Government Actuary's Department

Report by the Government Actuary on:

The draft Social Security Benefits Up-rating Order 2023;

and

The draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2023

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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 and sections 150(8), 150A(5) and 151A(6) of the Social Security Administration Act 1992.

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Report by the Government Actuary on: The draft Social Security Benefits Up-rating Order 2023; and The draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2023

To:

The Right Hon. Mel Stride MP, Secretary of State for Work and Pensions

The Right Hon. Victoria Atkins 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 2023 and the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2023.

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 and sections 150(8), 150A(5) and 151A(6) of the Social Security Administration Act 1992.

Martin Clarke
Government Actuary
January 2023

Contents

1 Executive summary

1.1 This report sets out my opinion of the effect on the Great Britain National Insurance Fund ("the Fund") of the:

- proposed up-rating of contributory benefits (announced in a written ministerial statement on 17 November 2022), as set out in the draft Social Security Benefits Up-rating Order 2023 ("the draft Order")
- changes to the National Insurance Contributions (NICs) rates, limits and thresholds as set out in the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2023 ("the draft Regulations").

1.2 The year 2022-2023 has been unusual for the Fund in that it is the first year since 1989 that NICs rates, limits and thresholds have changed mid-year and such changes happened twice in the year 2022-2023. The overall impact of these two changes has been a reduction in contribution income of £2.6 billion expected for 2022-2023.

1.3 The April 2023 up-rating of 10.1% is also unusual as it is the largest such increase since 1991. These two factors are significant contributors to the principal projection in this report. The Fund balance is projected to decline from 2024-2025 to the end of the projection period in 2027-2028. In my previous report in January 2022, the Fund was projected to increase in every year of the projection.

Impact of the draft Order, the draft Regulations and other effects on the Fund up to 2023-2024

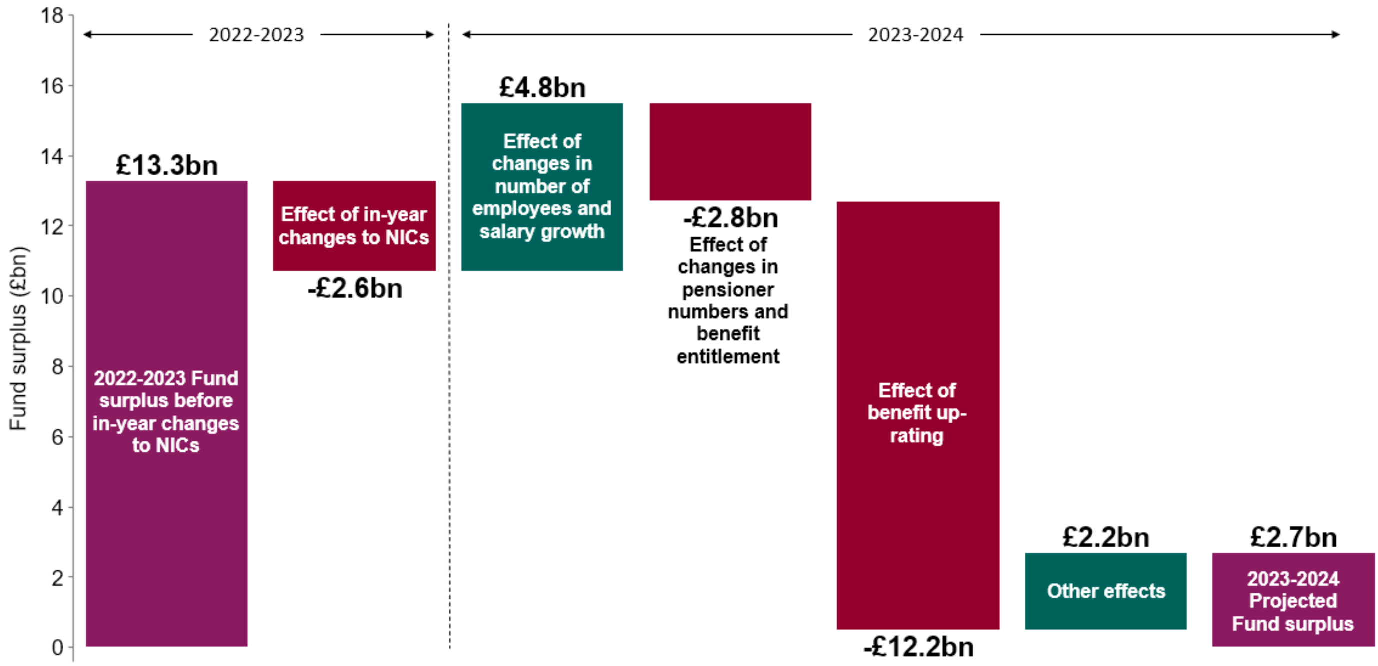
1.4 The draft Order is estimated to increase[1] benefit expenditure by £12.2 billion in 2023-2024. The draft Regulations do not alter the Class 1 rates, limits or thresholds for NICs and so the contribution income in 2023-2024 is not expected to be materially affected by the draft Regulations.

1.5 Total Fund income in 2023-2024 is estimated at £135.7 billion and total Fund expenditure at £133.0 billion. Receipts to the Fund in 2023-2024 are estimated to exceed payments made by £2.7 billion, increasing the balance in the Fund during financial year 2023-2024. The estimated Fund balance at 31 March 2024 is £70.3 billion.

1.6 Chart 1.1 shows the impact of the draft Order, and other factors on the Fund surplus. The two in-year changes to NICs reduce Fund income by £2.6 billion. Economic and demographic changes between 2022-2023 and 2023-2024, such as an increase in the number of employees, leads to an increase in NICs of £4.8 billion and an increase in benefit expenditure of £2.8 billion.

[1] Effect relative to no changes in benefit rates or contribution rates, limits or thresholds in 2023-2024.

