Government
Actuary's
Department

Report by the Government Actuary on:

The draft Social Security Benefits Up-rating Order 2019; and

The draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2019

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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 2019

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To: The Right Hon. Amber Rudd 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 2019 and the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2019.

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 2019

Government Actuary's Department

Contents

1 Executive summary 6

2 Introduction 11

3 Proposed changes to benefits and contributions 13

4 Key assumptions used to project receipts and payments 16

5 Principal estimates for receipts, payments and fund balance 18

6 Variant estimates for receipts, payments, and fund balance 24

7 Conclusion 28

Appendix A : Main rates of benefit provided from the National Insurance Fund 29

Appendix B : Main features of the contribution system 31

Appendix C : Methods 33

Appendix D : Analysis of estimated contribution receipts 38

Appendix E : Comparison of 2018-19 cash flow estimates in this report with those in last year's report 39

Appendix F : Assumptions beyond April 2020 40

Appendix G : Variant fund projections to 2023-24 43

1 Executive summary

1.1 This report discusses the potential effect on the Great Britain National Insurance Fund ("the Fund") of the proposed up-rating of contributory benefits and changes to National Insurance contribution rates, limits and thresholds announced at the time of the Budget on 29 October 2018 as set out in:

> the draft Social Security Benefits Up-rating Order 2019 ("the draft Up-rating Order")

> the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2019 ("the draft Contribution Regulations").

1.2 The report considers:

> the impact of these orders on projected contribution income and benefit expenditure in the 2019-20 financial year

> the projected financial position of the Fund over the next five financial years to 2023-24

> the projected balance of the Fund relative to benefit expenditure in the relevant year to help inform decisions relating to Treasury Grant payments into the Fund.

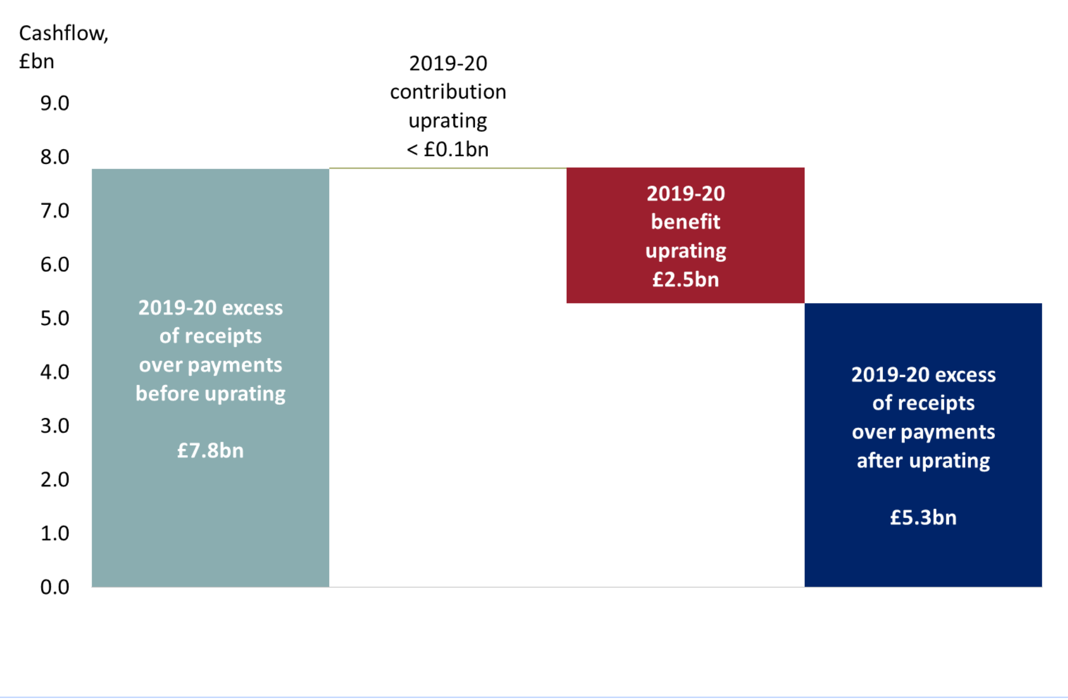
Projected effect of the draft Up-rating Order and the draft Contribution Regulations on the Fund in 2019-20

1.3 The draft Up-rating Order is estimated to increase benefit expenditure by £2.5 billion and the draft Contribution Regulations are estimated to increase contribution income by £23 million, which is a very small effect in the context of the Fund. These effects are determined relative to the position had there been no changes in benefit rates and contribution rates, limits and thresholds in 2019-20.

1.4 Allowing for these changes, receipts to the Fund in 2019-20 are estimated to exceed payments out by £5.3 billion, increasing the balance in the Fund between 31 March 2019 and 31 March 2020. The estimated Fund balance as at 31 March 2020 is £32.6 billion.

1.5 The chart overleaf illustrates the change in fund cashflows over the 2019-20 financial year, including the impact of the draft Up-rating Order and the draft Contribution Regulations.

Figure 1.1 – Changes in Fund cashflows over the 2019-20 financial year[1]



[1] There are second order effects on the investment return expected from the Fund over 2019-20 as a result of the change in benefit and contribution cashflows. This is immaterial to the Fund size to the nearest £0.1bn and has been excluded from Figure 1.1.

Projections to 2023-24

1.6 The projections for the five-year period to 2023-24 show that the balance of the Fund is projected to increase throughout the period to 2023-24, as contribution income is expected to exceed benefit expenditure in each year. Up to 2020-21, increases in benefit expenditure are projected to be smaller than increases in contribution income as a result of the transition to a higher State Pension age, which reduces the number of new claimants of State Pension.

1.7 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[1]. The Quinquennial Review illustrates that the short-term positive trend in the Fund finances is not expected to continue over the longer term. Whilst there are some differences between the assumptions and data underlying the projections provided in this report and those provided in the Quinquennial Review, these are not expected to materially change the projected long-term trends. Over the long-term benefit expenditure is expected to exceed National Insurance contribution receipts primarily as a result of an increasing old-age dependency ratio, projected increases in average state pension benefits payable and increases in the standard rate of state pension benefits arising from the 'triple-lock' policy.

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

Projected balance relative to benefit expenditure

1.8 A payment of a Treasury Grant[2] is usually made if the balance of the Fund is projected to fall below one-sixth (16.7%) of estimated annual benefit expenditure (including redundancy receipts). A Treasury Grant was last paid in the 2015-16 financial year.

