemployment levels, population profile, 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 2016-based principal population projection for Great Britain, from population projections published by the Office for National Statistics (ONS) in October 2017. These assumptions are consistent with the central financial and demographic assumptions used by the OBR in its Economic and fiscal outlook (EFO) report published on 22 November 2017.

4.3 My understanding is that both ONS and OBR have determined these with the intention that there is no allowance for prudence or optimism. In my view, these assumptions are reasonable for the purposes of estimating the financial position of the Fund over the relatively short period considered in this report and I have therefore decided to adopt them.

4.4 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]

	2017-18	2018-19
General earnings increase (%)[2]		
This year's report	2.3	2.2
Last year's report	2.4	3.0
Number of employees (millions)[3]		
This year's report	27.3	27.4
Last year's report	27.0	27.1

1 These assumptions are consistent with those used by the OBR in its EFO published on 22 November 2017. 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.

4.5 The benefit increases to be applied in the years 2017-18 and 2018-19 are already determined and are not assumptions. However, at the time of last year's report, the 2018-19 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, and population numbers above State Pension age.

Table 4.2 – Key assumptions for benefit up-rating

	2017-18	2018-19
Previous year's average May to July annual earnings increase (%)		
This year's report	2.4	2.2
Last year's report	2.4	2.4 (assumed)
Previous year's September CPI increase (%)		
This year's report	1.0	3.0
Last year's report	1.0	2.5 (assumed)
Triple lock increase (%)		
This year's report	2.5	3.0
Last year's report	2.5	2.5 (assumed)
Mid-year population numbers above State Pension age (millions)		
This year's report	12.0	12.0
Last year's report	12.1	12.0

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

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

5 Estimates for receipts payments and fund balance (2017-18 & 2018-19)

5.1 Table 5.1 below provides estimates of receipts and payments of the Fund for 2018-19 along with my latest estimates for 2017-18.

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

Great Britain, £ million		**2017-18**		**2018-19**	
Receipts					
	Contributions	103,332		105,922	
	Less recoveries of statutory payments (and abatements)	2,558		2,653	
Net contribution receipts			100,773		103,269
Treasury Grant			0		0
Compensation from Consolidated Fund for statutory payments recoveries			2,466		2,645
Income from investments			81		174
State scheme premiums			43		43
Other receipts			0		0
Total receipts[1]			103,363		106,131
Payments					
Benefits[2]	At present rates		99,540	99,175	
	Increase due to proposed changes			2,887	
Total					102,061
Administration costs			711		726
Redundancy fund payments (net)[3]			254		295
Transfer to Northern Ireland			635		612
Other payments			202		206
Total payments[1]			101,341		103,901
Statement of balances					
Balance at beginning of year[4]			21,935		23,957
Excess of receipts over payments			2,022		2,230
Balance at end of year[1]			23,957		26,187
Balance at end of year as percentage of annual benefit payments[5]			24.0%		25.6%

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

2 The effect of the draft Up-rating Order 2018 is shown in Table 5.2. In 2017-18, £95,960 million of benefits are covered by the draft Up-rating Order with £3,580 million of benefits falling outside the scope of the draft Up-rating Order. The split of benefits between these two categories in 2018-19 is £98,554 million and £3,507 million respectively.

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

4 The balance at 31 March 2017 is taken from the published accounts of the Fund for the year 2016-17.

5 Percentages of benefit payments allow for net redundancy payments.

Estimates for 2017-18

5.2 The estimates shown in Table 5.1 for 2017-18 may be compared with the estimates for the same period included in my report of January 2017. A full comparison is included in Appendix E.

5.3 In my January 2017 report it was estimated that payments during the year 2017-18 would exceed receipts by £0.3 billion. My updated estimate is that receipts during the year 2017-18 will exceed payments by £2.0 billion as shown in Table 5.1.

5.4 This change from an operating deficit to an operating surplus is primarily due to a £1.5 billion increase in estimated receipts, largely resulting from revised economic assumptions (higher assumed cumulative earnings increases and employment), together with a £0.8 billion reduction in estimated expenditure. Further information regarding the difference between the estimates for 2017-18 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 increased from £575 million in last year's report to £635 million in this year's report. This primarily reflects broadly flat contribution income in the Northern Ireland Fund relative to the previous estimate, whereas the Great Britain Fund is assumed to receive higher contribution income.