Chart 1.1 – Impact of the draft Order and other factors on Fund surplus



Projected financial position of the Fund to 2027-2028

Principal projections

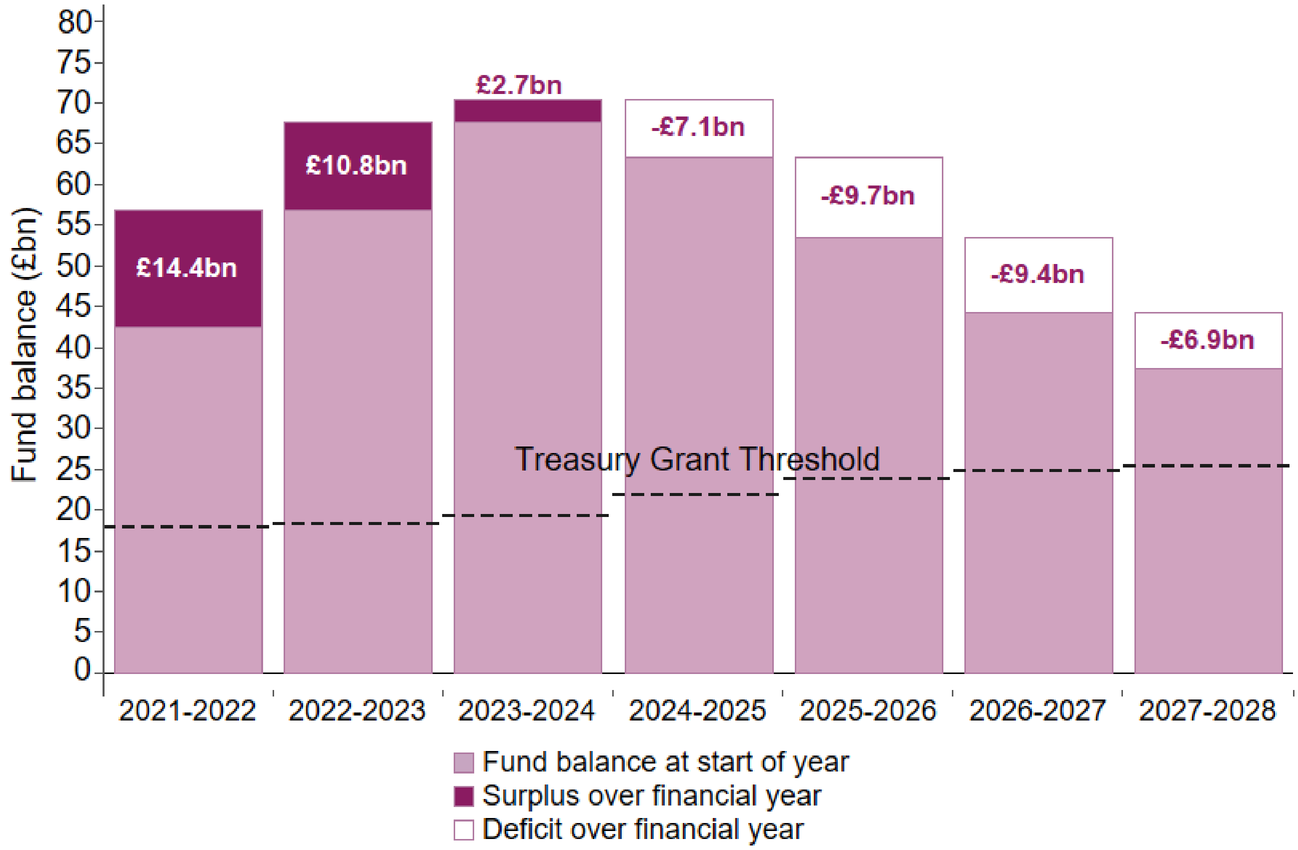
1.7 The projection to 2027-2028 is shown in Chart 1.2. Under the principal assumptions, the balance of the Fund is projected to increase in 2023-2024 as contribution income is expected to exceed benefit expenditure. After that, benefit expenditure is projected to exceed contribution income and the Fund balance declines in every subsequent year of the projection period.

1.8 The yearly Fund balances in this projection differ from those projected in my January 2022 report. Appendix A contains a comparison of the projected Fund balances at 31 March 2023 from the two reports.

1.9 The projections in this report indicate that the estimated 2023-2024 end-year Fund balance (£70.3 billion) will be around 54% of estimated benefit expenditure of £131.1 billion (including redundancy payments). This proportion is projected to remain above the recommended minimum of one-sixth[1] of benefit expenditure up to and including 2027-2028. As shown in Chart 1.2, this suggests Treasury Grants[1] will not be required in this period. A Treasury Grant was last paid in the 2015-2016 financial year.

[1] Further detail is provided in 2.15-16

Chart 1.2 – Projected Fund balance up to 2027-2028



Variant projections

1.10 The estimates of receipts and payments and the Fund balance are based on various assumptions and are sensitive to some of these, in particular earnings growth. Section 3 of this report shows these sensitivities through a series of variant estimates.

Long term review

1.11 Longer term projections of the Fund (up to 2085) can be found in my Quinquennial Review of the Fund as at April 2020, published on 17 March 2022[1] and based on assumptions current at that date. The effective date of the next Quinquennial Review of the Fund will be April 2025.

[1] https://www.gov.uk/government/publications/government-actuarys-quinquennial-review-of-the-national-insurance-fund-as-at-april-2020

Professional standards and limitations

1.12 This work has been carried out in accordance with the relevant actuarial professional standards TAS 100 and ASORP1 issued by the Financial Reporting Council (FRC). The FRC sets standards for actuarial work in the UK.

1.13 This report has been prepared for Parliament in accordance with the Social Security Administration Act 1992. It is not appropriate for any other purpose. No other person or third party is entitled to place any reliance on the contents of this report and GAD has no liability to any other person or third party for any act or omission taken, either in whole or in part, on the basis of this report.

1.14 This report does not consider the Northern Ireland National Insurance Fund.

2 Principal estimates for receipts, payments and the Fund balance

2.1 Table 2.1 below sets out my estimates of receipts and payments of the Fund for 2022-2023 and 2023-2024 allowing for the draft Order and the draft Regulations.

Table 2.1 – Estimated receipts and payments and statement of balances of the Fund

Great Britain, £ million		2022-2023[1]		2023-2024	
Receipts					
	Contributions	127,181		132,385	
	Less recoveries of statutory payments (and abatements)	2,731		2,873	
Net contribution income			124,450		129,513
Treasury Grant			0		0
Compensation from Consolidated Fund for statutory payments recoveries			2,729		2,859
Income from investments			1,545		3,327
Other receipts			0		0
Total receipts[2]			128,724		135,699
Payments					
Benefits	At present rates	115,732		118,511	
	Increase due to proposed changes			12,160	
Total			115,732		130,671
Administration costs			974		1,008
Redundancy fund payments (net)			301		413
Transfer to Northern Ireland			850		811
Other payments			105		112
Total payments[2]			117,961		133,015
Statement of balances					
Balance at beginning of year			56,875		67,638
Excess of receipts over payments			10,763		2,684
Balance at end of year[2]			67,638		70,322
Balance at end of year as percentage of annual benefit payments[4]			58.3%		53.6%

[1] These estimates update those in my report in January 2022 reflecting the latest accounts of the Fund and other more recent information. A breakdown and analysis of this change is provided in Appendix A.
[2] Figures may not sum to totals shown due to rounding.
[3] The balance at 31 March 2022 is taken from the published accounts of the Fund for the year 2021-2022.
[4] Percentages of benefit payments allow for net redundancy payments.

Estimates for 2023-2024

Benefit expenditure

2.2 The proposed measures in the draft Order increase the rates of social security benefits paid from the Fund from April 2023. The full rate of the basic State Pension increases from £141.85 per week to £156.20 per week and the full rate of the new State Pension increases from £185.15 per week to £203.85 per week. Appendix B sets out details of the main rates of benefits paid from the Fund before and after the proposed measures. Chart 2.1 shows how Fund expenditure is split between the largest benefits.

2.3 I estimate that the increase in benefit expenditure in 2023-2024 as a result of the proposed measures in the draft Order will be £12.2 billion, taking estimated expenditure on the benefits covered by the draft Order from £118.4 billion to £130.5 billion. Table 2.2 overleaf shows this estimate, and the effect of the draft Order, split by benefit type.

2.4 I estimate that in the absence of the draft Order, benefit expenditure would have increased from £115.6 billion to £118.4 billion. This is due to the change in pensioner population and entitlements to benefits in 2023-2024 compared to 2022-2023. This is also shown in Table 2.2.