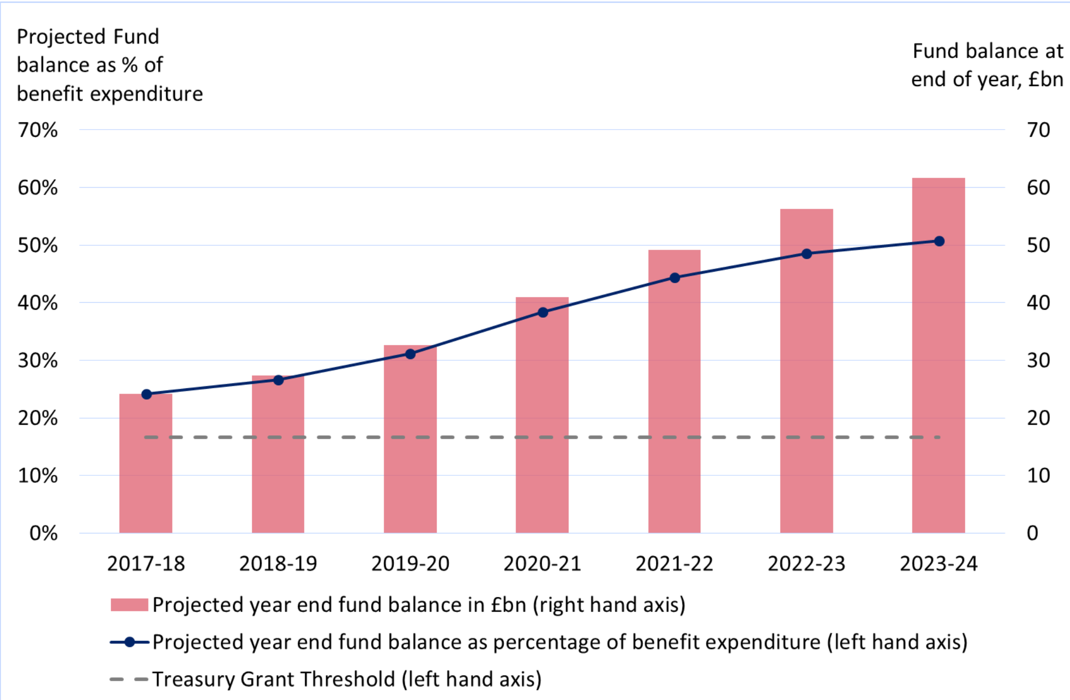
1.9 The projections in this report indicate that:

> The estimated 2019-20 end-year Fund balance of £32.6 billion equates to 31.1% of estimated benefit payments (including redundancy payments) of £104.8 billion in that year. Therefore, I do not expect that a Treasury Grant will be required in 2019-20.

> Payment of Treasury Grants is not expected to be required during the period to 2023-24.

1.10 The graph below shows the projected fund balance at the end of each year based on the principal assumptions, and this balance relative to benefit expenditure and the threshold for Treasury Grants being payable.

Figure 1.2 – Projected Fund balance and Fund balance relative to benefit expenditure



[2] 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.

1.11 However, 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.

Projection approach and uncertainties

1.12 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. Except in the case of the 2019-20 up-rating assumptions, 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 29 October 2018. It is my understanding that the assumptions have been determined with the intention that there is no allowance for prudence or optimism. The 2019-20 up-rating assumptions are consistent with the ONS September 2018 outturn estimate of CPI inflation, which was released after the OBR forecasts were finalised. Details of the key assumptions are given in Section 4 of this report.

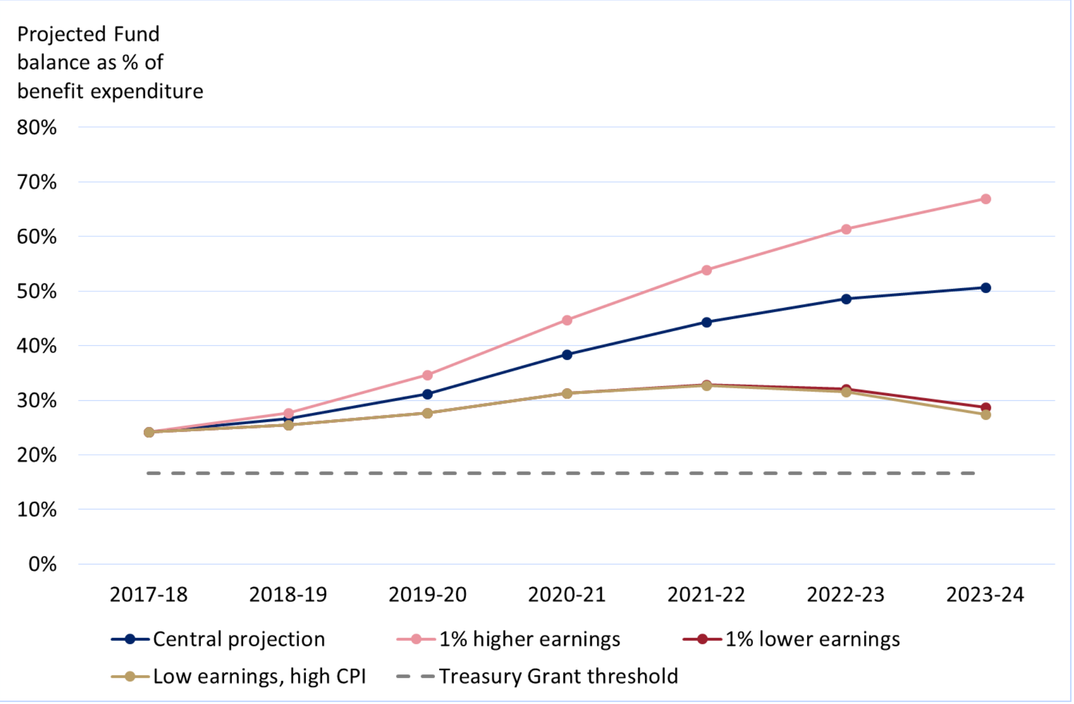
1.13 Varying the key assumptions would change the estimates for benefit payments and contribution receipts and in turn the estimated balance of the Fund. Short-term estimates of future contribution income can vary quite significantly with changes in employment numbers and general earnings increases. 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 2018-19 and 2019-20 are now known. However future benefit expenditure will vary in response to changes in earnings increases and CPI inflation.

1.14 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.

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. The variant scenarios consider earnings increases being higher or lower than the principal assumptions and a scenario that combines lower earnings increase assumptions with higher CPI assumptions.

1.16 Although the Fund is sensitive to earnings increases, these variant projections suggest that earnings growth would need to be significantly lower than assumed, or other factors would also need to change, for a Treasury Grant to be required during the five year projection.