Estimates for 2018-19

5.6 The size of the Fund as a percentage of benefit payments is projected to increase, from 24.0% at the end of 2017-18 to 25.6% at the end of 2018-19.

Effects of the draft Social Security Benefits Up-rating Order 2018: 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 2018-19 as a result of the proposed measures in the draft Up-rating Order will be £2.9 billion, taking estimated expenditure on the relevant benefits from £95.7 billion to £98.6 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 contributory Employment and Support Allowance (excluding the Support Group component) and contribution-based Jobseeker's Allowance for the year 2018-19. Therefore there is no increase in benefit payments in 2018-19 in respect of these benefits.

5.9 The estimated total benefit payments in 2018-19 in respect of these benefits is £3,507 million. My updated estimate for expenditure on these benefits in 2017-18 of £3,580 million is an increase of £45 million from the £3,535 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 2018-19

Great Britain £ million	Estimated total payments in 2017-18	Estimated total payments in 2018-19 before the draft Up-rating Order	Estimated extra payments in 2018-19 as a result of the draft Up-rating Order	Estimated total payments in 2018-19 after the draft Up-rating Order
New State Pension[1]	4,387	7,323	218	7,541
Retirement Pensions – Basic[2]	71,143	68,420	1,883	70,303
Retirement Pensions – Additional Pensions	17,932	17,517	722	18,239
Incapacity Benefit – Basic	4	0	0	0
Incapacity Benefit – Additional Pensions	0	0	0	0
Widows'/Bereavement Benefits – Basic	512	451	10	461
Widows'/Bereavement Benefits – Additional Pensions	36	29	1	30
Contributory Employment and Support Allowance[3]	1,513	1,486	41	1,527
Maternity Allowance	434	442	12	454
Total of benefits covered by the draft Up-rating Order[4]	**95,960**	**95,667**	**2,887**	**98,554**
Guardian's Allowance	2	2	0	2
Christmas Bonus	124	124	0	124
Contributory Employment and Support Allowance[5]	3,215	3,081	0	3,081
Contribution-based Jobseeker's Allowance	238	301	0	301
Total of benefits not covered by the draft Up-rating Order[4]	**3,580**	**3,507**	**0**	**3,507**
Total Benefits[4]	**99,540**	**99,175**	**2,887**	**102,061**

1 Includes amounts of Protected Payments. The figure for the estimated extra payment in 2018-19 includes around £8m in respect of the cost of up-rating of Protected Payments, effected by the State Pensions (Revaluation for Transitional Pensions) Order 2017. As this increase falls under a separate Order it does not strictly need to be reported, however it is immaterial relative to the total cost of up-rating.

2 Includes payments of Graduated Retirement Benefit and deferral increments and lump sums.

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 2018 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 a reduction in contribution receipts to the Fund in 2018-19 of £773 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 2018-19

		2018-19 contribution receipt estimates				
Great Britain £ million	**2017-18 contribution receipt estimates**	**Before the Regulations**	**Impact of changes in limits and thresholds**	**Impact of changes in rates**	**Impact of the draft Contribution Regulations**	**After the Regulations**
Class 1	99,551	102,820	-773	0	-773	102,047
Class 1A and 1B	1,268	1,323	0	0	0	1,323
Class 2	415	430	0	0	0	430
Class 3	12	13	0	0	0	13
Class 4	2,085	2,110	0	0	0	2,110
Total	103,332	106,695	-773	0	-773	105,922

Figures may not sum to totals shown due to rounding.

5.11 Table 5.3 shows the effect of the draft Contribution Regulations on 2018-19 contribution receipts. The reduction in estimated Class 1 receipts in 2018-19 results from the increase in and the Primary and Secondary Thresholds for that year, the effect of which is partially offset by the increase in the Upper Earnings Limit. 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 2019, allowing for the measures proposed in the draft Up-rating Order and the draft Contribution Regulations, will be £26.2 billion. As this exceeds one-sixth of estimated benefit payments including redundancy payments (that is, one-sixth of £102.4 billion, or £17.1 billion) I expect that a Treasury Grant will not be required in 2018-19.