Chart 2.1 – Breakdown of benefit expenditure for 2023-2024

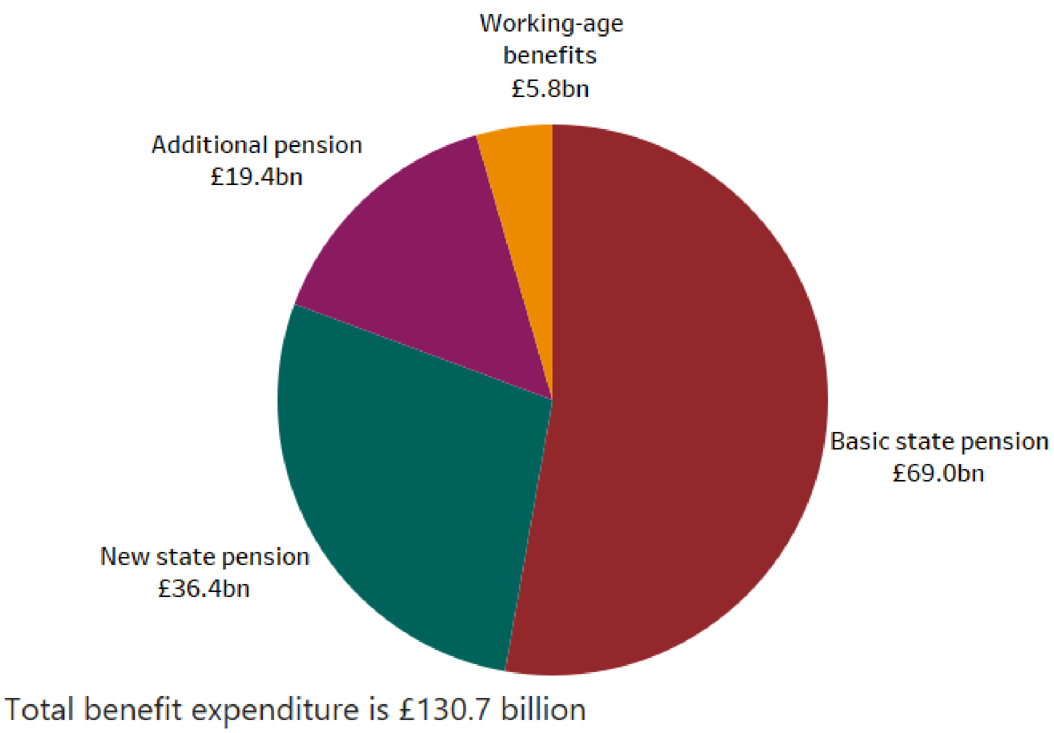


Table 2.2 – Benefit expenditure and the effect of the draft Order in 2023-2024

Benefit	2022-2023 benefit payment estimates (£m)	2023-2024 benefit payment estimates (£m)		
		Before the draft Order	Impact of the draft Order	After the draft Order
New State Pension[1]	26,797	33,260	3,145	36,404
Basic State Pension[2,3]	65,930	62,952	5,918	68,870
Additional Pension	17,402	16,807	2,615	19,422
Incapacity benefit	1	0	0	0
Widows'/bereavement benefits	189	147	14	161
Contributory employment and support allowance	4,544	4,509	425	4,934
Contribution-based jobseeker's allowance	88	66	6	72
Maternity allowance[4]	388	394	37	431
Bereavement support payment	262	246	0	246
Total of benefits covered by the draft Order[5]	**115,601**	**118,380**	**12,160**	**130,540**
Guardian's allowance[6]	5	2	0	2
Christmas bonus	126	128	0	128
Total of benefits not covered by the draft Order[5]	**131**	**131**	**0**	**131**
Total benefits[5]	**115,732**	**118,511**	**12,160**	**130,671**

1 Includes expenditure on Protected Payments. Revaluation of Protected Payments which will come into payment during 2023-2024 is set by the State Pension Revaluation for Transitional Pensions Order 2022.

2 Includes expenditure on Graduated Retirement Benefit, existing increments and deferral lump sums (in respect of deferred basic State Pension and deferred Additional Pension).

3 Includes allowance for payments in respect of historic underpayments; further detail is provided in E.75.

4 The rate of Maternity Allowance is not covered by the draft Order but it is linked to the prescribed rate of statutory maternity pay which is covered by the draft Order.

5 Figures may not sum to totals due to rounding.

6 The functions of the Secretary of State under Part 10 of the Social Security Administration Act 1992 (review and alteration of benefits: Great Britain) 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.

Contribution income

2.5 Section 162 of the Social Security Administration Act 1992 sets out how NICs receipts are to be split between the Fund and the NHS. The contributions shown in this section are NICs receipts less the relevant NHS allocation. The split of NICs receipts between the Fund and the NHS is set out in Appendix F.

2.6 The proposed measures in the draft Regulations increase some of the thresholds used to determine the amount of earnings or profits that NICs are payable on, although the majority remain unchanged. The primary threshold remains unchanged at £242 per week and the secondary threshold remains unchanged at £175 per week. There is no change to the small profits threshold, the lower profits limit increases to £12,570.

2.7 Appendix C sets out details of the main features of the Fund's contribution system, including the changes made during the current financial year.

2.8 The measures proposed in the draft Regulations do not change the rates, limits or thresholds for Class 1 NICs. The effect of changes for Classes 2 and 4 are generally not observable in the upcoming financial year due to the delay between when contributions are accrued and the date that they go on to be paid. I do not estimate the effect of changes for Class 3 contributions because these are voluntary and the rate applied depends on the tax year the credit relates to.

2.9 The draft Regulations are therefore projected to result in no discernible change in Fund contribution income in 2023-2024. I project Fund contribution income of £132.4 billion in 2023-2024. A breakdown of this estimate by contribution type is shown in Table 2.3.

2.10 There were two sets of changes to NICs during 2022-2023. Firstly, the primary threshold was increased from £190 a week to £242 a week to align with the personal allowance from 6 July 2022. The lower profit limit for class 4 NICs was also increased to maintain alignment with the primary threshold.

2.11 The second in-year change was enacted by the Health and Social Care Levy (Repeal) Bill which reversed the temporary 1.25 percentage point increase in NICs rates for 2022-2023 from 6 November 2022. The overall impact of these two sets of in-year changes was to reduce by £2.6 billion the estimated Fund income in 2022-2023.

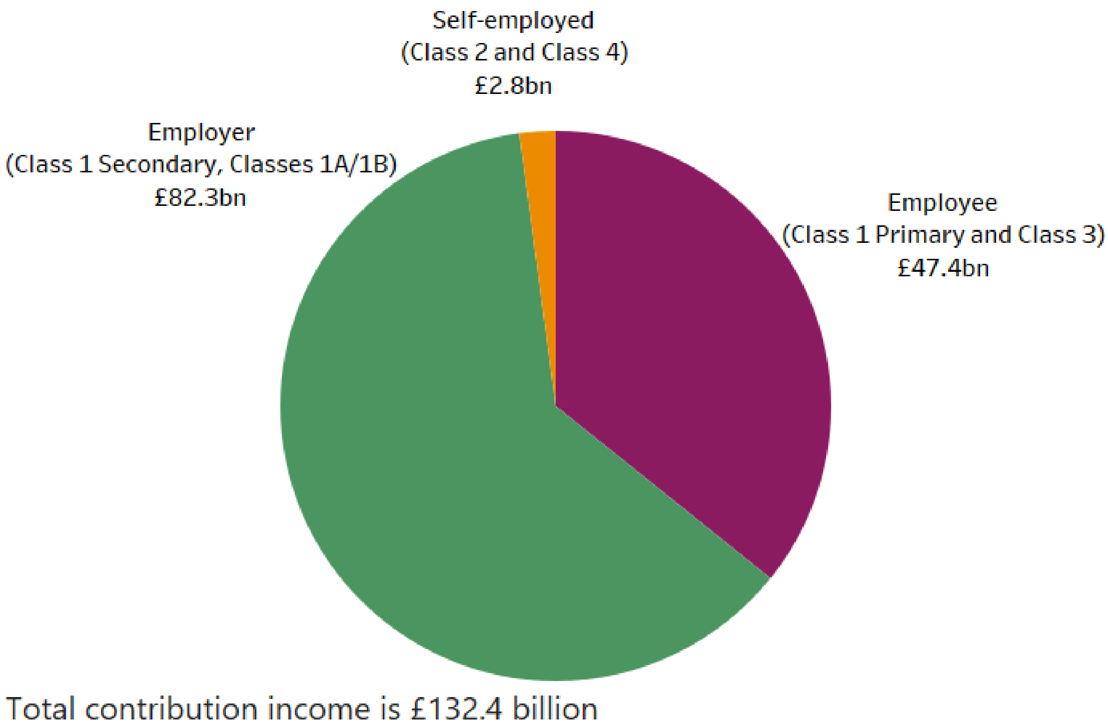
2.12 In a scenario where there are no changes to NICs rates, limits or thresholds, the amount of NICs received by the Fund would still be expected to change from one year to the next as a result of differences in the number of employees and salary inflation. Based on the current rates, limits and thresholds, I estimate the size of this effect would be a £4.8 billion increase in 2023-2024 NICs compared to 2022-2023 levels.