Figure 1.3 – Projected Fund balance as a percentage of benefit expenditure based on variant assumptions



2 Introduction

2.1 The Great Britain 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.

2.2 A small positive balance, relative to contribution income and benefit expenditure, is maintained in the Fund to act as a reserve to manage cash-flow variations. A Treasury Grant payment, as permitted under Section 2 of the Social Security Act 1993, is usually made if the balance of the Fund is projected to fall below one-sixth (16.7%) of estimated annual benefit expenditure (including redundancy receipts).

Purpose of report

2.3 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 is required to consider the potential effect on the Fund of:

> the draft Social Security Benefits Up-rating Order 2019 ("the draft Up-rating Order")

> the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2019 ("the draft Contribution Regulations").

2.4 Several other orders, listed below, have been laid since my last Up-rating Report dated January 2018. These orders do not require a report from the Government Actuary however they affect the level of benefits payable from the Fund and therefore the financial impact of these orders have been allowed for within our projections. These orders are:

> The Social Security Revaluation of Earnings Factors Order 2018 (SI 2018/271)

> The State Pension Debits and Credits (Revaluation) Order 2018 (SI 2018/1219)

> The State Pension Revaluation for Transitional Pensions Order 2018 (SI 2018/1217)

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].

[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.

Results produced

2.6 This report primarily focuses on the Fund over the 2019-20 financial year but also includes projections for each financial year up to 2023-24. The results provided 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 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. The key risks to the Fund balance in the short-term include the level of earnings increases, CPI inflation and employment. Variant estimates provided in Section 6 of this report demonstrate how different experience could affect the progress of the Fund.

2.7 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. Whilst there are some differences between the assumptions and data underlying the projections provided in this report and those provided in the Quinquennial Review, these are not expected to materially change the long-term trends projected in the Quinquennial Review.

2.8 This report only considers the Great Britain National Insurance Fund. 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.

Professional standards

2.9 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.

Limitations

2.10 This report is not appropriate for any other purpose than stated above. No person or third party is entitled to place any reliance on the contents of this report and GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this report.

3 Proposed changes to benefits and contributions

Proposed changes to benefits

3.1 The draft Up-rating Order proposes increasing the rates of some social security benefits paid from the Fund from April 2019. The most significant benefit paid from the National Insurance Fund is State Pensions. The proposed uprating of these is described below.

Impact of draft Up-rating Order on state pension amounts

3.2 Under current legislation both the basic State Pension (for those reaching State Pension age prior to 6 April 2016) and amounts of the full rate of the new State Pension (for those reaching State Pension age on or after 6 April 2016) must be up-rated by at least the growth in earnings.

3.3 However, for the duration of this Parliament, the current Government has committed to annually up-rating the basic State Pension and the full rate of the new State Pensions by the highest of growth in average earnings (AWE), prices (CPI) or 2.5%, referred to as "triple lock".

3.4 The annual increase in the level of CPI to September 2018 was 2.4% and average earnings (AWE) increase over the year to May-July 2018 was 2.6%. Therefore the result of the triple lock is that the proposal is to up-rate the basic State Pension and the full rate of the new State Pension from April 2019 by 2.6%, subject to the appropriate rounding conventions.

3.5 The draft Up-rating Order also proposes increasing other components of the pre-April 2016 State Pension, including earnings-related additional State Pensions (under the State earnings-related pension scheme (SERPS), the State second pension (S2P) and graduated retirement benefit) by 2.4%, in line with the September 2018 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.

3.6 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 2018-19	Proposed increase in weekly rate	Weekly rate in 2019-20
New State Pension (post-April 2016 awards)[1]	£164.35	£4.25	£168.60
Pre-April 2016 Basic State Pension – person claiming on their own or their deceased spouse's contributions[2]	£125.95	£3.25	£129.20
Pre-April 2016 Basic State Pension – person claiming on their spouse's contributions	£75.50	£1.95	£77.45

[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.

3.7 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 (WRAWA)

3.8 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 2019-20. The provisions in this Act expire in April 2020 so the 2019-20 year is the last year in which 2015-16 rates will be maintained.

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

Draft Contribution Regulations 2019

3.10 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 overleaf shows the changes in the major contribution rates, limits and thresholds.

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

	2018-19	2019-20
	Per week	
Lower Earnings Limit for Class 1 NICs	£116	£118
Upper Earnings Limit for Class 1 NICs	£892	£962
Primary Threshold	£162	£166
Secondary Threshold	£162	£166
Upper Secondary Threshold for under age 21 group	£892	£962
Upper Secondary Threshold for relevant apprentices	£892	£962
Rate of Class 2 NICs for self-employed	£2.95	£3.00
	Per annum	
Small Profits Threshold for Class 2 NICs	£6,205	£6,365
	Per week	
Rate of (voluntary) Class 3 NICs	£14.65	£15.00
	Per annum	
Class 4 NICs – Lower Profits Limit	£8,424	£8,632
Class 4 NICs – Upper Profits Limit	£46,350	£50,000

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

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

4 Key assumptions used to project receipts and payments

4.1 The key assumptions underlying the estimates for benefit payments and contribution receipts are those for future 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 Office for National Statistics (ONS) 2016-based principal population projection for Great Britain, published in October 2017. Except in the case of the 2019-20 up-rating assumptions, 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 29 October 2018. The 2019-20 up-rating assumptions are consistent with the ONS September 2018 outturn estimate of CPI inflation, which was released after the OBR forecasts were finalised.

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 as the principal assumptions.

Key assumptions for projection of contribution receipts

4.4 Table 4.1 below provides details of the key assumptions underlying the contribution receipt estimates. Last year's equivalent assumptions are shown in brackets.

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

	2018-19		**2019-20**	
	This year's report	*Last year's report*	This year's report	Last year's report
General earnings increase (%)[2]	2.3	*(2.2)*	2.6	*(2.4)*
Number of employees (millions)[3]	27.7	*(27.4)*	27.9	*(27.5)*

1 These assumptions are consistent with those used by the OBR in its EFO published on 29 October 2018. 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.

Key assumptions for benefit uprating

4.5 Table 4.2 sets out key information and assumptions regarding benefit increases, including how the triple lock increases have been determined, and population numbers above State Pension age. The equivalent values from last year's report are shown in brackets.

Table 4.2 – Key information and assumptions for benefit up-rating

	2018-19		**2019-20**[1]	
	This year's report	*Last year's report*	This year's report	*Last year's report*
Previous year's average May to July annual earnings increase (%)	**2.2**	*(2.2)*	**2.6**	*(2.6 assumed)*
Previous year's September CPI increase (%)	**3.0**	*(3.0)*	**2.4**	*(2.2 assumed)*
Triple lock increase (%)	**3.0**	*(3.0)*	**2.6**	*(2.6 assumed)*
Mid-year population numbers above State Pension age (millions)	**12.0**	*(12.0)*	**11.8**	*(11.8)*

1. The benefit increases to be applied in the years 2018-19 and 2019-20 are already determined and are therefore not assumptions. However, at the time of last year's report, the 2019-20 benefit increases to be applied were assumptions.