5.13 Table 5.4 overleaf provides projections for the five-year period from 2018-19 to 2022-23, 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 2022-23. 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. The projections contained in the latest Quinquennial Review indicate that this trend in the Fund finances is not expected to continue over the longer term.

Table 5.4 – Fund projections from 2016-17 to 2022-23

Great Britain, £ million	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Total receipts[1]	98,262	103,364	106,131	109,056	111,930	115,546	119,443
Total payments	99,501	101,341	103,901	105,731	107,436	111,550	116,937
Excess of receipts over payments[1]	-1,239	2,022	2,230	3,326	4,493	3,996	2,506
Balance in fund at end of year[1]	21,935	23,957	26,187	29,512	34,006	38,001	40,507
Balance at end of year as a percentage of benefit payments[1]	22.4%	24.0%	25.6%	28.3%	32.1%	34.6%	35.2%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[2]	N/A	N/A	0	0	0	0	0

1 Ignoring the effect of any Treasury Grants.

2 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 Short-term risks to the Fund balance

6.1 The results provided in this report are projections and depend on assumptions made about the future. The key risks to the Fund balance in the short-term include the level of earnings increases, CPI inflation and employment levels which are inevitably subject to a considerable degree of uncertainty.

6.2 It is also possible that actual out-turn differs from the estimates due to limitations in the models used to calculate the estimates. The most significant limitation within the modelling relates to new State Pension, where there is little experience available so far to assist assumption setting.

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

6.4 Future contribution income could vary quite significantly in the short-term as a result of changes in employment numbers or general earnings increases. Benefit expenditure over the same time scale tends to be more predictable as the number of beneficiaries is more closely linked to population numbers, which are more predictable than the numbers in employment.

6.5 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 2017-18 and 2018-19. 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 2017-18 and 2018-19 of variations in economic assumptions

Variation £ million	Effect on receipts in 2017-18	Effect on receipts in 2018-19	Approximate effect on the 31 March 2019 Fund balance
1% lower employee earnings increases	-1,060	-2,426	-3,487
1% higher employee earnings increases	+1,065	+2,444	+3,509
Variant assuming 1% lower earnings increases each year combined with CPI inflation set to earnings growth plus 0.5% ('low earnings, high CPI')	-1,060	-2,426	-3,487
Lower GB number of employees by 200,000 in 2018-19 only	0	-686	-686
Higher GB number of employees by 200,000 in 2018-19 only	0	+686	+686

6.6 The effect of a change to both the number of employees and earnings increases can be estimated by adding together the effect of the change in employees only and the effect of the change in earnings increases only.

6.7 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 change being considered lies from a scenario shown in the table.

6.8 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 2018-19 to 2022-23. 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.

6.9 The variant scenarios considered, which are intended to illustrate the sensitivity of the Fund position to changes rather than to show extremes, 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").

6.10 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 2016-17 to 2022-23 – 1% higher earnings increases

Great Britain, £ million	2016-17[3]	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Total receipts[1]	98,262	104,420	108,591	112,955	117,351	122,589	128,226
Total payments	99,501	101,357	103,935	106,476	108,808	113,775	120,195
Excess of receipts over payments[1]	-1,239	3,063	4,656	6,479	8,543	8,814	8,032
Balance in fund at end of year[1]	21,935	24,997	29,653	36,133	44,676	53,489	61,521
Balance at end of year as a percentage of benefit payments[1]	22.4%	25.0%	29.0%	34.5%	41.7%	47.7%	51.9%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[2]	N/A	N/A	0	0	0	0	0

Table 6.3 – Variant fund projections from 2016-17 to 2022-23 – 1% lower earnings increases

Great Britain, £ million	**2016-17[3]**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Total receipts[1]	98,262	102,312	103,689	105,207	106,608	108,661	110,894
Total payments	99,501	101,326	103,868	105,625	107,308	111,399	116,385
Excess of receipts over payments[1]	-1,239	986	-178	-417	-699	-2,738	-5,492
Balance in fund at end of year[1]	21,935	22,920	22,742	22,325	21,625	18,887	13,396
Balance at end of year as a percentage of benefit payments[1]	22.4%	23.0%	22.2%	21.4%	20.5%	17.2%	11.7%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[2]	N/A	N/A	0	0	0	0	5,730