Table 2.3 - Contribution income in 2022-2023 and 2023-2024

NIC class	2022-2023 contribution income estimates (£m)		2023-2024
	Contribution estimate in the absence of in-year NICs changes	Contribution estimate allowing for in-year NICs changes	Contribution estimate (£m)
Class 1	124,957	122,359	128,027
Class 1A and 1B	1,300	1,300	1,411
Class 2	418	418	325
Class 3[1]	179	179	179
Class 4	2,925	2,925	2,443
Total[2]	129,779	127,181	132,385

1 Levels of voluntary contributions are variable and rates applied depend on the tax year the credit relates to. I have used the 2022-2023 estimate for 2023-2024.
2 Figures may not sum to totals shown due to rounding.

Chart 2.2 – Breakdown of contribution income for 2023-2024



Projections to 2027-2028

2.13 Table 2.4 below provides projections for the period to 2027-2028.

2.14 At the start of the projection period the Fund has a surplus, but this reduces over time and a deficit emerges in 2024-2025. A key contributor to this change are the two large projected benefit increases in April 2023 and April 2024, which increase benefit expenditure relative to contribution income. There is a deficit in the remainder of the projection period, although this reduces in 2027-2028 due to a projected increase in earnings growth.

Table 2.4 – Fund projections from 2021-2022 to 2027-2028

Great Britain, £ million	2021-2022[1]	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Total receipts	125,584	128,724	135,699	137,653	140,424	144,533	149,674
Total payments	111,193	117,961	133,015	144,761	150,169	153,949	156,590
Excess of receipts over payments	14,391	10,763	2,684	(7,108)	(9,745)	(9,416)	(6,916)
Balance in fund at end of year	56,875	67,638	70,322	63,214	53,469	44,053	37,137
Balance at end of year as a percentage of benefit payments[2]	51.9%	58.3%	53.6%	44.3%	36.1%	29.0%	24.1%

1 Figures for 2021-2022 are from the published Fund accounts.

2 Benefit payments include net redundancy fund payments, they exclude administration costs and transfer to Northern Ireland NI Fund

Treasury grant

2.15 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 payments for the financial year concerned as estimated by the Government Actuary or Deputy Government Actuary.

2.16 A payment of a Treasury Grant 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). At the end of 2020 I formally reviewed this “minimum fund balance” and recommended that it should continue to be one-sixth of estimated annual benefit expenditure. I consider that this recommendation remains appropriate.

2.17 Under this principal projection, the Fund balance does not fall below the “minimum fund balance”. A Treasury Grant is therefore not expected to be required within the projection period.

3 Variant estimates for receipts, payments and the Fund balance

3.1 The estimates provided in this report depend on assumptions made about the future. In particular the Fund balance in the short-term is sensitive to:

- the level of earnings increases
- employment levels

3.2 This section provides projections based on variant assumptions to demonstrate how different experience could affect the Fund balance. Appendices D & E describe the principal assumptions.

3.3 The variant projections are purely illustrations of the sensitivity of the results to economic and policy assumptions. They are not intended to show extremes or potential policy changes. A material change in conditions such as, for example, a significant reduction in employment rates causing a reduction in contribution income, could result in future experience being materially different from any of the variant projections shown.

3.4 The effect of multiple variant assumptions can broadly be estimated by combining together the effects of the relevant scenarios.

Risks to the Fund balance at 31 March 2024

3.5 Future contribution income could vary significantly in the short-term as a result of changes in employment numbers and general earnings increases. Benefit expenditure over the same timescale tends to be more predictable compared to employment numbers and general earnings increases. This is because the number of beneficiaries is more closely linked to population numbers, which tend to be less volatile than the numbers in employment.

3.6 Table 3.1 shows the effect of changes in earnings increases and employment levels on contribution income for the Fund for the years 2022-2023 and 2023-2024. 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, accordingly the effect on benefits is not shown. Chart 3.1 shows the effect on the Fund balance.

3.7 Although there is the potential for the pandemic to affect future mortality experience in a range of ways, the resulting population changes would be small relative to the overall pensioner population. Changes to the size of the pensioner population were considered in Section 3 of my January 2021 report[1].

Chart 3.1 – Effect of variant scenarios on the Fund balance as at 31 March 2024

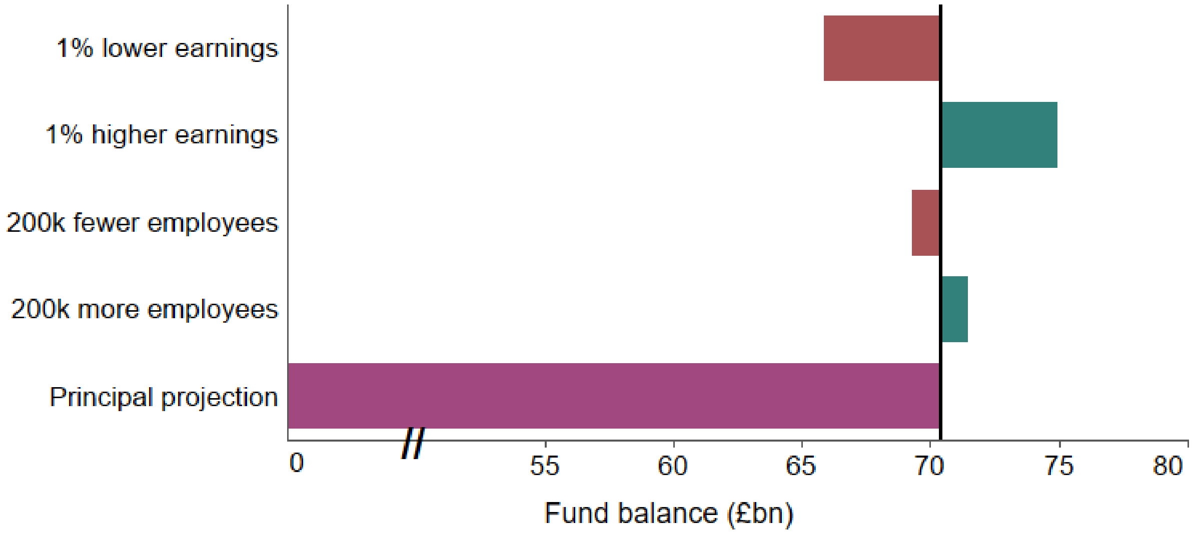


Table 3.1 - Effect on net income and Fund balance of variant assumptions (£ million)

Variant assumption	Effect on net income in 2022-2023	Effect on net income in 2023-2024	Approximate effect on the 31 March 2024 Fund balance
1% lower employee earnings increases	(1,368)	(3,171)	(4,538)
1% higher employee earnings increases	1,362	3,199	4,561
Lower number of employees by 200,000 in 2023-2024 only	0	(1,099)	(1,099)
Higher number of employees by 200,000 in 2023-2024 only	0	1,099	1,099

[1] https://www.gov.uk/government/publications/report-to-parliament-on-the-2021-re-rating-and-up-rating-orders

Variant 5-year projections

3.8 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 and policy assumptions.