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 potential impact of using different economic assumptions from those set out above.

5 Principal estimates for receipts, payments and fund balance

5.1 Table 5.1 below provides estimates of receipts and payments of the Fund for 2019-20, allowing for the draft Up-rating Order and the draft Contribution Regulations. It also includes latest estimates for 2018-19, which allow for new information that has become available since my previous report in January 2018.

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

Great Britain, £ million		2018-19		2019-20	
Receipts					
	Contributions	107,387		111,477	
	Less recoveries of statutory payments (and abatements)	2,677		2,771	
Net contribution receipts			104,710		108,706
Treasury Grant			0		0
Compensation from Consolidated Fund for statutory payments recoveries			2,665		2,760
Income from investments			176		305
State scheme premiums			58		0
Other receipts			0		0
Total receipts[1]			107,608		111,771
Payments					
Benefits[2]	At present rates		102,480	102,008	
	Increase due to proposed changes			2,515	
Total					104,523
Administration costs			724		743
Redundancy fund payments (net)[3]			320		295
Transfer to Northern Ireland			785		737
Other payments			184		188
Total payments[1]			104,493		106,486
Statement of balances					
Balance at beginning of year[4]			24,221		27,337
Excess of receipts over payments			3,116		5,285
Balance at end of year[1]			27,337		32,622
Balance at end of year as percentage of annual benefit payments[5]			26.6%		31.1%

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

2 The effect of the draft Up-rating Order 2019 is shown in Table 5.2. In 2018-19, £99,112 million of benefits are covered by the draft Up-rating Order with £3,367 million of benefits falling outside the scope of the draft Up-rating Order. The split of benefits between these two categories in 2019-20 is £101,017 million and £3,506 million respectively.

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

4 The balance at 31 March 2018 is taken from the published accounts of the Fund for the year 2017-18.

5 Percentages of benefit payments allow for net redundancy payments.

Estimates for 2018-19

5.2 The 2018-19 estimates shown in Table 5.1 may be compared with the estimates for the same period included in my report of January 2018. A full comparison is included in Appendix E.

5.3 In my January 2018 report, it was estimated that receipts during the year 2018-19 would exceed payments by £2.2 billion. My updated estimate is that receipts during the year 2018-19 will exceed payments by £3.1 billion as shown in Table 5.1.

5.4 This change in the size of the estimated operating surplus is primarily due to the updated projections providing for:

> an increase in 2018-19 receipts of £1.5 billion, primarily due to the adoption of revised economic assumptions which assume higher cumulative earnings increases and higher employment, as produced by the Office for Budget Responsibility (see Section 4); and

> an increase in projected payments in 2018-19 of £0.6 billion due largely to revised assumptions and modelling of benefits resulting in higher projected expenditure on new State Pension and a higher estimated transfer to Northern Ireland, partly offset by lower projected expenditure on working-age benefits.

5.5 The projected Fund balance as at 31 March 2019 of £27.3 billion also differs from that estimated in my 2018 Up-rating Report of £26.2 billion. This difference reflects the updated cashflows noted above and the actual Fund balance as at 31 March 2018 being £0.3 billion higher than that estimated in my report last year.

5.6 Further information regarding the difference between the estimates for 2018-19 in this report and last year's report is provided in Appendix E.

5.7 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). The 2018-19 transfer has increased from £612 million in last year's report to £785 million in this year's report. This primarily reflects contribution income to the Northern Ireland Fund being lower than estimated in 2017-18, while contribution income to the Great Britain Fund increased.

Estimates for 2019-20

5.8 The size of the Fund as a percentage of benefit payments is projected to increase, from 26.6% at the end of 2018-19 to 31.1% at the end of 2019-20.

Effects of the draft Social Security Benefits Up-rating Order 2019: a report under Section 150(8), 150A(5) and 151A(6) of the Social Security Administration Act 1992

5.9 I estimate that the potential increase in benefit payments in 2019-20 as a result of the proposed measures in the draft Up-rating Order will be £2.5 billion, taking estimated expenditure on the relevant benefits from £98.5 billion to £101.0 billion. A breakdown of this estimate by benefit is shown in the final column of Table 5.2 overleaf.

Table 5.2 - Estimated benefit payments from the National Insurance Fund and the effect of the draft Up-rating Order on payments in 2019-20

Great Britain £ million	Estimated total payments in 2018-19	Estimated total payments in 2019-20 before the draft Up-rating Order	Estimated extra payments in 2019-20 as a result of the draft Up-rating Order	Estimated total payments in 2019-20 after the draft Up-rating Order
New State Pension[1]	8,082	10,576	270	10,846
Retirement Pensions – Basic[2]	70,428	67,746	1,615	69,361
Retirement Pensions – Additional Pensions	18,239	17,853	582	18,435
Incapacity Benefit	3	1	0	1
Widows'/Bereavement Benefits	280	228	5	233
Contributory Employment and Support Allowance[3]	1,466	1,472	33	1,505
Maternity Allowance	431	438	10	448
Bereavement Support Payment	184	188	0	188
Total of benefits covered by the draft Up-rating Order[4]	**99,112**	**98,502**	**2,515**	**101,017**
Guardian's Allowance	2	2	0	2
Christmas Bonus	126	125	0	125
Contributory Employment and Support Allowance[5]	3,032	3,085	0	3,085
Contribution-based Jobseeker's Allowance	207	294	0	294
Total of benefits not covered by the draft Up-rating Order[4]	**3,367**	**3,506**	**0**	**3,506**
Total Benefits[4]	**102,480**	**102,008**	**2,515**	**104,523**

1 Includes amounts of Protected Payments. The figure for the estimated extra payment in 2019-20 includes around £7m in respect of the cost of up-rating of Protected Payments in payment as at April 2019, effected by the draft Social Security Benefits Up-rating Order 2019, and around £1m in respect of the cost of revaluing Protected Payments which will come into payment during 2019-20, effected by the State Pensions (Revaluation for Transitional Pensions) Order 2018. This latter Order does not strictly need to be reported on, 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.

4 Figures may not sum to totals due to rounding.

5 ESA Personal Allowance & Work Related Activity Group component.

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

5.10 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 2019-20. Therefore there is no increase in benefit payments in 2019-20 in respect of these benefits.