Table 6.4 – Variant fund projections from 2016-17 to 2022-23 – low earnings, high CPI

Great Britain, £ million	**2016-17[3]**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Total receipts[1]	98,262	102,312	103,689	105,591	107,056	108,896	110,932
Total payments	99,501	101,326	103,868	105,447	107,150	111,269	116,492
Excess of receipts over payments[1]	-1,239	986	-179	144	-94	-2,373	-5,560
Balance in fund at end of year[1]	21,935	22,921	22,742	22,886	22,792	20,419	14,859
Balance at end of year as a percentage of benefit payments[1]	22.4%	23.0%	22.2%	22.0%	21.6%	18.6%	12.9%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[2]	N/A	N/A	0	0	0	0	4,283

Notes to the three tables above:

1 Ignoring the effect of any Treasury Grants.

2 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.

3 Figures for 2016-17 are from the National Insurance Fund accounts.

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

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

6.13 The introduction of new State Pension (nSP) from April 2016 has led to considerable uncertainty about the modelling of the amounts of State Pension that will be paid in the first years of the new system. This is discussed further in the sections on modelling each benefit in Appendix C, but analysis of the impact of altering the alignment factor applied to our modelling output on its own, over the period to 2022-23 could be a decrease in cumulative expenditure of around £3bn or an increase of around £6bn.

6.14 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.

6.15 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 2018, as set out in Table 5.1 of this report, is estimated to be £24.0 billion. This is £3.1 billion higher than the estimate in my report in January 2017. This difference reflects:

> the actual Fund balance as at 31 March 2017 being £0.8 billion higher than that estimated in my report last year;

> updated projections providing for an increase in 2017-18 receipts of £1.5 billion, primarily due to the adoption of revised economic assumptions (higher assumed cumulative earnings increases and employment) produced by the Office for Budget Responsibility (see Section 4); and

> a reduction in projected payments in 2017-18 of £0.8 billion due largely to revised assumptions and modelling of benefits resulting in lower projected State Pension expenditure.

7.2 No Treasury Grants are expected to be paid into the Fund in 2017-18.

7.3 I estimate the balance of the Fund at 31 March 2019, allowing for the proposed increases in benefits and changes in contributions in 2018-19 that would arise from the proposed draft Up-rating Order and the draft Contribution Regulations, to be £26.2 billion. As this estimated end-year Fund balance is larger than one-sixth of benefit payments during the year (equivalent to £17.1 billion), I expect, on the basis of the assumptions that I have used, that a payment would not be required during 2018-19 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 2019 could be different from that given above, however conditions would have to alter materially, e.g. a significant reduction in employment rates causing a reduction in contribution income, to result in the need for a Treasury Grant in the 2018-19 financial year. 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 increase each year until 2022-23. These projections suggest that payment of Treasury Grants will not be required during the period to 2022-23. 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 2017-18	Weekly rate proposed from April 2018
State Pension		
New State Pension[1]	159.55	164.35
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)[2]	122.30	125.95
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)	73.30	75.50
Increase for spouse or other adult dependant (pre-April 2016 State Pension only)	66.35	68.35
Graduated retirement benefit (unit)	0.1343	0.1383
Bereavement benefits[3]		
Bereavement Support Payment (lump sum standard rate)	2,500.00	2,500.00
Bereavement Support Payment (lump sum higher rate)	3,500.00	3,500.00
Bereavement Support Payment (monthly payments standard rate)	100.00	100.00
Bereavement Support Payment (monthly payments higher rate)	350.00	350.00
Widowed parent's/mother's allowance and bereavement allowance/widow's pension (standard rate)	113.70	117.10
Bereavement payment (lump sum)	2,000.00	2,000.00
Employment and Support Allowance (contributory)[4]		
Personal allowance (age 25 or over)[5]	73.10	73.10
Work-related activity component[5]	29.05	29.05
Support component	36.55	37.65
Incapacity Benefit long-term rate		
Personal benefit	106.40	109.60
Transitional invalidity allowance higher rate	11.25	11.60
Transitional invalidity allowance middle rate	6.25	6.45
Transitional invalidity allowance lower rate	6.25	6.45
Wife or other adult dependant	61.80	63.65
Age increase higher rate	11.25	11.60
Age increase lower rate	6.25	6.45
Incapacity Benefit short-term (under State Pension age)		
Personal benefit higher rate	95.00	97.85
Personal benefit lower rate	80.25	82.65
Wife or other adult dependant	48.15	49.60
Jobseeker's Allowance (contribution-based)[6]		
Personal benefit for those aged 18 to 24[5]	57.90	57.90
Personal benefit for those aged 25 and over[5]	73.10	73.10
Maternity Allowance[7]	140.98	145.18

Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay (including Statutory Shared Parental Pay from April 2015)		
Standard rate[7]	140.98	145.18
Guardian's allowance		
First child/other children	16.70	17.20
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 For people under transitional arrangements this is not a standard rate; awards are based on an individual's National Insurance record. A *de minimis* of ten years of contributions applies in respect of post-April 2016 awards.

2 Proportionate rates are paid to those with proportionate contribution records.

3 Bereavement Support Payment (lump sums and monthly payments) is available to persons whose spouse or civil partner died on or after 6 April 2017. The higher rate is payable if the surviving spouse or civil partner has children under age 20 in full-time education. Bereavement payment and Bereavement Allowance / Widowed Parent's Allowance are available to persons whose spouse or civil partner died before 6 April 2017. Lower rates of bereavement allowance/widow's pension apply for people who are younger at the age of bereavement.

4 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.

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

6 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.

7 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.

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Appendix B: Main features of the contribution system

		Rate in 2017-18	Rate proposed from April 2018
Class 1			
Lower earnings limit (LEL)		£113 a week	£116 a week
Upper earnings limit (UEL)		£866 a week	£892 a week
Primary threshold		£157 a week	£162 a week
Secondary threshold		£157 a week	£162 a week
Upper secondary threshold for under age 21 group		£866 a week	£892 a week
Upper secondary threshold for relevant apprentices		£866 a week	£892 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%
	Zero-rate on earnings between the secondary threshold and upper secondary threshold for under age 21 group and relevant apprentices	0.00%	0.00%
	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 2017-18	Rate proposed from April 2018
Class 2		
Flat-rate contribution	£2.85 a week	£2.95 a week
Small profits threshold	£6,025 a year	£6,205 a year
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 3		
Flat-rate contribution	£14.25 a week	£14.65 a week
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 4		
Lower Profits Limit (LPL)	£8,164 a year	£8,424 a year
Upper Profits Limit (UPL)	£45,000 a year	£46,350 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.

Appendix C: Methods

C.1 This Appendix describes the methods adopted to project contribution income and benefit expenditure and the most material limitations of them.

Contributions

C.2 Contributions are estimated separately for each class of National Insurance contributions (NICs), using our NIC calculation model.

C.3 Estimates of Class 1 NICs are made by first making a projection of workforce earnings based on:

> assumed levels of UK employment in each year, together with an assumed profile of workers by age and gender; employment numbers are broken down between Great Britain and Northern Ireland using ONS labour force data with an allowance for expected future population changes

> expected earnings distributions, by age and gender; these were derived using the 2015 Annual Survey of Hours and Earnings (ASHE) produced by ONS and the Survey of Personal Incomes published by HMRC[1]

> assumptions on the rate of earnings growth from year to year.

C.4 The projection of earnings is then used to estimate the expected NICs due in each year.

C.5 Other classes of NICs, which generate substantially lower revenues than Class 1, are estimated using simplified models.

C.6 Class 1A and Class 1B contributions are estimated using data and projections provided by HMRC. These are UK figures and the amount attributable to Great Britain is taken as a percentage of the UK figure.

C.7 Class 2 and Class 4 contributions made by the self-employed are estimated in a similar way to Class 1, but using assumptions on employment, earnings growth and earnings distributions specifically for the self-employed. These earnings distributions are derived solely from HMRC's Survey of Personal Incomes.

C.8 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, but allowing for an increase in 2019-20 when Class 2 contributions are due to be abolished.