3.9 The variant scenarios considered are:

- **1% higher earnings increases -** earnings increases are one percentage point higher than the principal assumption each year
- **1% lower earnings increases -** earnings increases are one percentage point lower than the principal assumption each year
- **slower CPI reversion** - CPI falls more slowly than projected, a value of 3.5% is used when setting the April 2025 up-rating, instead of -0.2%
- **earnings linkage** - basic State Pension and new State Pension are increased in line with the draft Order in April 2023 and in line with earnings from April 2024 onwards (other pension benefits continue to be increased with CPI). Increases from April 2024 onwards are equal to those in the 'AWE' column of Table 3.3
- **NICs changes** - NICs thresholds and limits increase with CPI in April 2027

3.10 These variant projections are shown in the table and charts below. Details of the underlying figures are provided in Appendix G.

Table 3.2 – Fund position in 2027-2028 under 5 scenarios

Scenario	Fund balance at end of 2027-2028 relative to principal projection	Balance at end of 2027-2028 as a percentage of benefit payments[1]
Principal projection	-	24.8%
1% higher earnings increase	£36.0bn	47.2%
1% lower earnings increase	£(36.3)bn[2]	0.6%[2]
Slower CPI reversion	£(6.3)bn	19.8%
Earnings linkage	£12.6bn	33.2%
NICs changes	£(0.3)bn	23.9%

[1] Benefit payments include net redundancy fund payments, they exclude administration costs and transfer to Northern Ireland NI Fund

[2] Excludes any payment of Treasury Grants

Chart 3.2 – 1% higher earnings variant projection

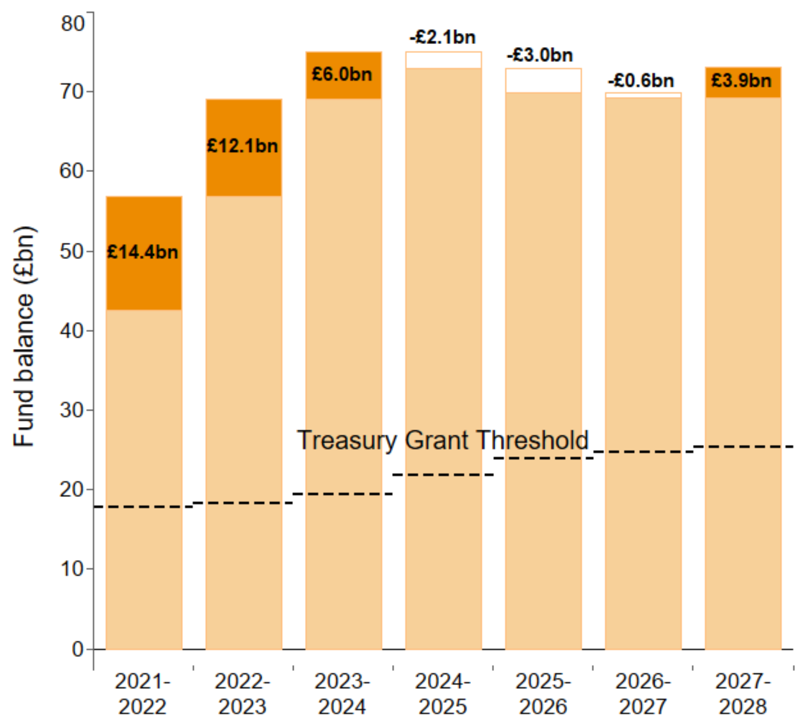
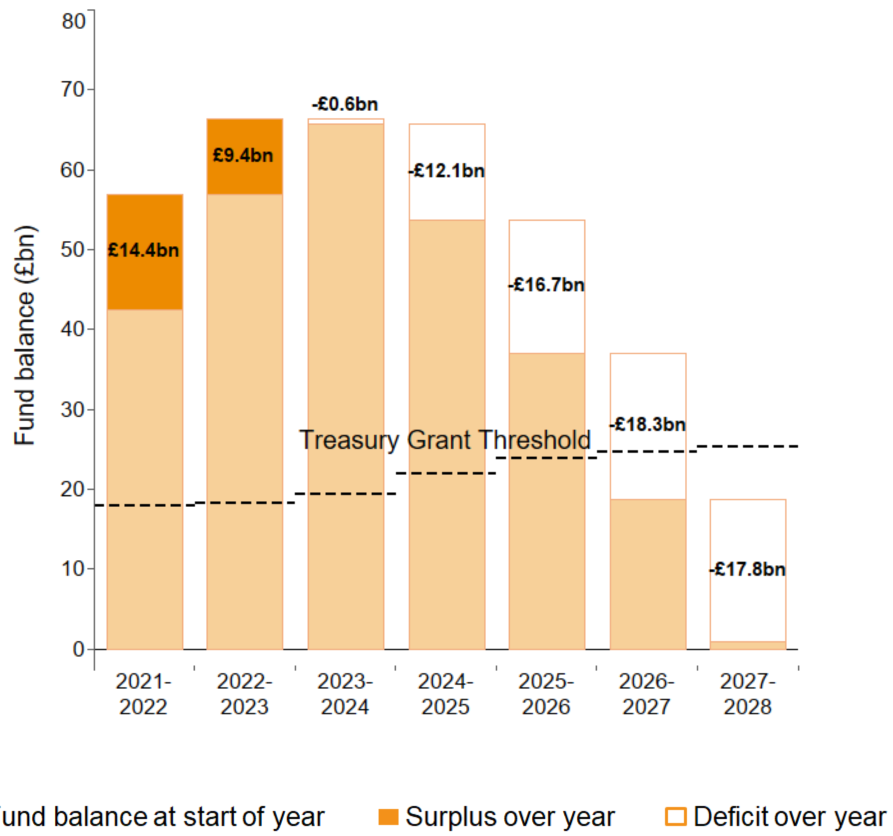


Chart 3.3 – 1% lower earnings variant projection



3.11 The Fund is sensitive to earnings growth. Greater earnings growth leads to higher contribution income which increases the Fund balance. Greater earnings growth also increases benefit expenditure when it is the highest component of Triple Lock (the operation of Triple Lock is described in the box below) and this then reduces the Fund balance. In the 1% higher earnings increases variant, Triple Lock increases are higher as a result of higher earnings but the overall effect is a larger Fund balance than in the principal projection.

3.12 Lower earnings growth leads to lower contribution income and therefore a decrease in the Fund balance. In the 1% lower earnings increases variant, the reduction in earnings has no effect on Triple Lock increases, because these are projected to be equal to CPI or 2.5%. The overall effect is a lower Fund balance, relative to the principal projection. In the 1% higher earnings increases variant, the increase in earnings has only a small effect on Triple Lock increases, because the principal earnings assumption is lower than CPI or 2.5%. The two variants therefore have broadly equal, but opposite, effects on the projected Fund balance.

3.13 If the CPI value used to derive the April 2025 uprating were projected to be 3.5% rather than -0.2%, then the Triple Lock increase in April 2025 would be 3.5%, as opposed to 2.5% under the principal projection. There would be no effect on contribution income as NICs limits and thresholds are not linked to CPI over the projection period. The overall effect is a reduction in Fund balance of £6.3 billion in March 2028, relative to the principal projection.

Triple Lock

Triple lock increases are determined as the highest of the annual growth in average May-July earnings (AWE), September prices (CPI) and 2.5%. These increases are applied to basic and new State Pension payments, excluding increases for deferral. I have assumed that the Triple Lock will operate in all future years in the principal projection.

I have applied this Triple Lock rule to the increase in earnings and CPI assumptions for each year in the principal projection. For example, under the principal projection in April 2024 AWE is 5.5% and CPI is 6.9% and so the Triple Lock assumption is 6.9% as CPI is higher than AWE and the minimum increase of 2.5%.

Table 3.3 below shows each element of the Triple Lock over the last 5 years and projected values in the 5 years ahead with the highest element used for Triple Lock up-rating highlighted. Over these 10 years earnings is the highest in 2 of the 10 years (not including April 2022), the minimum 2.5% is highest in 4 of the 10 years and CPI is the highest in the remaining 4.