5.11 The estimated total benefit payments in 2019-20 in respect of these benefits and other benefits that fall outside the scope of the Up-rating Order is £3,506 million. My updated estimate for expenditure on these benefits in 2018-19 of £3,367 million is a decrease of £140 million from the £3,507 million projected in my report last year, largely reflecting lower expenditure on Jobseeker's Allowance and Employment Support Allowance. Details of estimated expenditure on all these benefits is provided in Table 5.2.

Effects of the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2019: a report under Section 142(1) of the Social Security Administration Act 1992

5.12 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 2019-20 of £23 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 2019-20

		2019-20 contribution receipt estimates				
Great Britain £ million	**2018-19 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	103,551	107,539	21	0	21[1]	107,560
Class 1A and 1B	1,274	1,356	0	0	0	1,356
Class 2	325	333	0	0	0[2]	333
Class 3	37	37	0	0	0[3]	37
Class 4	2,200	2,189	2	0	2[4]	2,191
Total[5]	107,387	111,454	23	0	23	111,477

[1] This effect is small because the negative impact of increasing the Primary and Secondary Thresholds is broadly balanced by the impact of increasing the Upper Earnings Limit.
[2] There is no impact in 2019-20 due to the delay between when contributions are accrued and the date that they are paid.
[3] There is a small positive impact but it is estimated to be less than £1 million.
[4] Receipts of total Class 4 National Insurance contributions are unaffected, due to the delay between when contributions are accrued and the date that they are paid. However, there is a small effect on the share of contributions paid to the Fund, as the change in limits changes the split of total contributions between the Fund and the NHS.
[5] Figures may not sum to totals shown due to rounding.

5.13 Table 5.3 shows the effect of the draft Contribution Regulations on 2019-20 contribution receipts. The overall effect of £23 million is very small in the context of the Fund as the two changes made in respect of Class 1 receipts are largely offsetting. The effect of changes for Classes 2 and 4 are generally not observable due to the delay between when contributions are accrued and the date that they go on to be paid.

Fund Balance as at 31 March 2020

5.14 I estimate that the balance in the Fund at 31 March 2020, allowing for the measures proposed in the draft Up-rating Order and the draft Contribution Regulations, will be £32.6 billion. As this exceeds one-sixth of estimated benefit payments including redundancy payments during 2019-20 (that is, one-sixth of £104.8 billion, or £17.5 billion) I expect that a Treasury Grant will not be required in 2019-20.

5-year projections

Table 5.4 below provides projections for the five-year period from 2019-20 to 2023-24, calculated using the data and assumptions set out in Section 4 and Appendix F.

Table 5.4 – Fund projections from 2017-18 to 2023-24

Great Britain, £ million	2017-18[3]	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total receipts[1]	103,790	107,608	111,771	116,610	120,812	124,820	129,154
Total payments	101,503	104,493	106,486	108,323	112,562	117,732	123,692
Excess of receipts over payments[1]	2,286	3,116	5,285	8,287	8,251	7,089	5,461
Balance in fund at end of year[1]	24,221	27,337	32,622	40,909	49,160	56,249	61,710
Balance at end of year as a percentage of benefit payments[1]	24.2%	26.6%	31.1%	38.4%	44.4%	48.6%	50.7%
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.

3 Figures for 2017-18 are from the National Insurance Fund accounts.

5.15 These projections suggest that payment of Treasury Grants will not be required during the period of projection up to 2023-24. It should be noted that up to 2020-21, increases in benefit expenditure are projected to be smaller than increases in contribution income as a result of the transition to a higher State Pension age, which reduces the number of new claimants of State Pension.

5.16 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. Whilst there are some differences between the assumptions and data underlying the projections provided in this report and those provided in the Quinquennial Review, these are not expected to materially change the projected long-term trends.

5.17 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.

5.18 Even relatively short term projections of the Fund are highly sensitive to the assumptions made and therefore need to be treated with caution. The CPI assumptions underlying these projections display a strong reversion to the 2% CPI policy target. The projections would be different if this target is not achieved.

5.19 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 can fluctuate quite significantly. However it is not expected to fall below one-sixth of estimated benefit expenditure during the five-year projection period.

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

6 Variant estimates for receipts, payments, and 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.

6.2 All of these factors are inevitably subject to a considerable degree of uncertainty.

6.3 It is also possible that actual experience will differ from the estimates provided due to limitations in the models used to calculate the estimates. The most significant limitation in the modelling relates to new State Pension, where, to date, there is little experience available to assist assumption setting.

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

Short-term risks to the Fund balance

6.5 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 timescale 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.

6.6 Table 6.1 overleaf shows the effects of changes in earnings increases and employment levels on contribution receipts for the National Insurance Fund for the years 2018-19 and 2019-20. 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 2018-19 and 2019-20 of variations in economic assumptions

Variation £ million	Effect on receipts in 2018-19	Effect on receipts in 2019-20	Approximate effect on the 31 March 2020 Fund balance
1% lower employee earnings increases	-1,105	-2,570	-3,675
1% higher employee earnings increases	+1,108	+2,588	+3,696
Variant assuming 1% lower earnings increases each year combined with CPI inflation set to earnings growth plus 0.5% ('low earnings, high CPI')	-1,105	-2,570	-3,675
Lower GB number of employees by 200,000 in 2019-20 only	0	-713	-713
Higher GB number of employees by 200,000 in 2019-20 only	0	+713	+713

6.7 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.

6.8 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.

Variant 5-year projections

6.9 I have also prepared variant estimates for the projected cash flow and balance of the Fund for the 5-year projections to illustrate the sensitivity of the estimates to economic assumptions.

6.10 The variant scenarios considered assume that:

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

6.11 The "low earnings, high CPI" scenario provides for high CPI relative to earnings increases. In 2019-20 this results in a CPI assumption that is lower than that assumed under the principal projections.