[1] ONS and HMRC have no responsibility for the distributions adopted beyond the data that they originally supplied to GAD.

C.9 Modelled estimates of NICs for future years are adjusted in line with data provided by HMRC on actual NIC receipts up to and including 2016-17. Adjustments are also made to allow for HMRC estimates of the effect of certain measures announced in successive fiscal events that is not possible to include directly in our calculation models.

C.10 The above calculations focus on making a projection of total NICs. It is then necessary to divide these NICs between those allocated to the National Insurance Fund and those allocated to the NHS.

C.11 Class 1 contributions are split between primary NIF and NHS and secondary NIF and NHS contributions based on data derived from end of year returns data from the NPS database and provided in the Earnings Limits Scan supplied by HMRC. The latest Earnings Limits Scan provides information up to and including 2016-17. We therefore use this information to split the total Class 1 NICs received in 2016-17, as produced by our calculation model, between the different components. The split of NICs in future years is then derived from the model adjusted so that it is consistent with the split shown by the Earnings Limits Scan information.

C.12 For Classes 1A, 1B, 2 and 3, the NHS allocations are defined in legislation as a fixed proportion of the total NICs payable.

C.13 The NHS allocation for Class 4 contributions is different for contributions paid on profits above and below the Upper Profit Limit. This means there is not a constant ratio between contributions allocated to the NIF and NHS for this class. Therefore, we use our calculation model to determine the split between the NIF and the NHS shares of the contributions based on the assumed self-employed earnings distribution.

C.14 The Upper Earnings Limit and Upper Profits Limit are currently aligned with the Higher Rate Threshold (HRT) used for tax calculations. In the 2017 Autumn Budget, the Government stated it was committed to raising the HRT to £50,000 by 2020. However, in line with the approach adopted for OBR's November 2017 EFO (see paragraph 4.16 of that report), this report does not include any allowance for this commitment.

C.15 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)
- Statutory Shared Parental Pay (ShPP), and
- Statutory Adoption Pay (SAP).

C.16 ShPP applies for births with a due date from April 2015 and, in effect, replaces ASPP which applied for births with a due date between April 2011 and April 2015. Recovery of Statutory Sick Pay (SSP) ceased from April 2016.

C.17 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.

C.18 HMRC also make estimates of NICs using their own models. I have compared my contribution estimates with those made by HMRC. My estimates of total NICs for 2017-18 are around £0.5bn higher than those of HMRC, but the estimates for 2018-19 are similar. I will continue to liaise with HMRC in relation to the consistency of our projections.

Other receipts

C.19 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. I have therefore assumed that no more State scheme premiums will be received after April 2019.

C.20 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 22 November 2017.

C.21 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.22 Benefits are estimated separately for each of the contributory benefits, for the new State Pension (nSP) and pre-2016 awards of the basic State Pension and earnings-related additional pensions (SERPS and S2P). Allowance has been made for the increases in female State Pension age during 2017-18 to 2019-20 and male State Pension age during 2018-19 to 2019-20.

C.23 Pre-2016 awards of basic State Pension remain the largest amount of benefit payable. Estimates of expenditure on this benefit use the 2016-based principal population projection for Great Britain, derived from population projections published 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.

C.24 Allowance has been made for the number of people who reached State Pension age before 6 April 2016 who deferred payment of their basic State Pension and for the increases in pensions payable, or the lump sums payable, once the deferment period has ended. Some pensioners in receipt of basic State Pensions may be eligible for an increase in pension amount on reaching age 80. This increase is not payable from the Fund and hence is not included in the expenditure amounts shown for basic State Pension.