Table 3.3 – Triple Lock increases (historic and principal projection assumptions)

Year of April up-rating	CPI	AWE	Minimum increase	Triple Lock	Value of £100 after cumulative Triple Lock increases
2018	**3.0%**	2.2%	2.5%	3.0%	£100.00
2019	2.4%	**2.6%**	2.5%	2.6%	£102.60
2020	1.7%	**3.9%**	2.5%	3.9%	£106.60
2021	0.5%	(1.0)%	**2.5%**	2.5%	£109.27
2022	**3.1%**[1]	8.6%[1]	2.5%	3.1%	£112.65
2023	**10.1%**	5.5%	2.5%	10.1%	£124.03
2024[2]	**6.9%**	5.5%	2.5%	6.9%	£132.59
2025[2]	(0.2)%	1.7%	**2.5%**	2.5%	£135.90
2026[2]	(1.1)%	1.7%	**2.5%**	2.5%	£139.30
2027[2]	0.9%	1.8%	**2.5%**	2.5%	£142.78

[1] For the April 2022 up-rating, the earnings component of Triple Lock was excluded from the calculation
[2] Figures for 2024-2027 up-ratings are projections

3.14 Table 3.3 shows projected periods of negative CPI as well as earnings growth below 2.5%. As Triple Lock methodology applies the highest of the three components in each year, benefit growth over time would be expected to exceed that of any of the three components.

3.15 If basic and new State Pension were increased with AWE rather than Triple Lock, from April 2024 onwards, then under the assumptions in this report, the increases in the dashed boxes in Table 3.3 would apply instead of the highlighted values. This would lead to lower increases to basic and new State Pensions in every year from April 2024 onwards, with no effect on contribution income. The overall effect is a Fund balance in March 2028 that is £12.6 billion higher compared to the principal projection.

3.16 If NICs thresholds and limits were to increase with CPI in April 2027, I project this would lead to a small decrease in contribution income in 2027-2028 and no effect on benefit expenditure. The overall effect is a relatively small decrease in Fund balance of £0.3 billion compared to the principal projection.

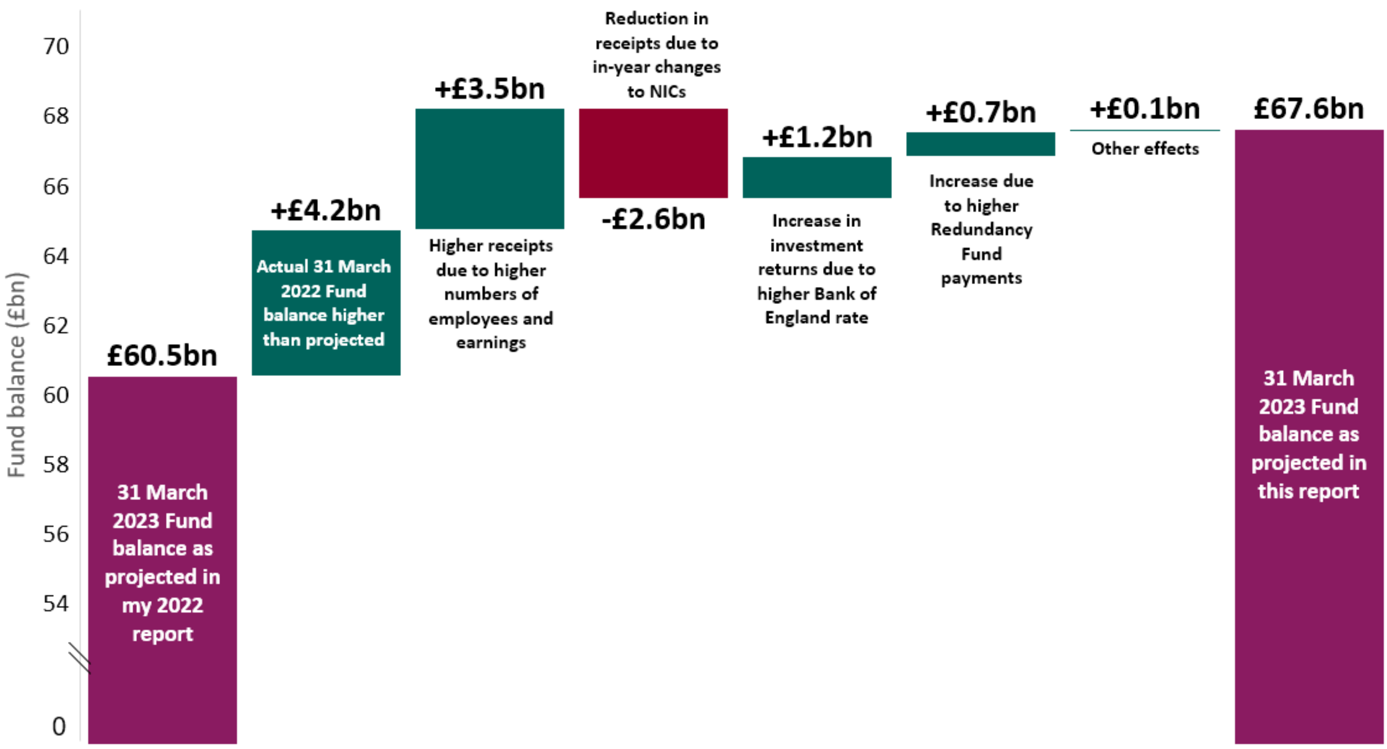
3.17 The level of the Fund falls below the Treasury Grant threshold only in the “1% lower earnings increases” variant considered in this section. Under this variant the Treasury Grant would be required in 2026-2027.

Appendix A: Revised 2022-2023 estimates

A.1 The 2022-2023 estimates shown in Table 2.1 differ from the estimates for the same period included in my report of January 2022.

A.2 In particular the estimated balance of the Fund as at 31 March 2023 of £67.6 billion differs from that estimated in my report from January 2022 of £60.5 billion. Chart A.1 below sets out a reconciliation between these results.

Chart A.1 – Reconciliation of Fund balance at 31 March 2023 with 2022 Up-rating Report



A.3 The change is primarily due to the updated estimates providing for:

- the actual Fund balance as at 31 March 2022 of £56.9 billion being £4.2 billion higher than that estimated in my report last year (£52.7 billion)
- receipts being £0.9 billion higher than previously estimated, due to
  - higher earnings and employment levels (£3.5 billion), partially offset by
  - lower contributions due to in-year changes to NICs rates, limits and thresholds (£2.6 billion)
- investment returns being £1.2 billion higher than previously estimated, due to the Bank of England rate being higher than previously projected

- net redundancy fund benefits being £0.7 billion higher than estimated, due to a higher than expected number of redundancies
- other positive and negative effects which sum to £0.1bn

A.4 Table A.1 below sets out a detailed breakdown of the 2022-2023 estimates in Table 2.1 of this report with those provided in Table 2.1 of last year's report.

Table A.1 – Comparison of 2022-2023 estimates from this report and last year's report

Great Britain **£ million**	**2022-2023 estimates in Table 2.1 of this report**		**2022-2023 estimates in Table 2.1 of last year's report**	
Receipts				
Contributions	127,181		126,272	
Less recoveries of statutory payments (and abatements)	2,731		2,861	
Net contribution income[1]		124,450		123,412
Treasury Grant		0		0
Compensation from Consolidated Fund for statutory payments recoveries		2,729		2,847
Income from investments		1,545		297
Other receipts		0		0
Total receipts[1]		**128,724**		**126,555**
Payments				
Benefits		115,732		115,869
Administration costs		974		961
Redundancy fund payments (net)		301		1,026
Transfer to Northern Ireland		850		739
Other payments		105		132
Total payments[1]		**117,961**		**118,727**
Excess of receipts over payments[1]		10,763		7,828

1 Figures may not sum to totals due to rounding.

Appendix B: Main benefit rates

The draft Order

B.1 The draft Order proposes to up-rate the full rate of the basic State Pension and the full rate of the new State Pension from April 2023 by 10.1%, in line with the September 2022 CPI increase, subject to the appropriate rounding conventions. This increase has been derived by applying the Triple Lock methodology, Triple Lock is described in the text box under 3.13.