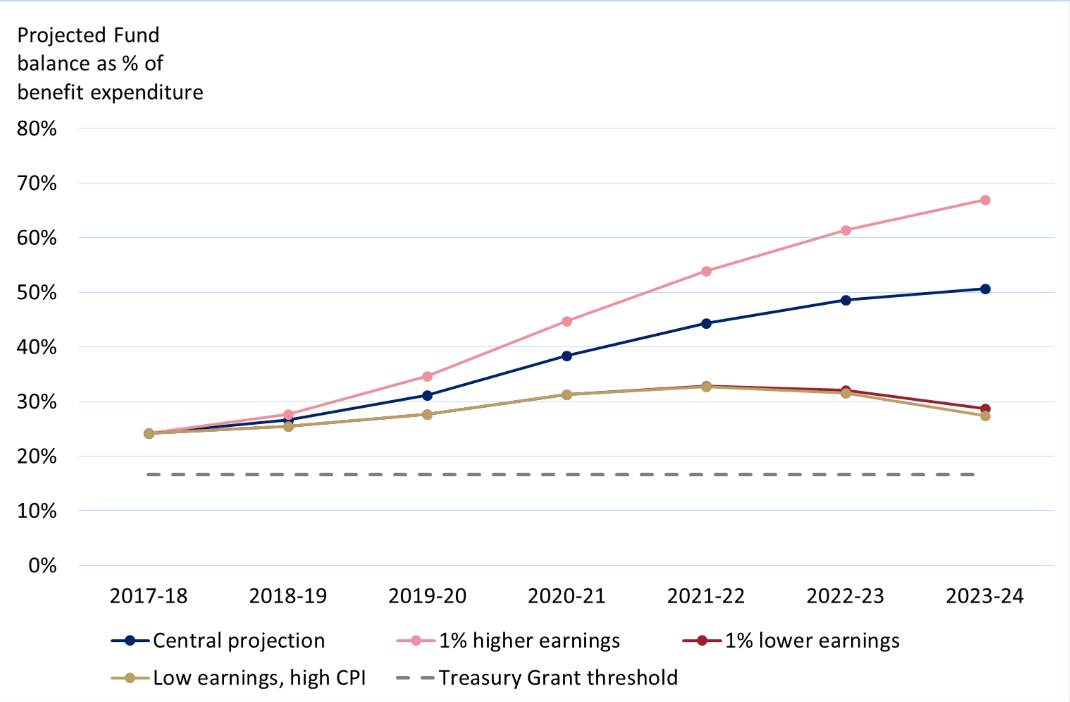
6.12 Further details of these assumptions are provided in Appendix F.

6.13 As the Fund cash flows are particularly sensitive to changes in earnings growth, the variants focus on such changes. 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.

6.14 It should be noted that these projections are purely illustrations of the sensitivity of the results to economic assumptions. They are not intended to show extremes. A material change in conditions, e.g. a significant reduction in employment rates causing a reduction in contribution income, could result in future experience being very different from the projections shown.

6.15 The graph below illustrates the projected fund balance for the five years to 2023-24 as a percentage of benefit expenditure based on these variant assumptions and compares this to the Treasury Grant threshold of one-sixth of benefit expenditure.

Figure 6.2 – Projected Fund balance as a percentage of benefit expenditure based on variant assumptions



6.16 Although the Fund is sensitive to earnings increases, the variant projections suggest that earnings growth would need to be significantly lower than assumed, or other factors would also need to change, for a Treasury Grant to be required during the five-year projection period.

6.17 These projections allow for relevant transfers to the Northern Ireland National Insurance Fund.

6.18 Details of the figures underlying these charts, together with details of any Treasury Grant required to ensure that the Fund does not fall below one-sixth of benefit payments, are provided in Appendix G.

Other areas of uncertainty

6.19 There is still some uncertainty about future expenditure on State Pensions, particularly in the first years of the new system. Allowing for reasonable alternative assumptions indicates cumulative expenditure over the five year projection period could be around £2.5 billion higher or lower than expected.

7 Conclusion

Projected effect of the draft Orders

7.1 The draft Up-rating Order is estimated to increase benefit expenditure by £2.5 billion and the draft Contribution Regulations are estimated to increase contribution income by £23 million, which is a very small effect in the context of the Fund. These effects are determined relative to the position had there been no changes in benefit rates and contribution rates, limits and thresholds in 2019-20.

7.2 Allowing for these changes, receipts to the Fund in 2019-20 are estimated to exceed payments out by £5.3 billion, increasing the balance in the Fund between 31 March 2019 and 31 March 2020. The estimated Fund balance as at 31 March 2020 is £32.6 billion.

Projected Fund balance relative to benefit expenditure

7.3 The estimated 2019-20 end-year Fund balance of £32.6 billion equates to 31.1% of estimated benefit payments (including redundancy payments) of £104.8 billion in that year. As the estimated end-year Fund balance is larger than one-sixth of benefit payments during the year (equivalent to £17.5 billion), I do not expect that a Treasury Grant will be required in 2019-20. The updated estimates for 2018-19 do not change the expectation that no Treasury Grants will be paid into the Fund in 2018-19.

7.4 If economic conditions differ from the assumptions adopted, the balance of the Fund at 31 March 2020 could be different from that given above. The effects of variations in some of these assumptions are illustrated in Section 6. However, economic conditions would need to change very significantly for a Treasury Grant to be required in the 2019-20 financial year.

5 year projections

7.5 The five-year projections show that the balance of the Fund is projected to increase each year until 2023-24, although the level of increase is smaller in later projection years. These projections suggest that payment of Treasury Grants will not be required during the period to 2023-24.

7.6 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.

7.7 The variant projections, set out in Section 6,show that the Fund is sensitive to earnings increases but these projections indicate that earnings growth would need to be significantly lower than assumed, or other factors would also need to change, for a Treasury Grant to be required during the next five years.

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

All figures in £s	Weekly rate in 2018-19	Weekly rate proposed from April 2019
State Pension		
New State Pension[1]	164.35	168.60
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]	125.95	129.20
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)	75.50	77.45
Increase for spouse or other adult dependant (pre-April 2016 State Pension only)	68.35	70.00
Graduated retirement benefit (unit)	0.1383	0.1416
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 allowance (maximum rate)	117.10	119.90
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	37.65	38.55
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]	145.18	148.68
Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay, Statutory Shared Parental Pay		
Standard rate[7]	145.18	148.68
Guardian's allowance		
First child/other children	17.20	17.60
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 Under transitional arrangements not everyone receives this 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. Widowed Parent's Allowance is available to persons

whose spouse or civil partner died before 6 April 2017 for as long as they receive Child Benefit in respect of a child of that spouse/civil partner.

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 Rates for these benefits are held at 2015-16 levels, as legislated for 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. Income-based Jobseeker's Allowance/Universal Credit may also be paid to recipients of contributions-based Jobseeker's Allowance if their income-based benefit requirements exceed the rate of contributory Jobseeker's Allowance.

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.

Appendix B: Main features of the contribution system

		Rate in 2018-19	Rate proposed from April 2019
Class 1			
Lower earnings limit (LEL)		£116 a week	£118 a week
Upper earnings limit (UEL)		£892 a week	£962 a week
Primary threshold		£162 a week	£166 a week
Secondary threshold		£162 a week	£166 a week
Upper secondary threshold for under age 21 group		£892 a week	£962 a week
Upper secondary threshold for relevant apprentices		£892 a week	£962 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 2018-19	Rate proposed from April 2019
Class 2		
Flat-rate contribution	£2.95 a week	£3.00 a week
Small profits threshold	£6,205 a year	£6,365 a year
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 3		
Flat-rate contribution	£14.65 a week	£15.00 a week
NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 4		
Lower Profits Limit (LPL)	£8,424 a year	£8,632 a year
Upper Profits Limit (UPL)	£46,350 a year	£50,000 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.