C.25 For those reaching SPa from 6 April 2016 onwards who will receive the nSP, anonymised data showing past earnings and contribution record history on over 450,000 individuals who would be affected by the nSP transitional arrangements was used. As the database provided by DWP included data only up to the end of the financial year 2014-15, records were extrapolated up to 2016 assuming that each individual will receive a full qualifying year based on contributions or a credit for those surviving the year 2015 to 2016. Based on this data 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 were calculated. The higher of these two amounts was the individual's 'starting amount'. If the starting amount was 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.26 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 C.25 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.27 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.28 There are material uncertainties in modelling the amounts of nSP that will be paid over the next few years. Modelling these amounts as described above with the assumptions as set out produces estimates that are rather higher than the amounts recorded as being paid in DWP data for the first year-and-a-bit when nSP has been in payment. The wider data do not allow straightforward apportionment of this difference to causes represented by parameters within the models used. So there is an allowance in the estimates provided for the difference at around its current level in the current year, shrinking over time to around half its current level, together with explanation of how different assumptions would have affected the overall results in Section 6. Before next year's exercise additional data should allow refinements in modelling which it is hoped will enable estimates to be subject to lower levels of uncertainty.

C.29 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.30 Estimates are also made for amounts of additional State 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 2017. These amounts of additional State Pension are projected forward using mortality rates based on the ONS's 2016-based population projection, with adjustment to allow for lighter mortality rates for amounts of additional State Pension than for lives in the population as observed in the DWP data on benefit expenditure. Allowance is made for additional State 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.31 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 graduated retirement benefit inherited by women widowed under State Pension age based on the units accrued by their deceased husbands which would not come into payment until the widow reached State Pension age. The graduated retirement benefit based on units accrued up to April 1975 is projected using population mortality rates. Allowance is made for inheritance of graduated retirement benefit by widows, widowers and bereaved civil partners. However, for those reaching State Pension age on or after 6 April 2016 graduated retirement benefit can only be inherited if the deceased reached State Pension age before 6 April 2016 or died before that date. Graduated retirement benefit in respect of people under State Pension age is assumed to be paid on reaching State Pension age. It is assumed that no-one defers payment of their Graduated Retirement benefits after State Pension age.

C.32 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.33 The administration costs are based on those incurred in 2016-17 as recorded in the Fund accounts, with future costs estimated as the 2016-17 costs increased in line with earnings growth.

C.34 Redundancy payments estimates (net of redundancy receipts) are provided by the Insolvency Service.

C.35 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		2017-18		2018-19	
National Insurance Fund					
Class 1[1]	Primary	40,628		41,741	
	Secondary	58,923		60,306	
	Total		99,551		102,047
Classes 1A and 1B			1,268		1,323
Class 2			415		430
Class 3			12		13
Class 4			2,085		2,110
Total National Insurance Fund contributions[2,3]			**103,332**		**105,922**
National Health Service					
Class 1	Primary	9,476		9,722	
	Secondary	13,741		14,098	
	Total		23,217		23,819
Classes 1A and 1B			203		211
Class 2			76		79
Class 3			2		2
Class 4			818		825
Total National Health Service contributions[3]			**24,316**		**24,937**

Great Britain, £ million		2017-18		2018-19	
All contributions					
Class 1[1]	Primary	50,104		51,463	
	Secondary	72,664		74,403	
	Total		122,768		125,866
Classes 1A and 1B			1,471		1,534
Class 2			491		508
Class 3			14		16
Class 4			2,903		2,935
Total contributions[3]			**127,648**		**130,859**

1 All figures are gross of recoveries by employers of Statutory Maternity Pay, Statutory Paternity Pay including Additional Statutory Paternity Pay, Statutory Adoption Pay, and, for births due after April 2015, Statutory Shared Parental Pay.

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

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

Appendix E: Comparison of 2017-18 cash flow estimates in this report with those in last year's report

E.1 The table below compares the 2017-18 estimates in this report with those provided in last year's report.

Great Britain £ million	2017-18 current estimates, on the assumptions in Section 4 and detailed in Appendix C		2017-18 estimates in last year's Report	
Receipts				
Contributions[1]	103,332		101,824	
Less recoveries of statutory payments (and abatements)	2,558		2,607	
Net contribution receipts[3]		100,773		99,217
Treasury Grant		0		0
Compensation from Consolidated Fund for statutory payments recoveries		2,466		2,599
Income from investments		81		44
State scheme premiums		43		0
Other receipts		0		0
Total receipts[3]		**103,364**		**101,860**
Payments[2]				
Benefits		99,540		100,272
Administration costs		711		841
Redundancy fund payments (net)		254		274
Transfer to Northern Ireland		635		575
Other payments		202		177
Total payments[3]		**101,341**		**102,139**
Excess of receipts over payments[3]		2,022		-279

1 The increase of £1.5 billion in contributions is due to an upward revision in assumed cumulative earnings growth up to 2017-18 and employment figures, and updates to contribution modelling using more recent information sources.