B.2 The draft Order also proposes increasing other components of the pre-April 2016 state pension, including earnings-related Additional Pensions (such as SERPS and S2P) and Graduated Retirement Benefit in line with the CPI increase of 10.1%. The draft Order also proposes increasing amounts in excess of the full rate of the new State Pension (Protected Payments) and expenditure on state pension deferral (increments) in line with the CPI increase.

B.3 Full details of the rates of benefits provided from the Fund are shown in the table below.

Table B.1 – Comparison of benefits paid from the Fund before and after April 2023 up-rating

All figures in £s	Weekly rate in 2022-2023	Weekly rate proposed from April 2023
State pension		
New State Pension (full rate)[1]	185.15	203.85
Category A or B basic State Pension (paid to individuals over SPa as at 5 April 2016 based on their own contributions or those made by a deceased spouse or civil partner)[2]	141.85	156.20
Category BL basic State Pension (paid to an individual over SPa as at 5 April 2016 based on their spouse or civil partner's contributions while the spouse/civil partner is alive)[3]	85.00	93.60
Graduated Retirement Benefit (unit)	0.1492	0.1643
Bereavement benefits[4]		
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)	126.35	139.10
Employment and Support Allowance (contributory)[5]		
Personal allowance (age 25 or over)	77.00	84.80
Work-related activity component	30.60	33.70
Support component	40.60	44.70
Jobseeker's Allowance (contribution-based)[6]		
Personal benefit for those aged 18 to 24	61.05	67.20
Personal benefit for those aged 25 and over	77.00	84.80
Maternity Allowance, Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay[7]	156.66	172.48
Guardian's allowance		
First child/other children[8]	18.55	20.40
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		
Standard rate	11.35	11.35
Rate for eldest child for whom child benefit is also paid	8.00	8.00
Christmas bonus		
Christmas bonus to pensioners (lump sum)[8]	10.00	10.00

[1] Not everyone receives this rate, awards are based on an individual's National Insurance record. A *de minimis* of 10 years of contributions applies in respect of the new State Pension.

[2] Proportionate rates are paid to those with proportionate contribution records. Pensioners in receipt of Category A or B basic State Pensions receive an increase of 25p per week on reaching age 80 (the Age Addition).

[3] Pensioners in receipt of Category BL basic State Pensions receive an increase of 25p per week on reaching age 80 (the Age Addition).

[4] Bereavement Support Payment (consisting of a lump sums and 18 monthly payments) is available to persons of working age 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 dependent children (linked to Child Benefit entitlement). Widowed Parent's Allowance is available to working age parents whose spouse or civil partner died before 6 April 2017 for as long as there is a Child Benefit entitlement.

5 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.

6 Unemployed people who meet certain conditions, primarily relating to the payment of NICs 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 Universal Credit. Universal Credit may also be paid to recipients of contribution-based Jobseeker's Allowance if their income-based benefit requirements exceed the rate of contributory Jobseeker's Allowance.

7 The first 6 weeks of Statutory Maternity Pay and Statutory Adoption Pay are paid at 90% of the recipient's average weekly earnings with no upper limit. Thereafter the remaining weeks (maximum 33) are paid at the standard rate or, if lower, 90% of 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 NICs they have paid in the 66 weeks immediately preceding the week their baby is due. Statutory Paternity Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay are paid at the standard rate or 90% of average weekly earnings if lower.

8 This benefit is not increased by the draft Order.

Appendix C: Main features of the contribution system

Draft Regulations

C.1 The draft Regulations propose increasing some NICs rates and increasing some of the thresholds and limits that determine the earnings on which contributions are paid. The table below shows the changes in contribution rates, limits and thresholds.

Table C.1 – NIC rates, limits and thresholds

		Rate from 6 April 2022 to 5 July 2022	Rate from 6 July 2022 to 5 April 2023	Rate set or proposed in 2023-2024
Class 1				
	Lower earnings limit (LEL)	£123 a week	£123 a week	£123 a week
	Upper earnings limit (UEL)	£967 a week	£967 a week	£967 a week
	Primary threshold	£190 a week	£242 a week	£242 a week
	Secondary threshold	£175 a week	£175 a week	£175 a week
	Upper secondary threshold for under age 21 group	£967 a week	£967 a week	£967 a week
	Upper secondary threshold for relevant apprentices	£967 a week	£967 a week	£967 a week
Contribution rates (NI Fund and NHS combined)				
Primary (employee)	On earnings between the primary threshold and UEL	13.25%	13.25%[2]	12.00%
	On earnings above the UEL	3.25%	3.25%[2]	2.00%
	NHS allocation included in above			
	– percentage of earnings between the primary threshold and UEL	3.30%	3.30%[2]	2.05%
	– percentage of earnings above the UEL	2.25%	2.25%[2]	1.00%
Secondary (employer)	On all earnings above the secondary threshold	15.05%	15.05%[2]	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%	0.00%
	NHS allocation included in above (percentage of all earnings on which contributions are paid for employees earning above the primary threshold)[1]	3.15%	3.15%[2]	1.90%

	Rate from 6 April 2022 to 5 July 2022	Rate from 6 July 2022 to 5 April 2023	Rate set or proposed in 2023-2024
Class 1A and Class 1B			
Contribution rate (employer only)	15.05%	15.05%[2]	13.80%
NHS allocation included in above	3.15%	3.15%[2]	1.90%
Class 2			
Flat-rate contribution[3]	£3.15 a week	£3.15 a week	£3.45 a week
Small profits threshold	£6,725.00 a year	£6,725.00 a year	£6,725.00 a year
Lower Profits Threshold[3]	£11,908 a year	£11,908 a year	£12,570 a year
NHS allocation included in above (percentage of contribution)	15.50%	15.50%	15.50%
Class 3			
Flat-rate contribution	£15.85 a week	£15.85 a week	£17.45 a week
NHS allocation included in above (percentage of contribution)	15.50%	15.50%	15.50%
Class 4			
Lower Profits Limit (LPL)	£11,908 a year	£11,908 a year	£12,570 a year
Upper Profits Limit (UPL)	£50,270 a year	£50,270 a year	£50,270 a year
Contribution rate			
On profits between the LPL and UPL	10.25%	10.25%[2]	9.00%
On profits above the UPL	3.25%	3.25%[2]	2.00%
NHS allocation included in above			
Percentage of profits between the LPL and UPL	3.40%	3.40%[2]	2.15%
Percentage of profits above the UPL	2.25%	2.25%[2]	1.00%

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

2 This rate reduced by 1.25 percentage points from 6th November 2022

3 The flat rate applies when taxable profits exceed the lower profits threshold

Appendix D: Key assumptions

D.1 The key assumptions used to prepare the estimates in this report are the population projections and economic assumptions that determine future employment levels and the rate of increase in earnings and CPI. These assumptions are set out in this appendix alongside the variant assumptions used for the sensitivity analysis in Section 3.

D.2 The population assumptions used in this report are based on the Office for National Statistics (ONS) 2020-based interim population projection for Great Britain, published in January 2022. The economic assumptions used in this report are consistent with the central assumptions used by the Office for Budget Responsibility ('OBR') in its Economic and Fiscal Outlook (EFO) report published on 17 November 2022.

D.3 My understanding is that both ONS and OBR have determined these assumptions with the intention that there is no allowance for prudence or optimism. In my view, these assumptions are the most appropriate 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.