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 the average amount received in the years 2015-16 to 2017-18.

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 2017-18. 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.

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

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 2017-18. We therefore use this information to split the total Class 1 NICs received in 2017-18, 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, as set out in Appendix B.

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.

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)
> Statutory Adoption Pay (SAP), and
> from April 2020, Statutory Parental Bereavement Pay (SPBP).

C.16 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.17 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 2018-19 and 2019-20 are of the order of £0.5bn lower than those of HMRC. I will continue to liaise with HMRC in relation to the consistency of our projections.

Other receipts

C.18 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 assumed that no more State scheme premiums will be received after April 2019.

C.19 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 29 October 2018.

C.20 In the accounts of the National Insurance Fund "Other receipts" historically included contributions relating to contracting-out via personal pensions and recoveries of unemployment payments.

Benefits

C.21 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 State Pensions (SERPS and S2P). Allowance has been made for the increases in female State Pension age (SPa) during 2018-19 to 2019-20 and male SPa during 2019-20.

C.22 Pre-2016 awards of basic State Pension remain the largest amount of benefit payable from the Fund. 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.23 Allowance has been made for the number of people who reached SPa 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. Pensioners in receipt of basic State Pensions receive an increase of 25p per week on reaching age 80 (the Age Addition). In addition, some pensioners in receipt of basic State Pensions may be eligible for an increase in pension up to a specified amount on reaching age 80 (the Over 80 Pension). This increase is not based on National Insurance contributions and is not payable from the Fund and hence is not included in the expenditure amounts shown for basic State Pension.

C.24 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. The database provided by DWP included data up to the end of the financial year 2015-16, though some adjustments were needed in respect of records for those who were self-employed and likely to gain a qualifying year by payment of Class 2 National Insurance contributions in 2015-16. (This adjustment did not appear to make a material difference to estimates.) Based on the 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.25 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.24 above and allowance for 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. GAD staff have liaised with DWP to align our approach to setting an appropriate assumption by age and sex with DWP's emerging modelling. Current forecasts assume that 100% of the population of Great Britain who reach SPa after April 2016 will receive some new State Pension, and that the benefit rate will be up-rated in line with the triple lock.

C.26 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.27 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 SPa 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 SPa. 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.28 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.29 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 SPa based on the units accrued by their deceased husbands which would not come into payment until the widow reached SPa. 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 SPa on or after 6 April 2016 graduated retirement benefit can only be inherited if the deceased reached SPa before 6 April 2016 or died before that date. Graduated retirement benefit in respect of people under SPa is assumed to be paid on reaching SPa. It is assumed that no-one defers payment of their Graduated Retirement benefits after SPa.

C.30 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.31 The administration costs are based on those incurred in 2017-18 as recorded in the Fund accounts, with future costs estimated as the 2017-18 costs increased in line with earnings growth.

C.32 Redundancy payments estimates (net of redundancy receipts) are provided by the Insolvency Service.

C.33 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 estimated contribution receipts

Great Britain, £ million			2018-19		2019-20
National Insurance Fund					
Class 1[1]	Primary	42,291		44,366	
	Secondary	61,259		63,194	
	Total		103,551		107,560
Classes 1A and 1B			1,274		1,356
Class 2			325		333
Class 3			37		37
Class 4			2,200		2,191
Total National Insurance Fund contributions[2,3]			**107,387**		**111,477**
National Health Service					
Class 1	Primary	9,876		10,288	
	Secondary	14,346		14,801	
	Total		24,223		25,089
Classes 1A and 1B			203		217
Class 2			60		61
Class 3			7		7
Class 4			860		853
Total National Health Service contributions[3]			**25,352**		**26,227**
All contributions					
Class 1[1]	Primary	52,168		54,653	
	Secondary	75,606		77,995	
	Total		127,773		132,649
Classes 1A and 1B			1,477		1,573
Class 2			384		394
Class 3			44		44
Class 4			3,061		3,045
Total contributions[3]			**132,739**		**137,704**

1 All figures are gross of recoveries by employers of Statutory Maternity Pay, Statutory Paternity Pay Statutory Adoption Pay and 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 2018-19 cash flow estimates in this report with those in last year's report

E.1 The table below compares the 2018-19 estimates in this report with those provided in Table 5.1 of last year's report.

Great Britain £ million	2018-19 current estimates, on the assumptions in Section 4 and detailed in Appendix C		2018-19 estimates in Table 5.1 of last year's Report	
Receipts				
Contributions[1]	107,387		105,922	
Less recoveries of statutory payments (and abatements)	2,677		2,653	
Net contribution receipts[3]		104,710		103,269
Treasury Grant		0		0
Compensation from Consolidated Fund for statutory payments recoveries		2,665		2,645
Income from investments		176		174
State scheme premiums		58		43
Other receipts		0		0
Total receipts[3]		**107,608**		**106,131**
Payments[2]				
Benefits		102,480		102,061
Administration costs		724		726
Redundancy fund payments (net)		320		295
Transfer to Northern Ireland		785		612
Other payments		184		206
Total payments[3]		**104,493**		**103,901**
Excess of receipts over payments[3]		3,116		2,230

1 The increase of £1.5 billion in contributions is due to an upward revision in assumed cumulative earnings growth up to 2018-19 and employment figures, and updates to contribution modelling using more recent information sources.

2 The increase of £0.6 billion in payments is due largely to revised assumptions and modelling of benefits resulting in higher projected expenditure on new State Pension and a higher estimated transfer to Northern Ireland, partly offset by lower projected expenditure on working-age benefits.

3 Figures may not sum to totals due to rounding.

Appendix F: Assumptions beyond April 2020

F.1 This section provides details of the key assumptions underlying the five-year projections, both those on the principal assumptions and those on the variant assumptions. Unless otherwise stated the methods and assumptions used in the five-year projections are the same as the methods and assumptions used to calculate the 2019-20 results.

Assumptions

F.2 The assumed number of UK employees are taken from Table 1.6 of the supplementary economy tables published alongside the OBR's 29 October 2018 Economic and fiscal outlook (EFO). CPI, earnings growth and triple lock assumptions are based on Table 4.1 of the EFO.