2 The decrease of £0.8 billion in payments is due largely to revised assumptions and modelling of benefits resulting in lower projected State Pension expenditure.

3 Figures may not sum to totals due to rounding.

Appendix F: Assumptions beyond April 2019

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 2019-20.

F.3 The assumed number of employees are taken from Table 1.6 of the supplementary economy tables published alongside the OBR's 22 November 2017 Economic and fiscal outlook (EFO). CPI, earnings growth and triple lock assumptions are based on Table 4.1 of the EFO.

F.4 The assumed numbers of individuals over State Pension age (SPa) are based on the ONS 2016 principal population projections for Great Britain, published in October 2017. These figures are shown in Table F.2 below and suggest the number of individuals over SPa is relatively stable. However, the period of projection for this report coincides with a period of increasing SPa, initially to equalise SPa for men and women at 65 and then to increase SPa to 66. After these SPa increases the population over SPa is expected to rise and the effects of this are highlighted in the longer term projections in the Quinquennial Review.

Table F.1 – Employees

Financial year	UR2017 people-based (millions)	UR2018 people-based (millions)	Change (millions)
2016-17	27.0	27.0	0.0
2017-18	27.0	27.3	0.3
2018-19	27.1	27.4	0.3
2019-20	27.2	27.5	0.3
2020-21	27.4	27.5	0.1
2021-22	27.5	27.6	0.1
2022-23	N/A	27.6	N/A

Table F.2 – Numbers over State Pension age

Financial year	UR2017 people-based (millions)	UR2018 people-based (millions)	Change (millions)
2016-17	12.1	12.1	0.0
2017-18	12.1	12.0	-0.1
2018-19	12.0	12.0	0.0
2019-20	11.9	11.8	-0.1
2020-21	11.7	11.6	-0.1
2021-22	11.9	11.8	-0.1
2022-23	N/A	12.0	N/A

Table F.3 – Annual increase in September CPI

	UR2017	UR2018		
Financial year	%	Central %	Change %	-1% earnings & CPI earnings +0.5%
2016-17	1.0 (actual)	1.0 (actual)	nil	1.0
2017-18	2.5	3.0	0.5	3.0
2018-19	2.5	2.2	-0.3	1.5
2019-20	2.0	1.8	-0.2	1.9
2020-21	2.0	2.0	nil	2.1
2021-22	2.0	2.0	nil	2.6
2022-23	N/A	2.0	N/A	2.6

Table F.4 – Earnings growth[1] from one financial year to the next

	UR2017	UR2018				
Financial year	%	Central %	Change %	+1% earnings variant	-1% earnings variant	-1% earnings & CPI of earnings +0.5%
2016-17	2.5	2.9	0.4	2.9	2.9	2.9
2017-18	2.4	2.3	-0.1	3.3	1.3	1.3
2018-19	3.0	2.2	-0.8	3.2	1.2	1.2
2019-20	3.4	2.4	-1.0	3.4	1.4	1.4
2020-21	3.7	2.7	-1.0	3.7	1.7	1.7
2021-22	3.8	3.1	-0.7	4.1	2.1	2.1
2022-23	N/A	3.1	N/A	4.1	2.1	2.1

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

Table F.5 – Triple Lock

	UR2017	UR2018				
Date from which triple lock increase applicable	**%**	**Central %**	**Change %**	**+1% earnings variant**	**-1% earnings variant**	**-1% earnings & CPI of earnings +0.5%**
01-Apr-17	2.5	2.5	nil	3.0	3.0	3.0
01-Apr-18	2.5	3.0	0.5	3.6	2.5	2.5
01-Apr-19	2.7	2.6	-0.1	3.3	2.5	2.5
01-Apr-20	3.3	2.5	-0.8	3.5	2.5	2.5
01-Apr-21	3.6	2.5	-1.1	4.0	2.5	2.6
01-Apr-22	3.7	3.0	-0.7	4.1	2.5	2.6

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