Table F.1 – Number of UK Employees[1]

Financial year	UR2018 people-based (millions)	UR2019 people-based (millions)	Change (millions)
2017-18	27.3	27.4	0.1
2018-19	27.4	27.7	0.3
2019-20	27.5	27.9	0.4
2020-21	27.5	28.0	0.5
2021-22	27.6	28.1	0.5
2022-23	27.6	28.1	0.5
2023-24	N/A	28.2	N/A

1 The assumed 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.

F.3 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 over the five-year projection period. However, this timeframe 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 as a result of increasing life expectancy and large cohorts reaching SPa. The effects of this on the sustainability of the Fund are highlighted in the longer-term projections in the Quinquennial Review.

Table F.2 – Numbers over State Pension age[1]

Financial year	UR2018 people-based (millions)	UR2019 people-based (millions)	Change (millions)
2017-18	12.0	12.0	0.0
2018-19	12.0	12.0	0.0
2019-20	11.8	11.8	0.0
2020-21	11.6	11.6	0.0
2021-22	11.8	11.8	0.0
2022-23	12.0	12.0	0.0
2023-24	N/A	12.2	N/A

1 GB-based individuals over state pension age. These projections do not include any individuals over state pension age who receive a state pension whilst living overseas.

F.4 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 benefit rates from 2020-21 onwards are similarly made in line with policies and approaches. In particular, I have assumed that working-age benefits which were frozen until 2019-20 under the Welfare Reform and Work Act 2016 will not continue to be frozen subsequent to that year and will be increased in line with CPI from April 2020.

F.5 The principal CPI, earnings growth and triple-lock assumptions are based on Table 4.1 of the EFO. The CPI and earnings assumptions in Table 4.1 of the EFO are 4-quarter averages; the Q2 earnings and Q3 CPI assumptions used for up-rating are taken from tables 1.6 and 1.7 respectively of the EFO supplementary economy tables.

Table F.3 – Annual increase in September CPI[1]

	UR2018	UR2019		
Financial year	%	Principal %	Change %	low earnings, high CPI variant[2]
2017-18	3.0 (actual)	3.0 (actual)	nil	3.0 (actual)
2018-19	2.2	2.4 (actual)	0.2	2.4 (actual)
2019-20	1.8	2.0	0.2	1.9
2020-21	2.0	2.0	nil	2.3
2021-22	2.0	2.1	0.1	2.5
2022-23	2.0	2.1	0.1	2.7
2023-24	N/A	2.0	N/A	2.7

1 Q3 CPI figure used as proxy for September inflation.
2 The low earnings, high CPI variant assumes the annual increase in CPI is 0.5% higher than the low earnings variant over the Sep-Sep period.

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

	UR2018	UR2019			
Financial year	**%**	**Principal %**	**Change %**	**+1% earnings variant**	**-1% earnings and low earnings, high CPI variants**
2017-18	2.3	2.7	0.4	2.7	2.7
2018-19	2.2	2.3	0.1	3.3	1.3
2019-20	2.4	2.6	0.2	3.6	1.6
2020-21	2.7	2.9	0.2	3.9	1.9
2021-22	3.1	3.0	-0.1	4.0	2.0
2022-23	3.1	3.2	0.1	4.2	2.2
2023-24	N/A	3.2	N/A	4.2	2.2

1 Q2 earnings figures used as proxy for earnings element of triple-lock up-rating.

F.6 All variant earnings growth assumptions assume that the principal assumptions change by 1%. The full 1% variant has not been adjusted to reflect any partial earnings data for 2018-19.

Table F.5 – Triple Lock[1]

	UR2018	UR2019				
Date from which triple lock increase applicable	**%**	**Principal %**	**Change %**	**+1% earnings variant**	**-1% earnings variant**	**low earnings, high CPI variant**
01-Apr-18	3.0 (actual)	3.0 (actual)	nil	3.0 (actual)	3.0 (actual)	3.0 (actual)
01-Apr-19	2.6	2.6 (actual)	nil	2.6 (actual)	2.6 (actual)	2.6 (actual)
01-Apr-20	2.5	2.7	0.2	3.7	2.5	2.5
01-Apr-21	2.5	2.8	0.3	3.8	2.5	2.5
01-Apr-22	3.0	3.0	nil	4.0	2.5	2.5
01-Apr-23	3.1	3.1	nil	4.1	2.5	2.7

1 "Triple lock" increased are determined as the highest of the annual growth in average May-July earnings (AWE), September prices (CPI) and 2.5%.

Appendix G: Variant fund projections to 2023-24

G.1 This section provides details of the projected cash flow and balance of the Fund over the five-year period from 2018-19 to 2023-24 under the variant assumptions. Actual receipts and payments in 2017-18 are provided for reference.

Table G.1 – Variant fund projections from 2018-19 to 2023-24 – 1% higher earnings increases

Great Britain, £ million	2017-18[3]	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total receipts[1]	103,790	108,709	114,383	120,790	126,653	132,424	138,650
Total payments	101,503	104,509	106,523	109,086	114,168	120,293	127,365
Excess of receipts over payments[1]	2,286	4,199	7,860	11,704	12,485	12,131	11,285
Balance in fund at end of year[1]	24,221	28,421	36,280	47,985	60,470	72,601	83,886
Balance at end of year as a percentage of benefit payments[1]	24.2%	27.6%	34.6%	44.7%	53.8%	61.3%	66.9%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[2]	N/A	N/A	0	0	0	0	0

Table G.2 – Variant fund projections from 2018-19 to 2023-24 – 1% lower earnings increases

Great Britain, £ million	2017-18[3]	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total receipts[1]	103,790	106,511	109,177	112,483	115,073	117,388	119,914
Total payments	101,503	104,476	106,450	108,128	112,111	116,833	122,204
Excess of receipts over payments[1]	2,286	2,035	2,727	4,354	2,963	555	-2,291
Balance in fund at end of year[1]	24,221	26,256	28,983	33,338	36,300	36,856	34,565
Balance at end of year as a percentage of benefit payments[1]	24.2%	25.5%	27.7%	31.3%	32.9%	32.0%	28.7%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[2]	N/A	N/A	0	0	0	0	0

Table G.3 – Variant fund projections from 2018-19 to 2023-24 – low earnings, high CPI

Great Britain, £ million	2017-18[3]	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total receipts[1]	103,790	106,511	109,177	112,483	114,861	117,190	119,550
Total payments	101,503	104,476	106,449	108,102	112,159	116,989	122,667
Excess of receipts over payments[1]	2,286	2,035	2,727	4,380	2,701	202	-3,117
Balance in fund at end of year[1]	24,221	26,256	28,984	33,364	36,065	36,267	33,150
Balance at end of year as a percentage of benefit payments[1]	24.2%	25.5%	27.7%	31.4%	32.7%	31.5%	27.4%
Treasury Grants required to maintain Fund at one-sixth of benefit payments[2]	N/A	N/A	0	0	0	0	0

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 2017-18 are from the National Insurance Fund accounts.

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