D.4 The coronavirus pandemic has impacted the Fund significantly in recent years, particularly the level of contributions received and to a lesser extent due to excess pensioner deaths. The assumptions I have used to project the Fund take account of the expected recovery from the pandemic and are consistent with the OBR's most recent economic forecast.

D.5 My report includes variant projections to show the impact on the Fund if other economic assumptions were adopted. In my January 2021 report, I considered the effect of increased and reduced pensioner numbers on the Fund and found that the effect was relatively modest.

D.6 The estimates in my January 2022 report were based on the most recent population projections and EFO at the time. These were ONS's 2018-based principal population projection for Great Britain (published in October 2019) and the EFO published on 27 October 2021. Those assumptions are the "UR 2022" assumptions shown in the tables in this appendix.

Population projections

D.7 My assumptions for the number of individuals over State Pension age (SPa) are based on the ONS 2020-based interim population projections for Great Britain, published in January 2022, as shown in Table D.1. These projections do not include any individuals over SPa who receive a state pension while living overseas.

D.8 The ONS population make an allowance for the effects of the coronavirus pandemic. I have compared the number of observed deaths to those projected by the ONS and am satisfied that they are broadly consistent.

Table D.1 – Numbers over SPa at the start of the financial year

Financial year	UR 2023 (millions)	UR 2022 (millions)	Change (millions)
2022-2023	11.8	11.7	0.1
2023-2024	12.0	11.9	0.1
2024-2025	12.2	12.1	0.1
2025-2026	12.4	12.4	0.0
2026-2027	12.4	12.6	(0.2)
2027-2028	12.3	N/A	N/A

D.9 These figures suggest the number of individuals over SPa is relatively stable over the 5 year projection period. However, this timeframe coincides with a period of increasing SPa from 66 to 67 during which the population over SPa is expected to rise as a result of increasing life expectancy and historically high numbers of people reaching SPa. The effects of this on the sustainability of the Fund are highlighted in the longer-term projections in the Quinquennial Review.

Employment levels

D.10 My assumptions for the number of GB employees are set out in Table D.2 below:

Table D.2 - Number of GB employees

Financial year	UR 2023 (millions)	UR 2022 (millions)	Change (millions)
2022-2023	27.8	27.5	0.3
2023-2024	27.7	27.6	0.1
2024-2025	27.7	27.6	0.1
2025-2026	27.8	27.6	0.2
2026-2027	28.1	27.7	0.4
2027-2028	28.2	N/A	N/A

D.11 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. The estimates are less sensitive to the assumed number of self-employed people which is also based on the assumptions for the November 2022 EFO.

D.12 The assumptions in Table D.2 have been derived by:

- taking the number of UK employees from Table 1.6 of the supplementary economy tables published alongside the November 2022 EFO
- adjusting these figures to exclude Northern Ireland employees

Increase in earnings and CPI

D.13 My assumptions for increases in earnings and CPI are set out in Table D.3 below. These figures are the Q2 earnings and Q3 CPI assumptions (taken from tables 1.6 and 1.7 of the EFO supplementary economy tables). This is because up-rating each April is generally based on Q2 earnings and Q3 CPI out-turn from the previous financial year.

Table D.3 - Annual increase in earnings and CPI

Year of April up-rating	CPI			Increase in earnings		
	UR 2023	UR 2022	Change	UR 2023	UR 2022	Change
2022	3.1[1]	3.1[1]	0.0	8.6[1,2]	8.3[1]	0.3
2023	10.1[1]	3.9	6.2	5.5[1]	3.8	1.7
2024	6.9	2.4	4.5	5.5	3.1	2.4
2025	(0.2)	2.0	(2.2)	1.7	2.0	(0.3)
2026	(1.1)	2.0	(3.1)	1.7	2.8	(1.1)
2027	0.9	N/A	N/A	1.8	N/A	N/A

1 The increases to be applied in April 2022 and April 2023 are now determined. Last year the April 2022 increase was determined.

2 The earnings index was revised between my 2022 and 2023 reports.

D.14 When projecting earnings for the purpose of estimating contribution income, my assumption on earnings growth is taken from Table A.3 of the EFO which shows the average growth across the 4 quarters of the financial year.

Appendix E: Data, methodology and other assumptions

General

E.1 During the preparation of this report I have relied on the data sets supplied to me at that time. In particular I have relied on the general completeness and accuracy of the information supplied without independent verification. I have not carried out an independent audit of the data supplied and cannot confirm or guarantee the overall quality or correctness of the data. Any issues with the data could impact on the projections in this report.

Contributions modelling

Earnings projection

E.2 Contributions are estimated separately for each class of NICs.

E.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 derived from OBR's employment projection model used for its Fiscal Sustainability Report published in July 2020; employment numbers are broken down between Great Britain and Northern Ireland using ONS labour force data up to 2021-2022 with an allowance for expected future population changes
- earnings distributions, by age and gender; these were derived using the 2019 Annual Survey of Hours and Earnings (ASHE) produced by ONS[1]
- assumptions on the rate of earnings growth from year to year

Total NICs income

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

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

E.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.

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

E.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 from HMRC's Survey of Personal Incomes.

E.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 amount received in 2021-2022.

E.9 I have generally assumed that future increases in contribution limits and thresholds will be in line with CPI increases in each year. However, as announced at the November 2022 Autumn Statement, I have assumed that the Upper Earnings Limit and the Upper Profits Limit remain constant at the 2022-2023 level up to and including 2026-2027.

E.10 Modelled estimates of NICs for future years were compared with data provided by HMRC on actual NIC receipts up to and including 2021-2022. For Classes 2 and 4, I have aligned my estimates with the data on NICs payable in respect of income in 2021-2022.

E.11 For Class 1 NICs, I have aligned with data on NICs due in respect of 2021-2022 earnings. I consider it appropriate to align with this data for future years.

E.12 In preparing the Fund accounts, HMRC need to split the total UK contributions between those payable to the Great Britain and Northern Ireland Funds. Apart from Class 4, the split was updated from 2021-22 to be set at 97.9% for Great Britain and 2.1% for Northern Ireland. A different split is applied to Class 4 receipts using an analysis of postcodes relating to Class 4 liabilities.

E.13 Adjustments are also made to allow for HMRC estimates of the effect of certain measures announced in successive fiscal events that it is not possible to include directly in the calculation models. These adjustments represent less than 0.5% of projected NICs income.

NICs allocation between the Fund and the NHS

E.14 The above calculations focus on making a projection of total NICs. It is then necessary to divide these NICs between those allocated to the Fund and those allocated to the NHS.

E.15 Class 1 contributions are split between primary Fund and NHS and secondary Fund and NHS contributions based on data derived from end of year returns from the National Insurance PAYE System (NPS) database and provided in the Earnings Limits Scan supplied by HMRC. The latest Earnings Limits Scan provides information up to and including 2020-2021. I have therefore used this information to split the total Class 1 NICs received in 2020-2021, as produced by the calculation model, between the different components. The split of NICs in future years was then derived from the model adjusted so that it is consistent with the split shown by the Earnings Limits Scan information.

E.16 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 C.

E.17 The NHS allocation for Class 4 contributions is different for contributions paid on profits above and below the Upper Profits Limit. This means there is not a constant ratio between contributions allocated to the Fund and NHS for this class. Therefore, I have used the calculation model to determine the split between the Fund and the NHS shares of the contributions based on the assumed self-employed earnings distribution.

Reclaimed NICs for statutory payments

E.18 Employers can reclaim a proportion of the statutory payments made to employees, plus an element of "compensation" for small employers, from the amounts of Class 1 NICs they pay. Statutory payments include:

- Statutory Maternity Pay (SMP)
- Statutory Paternity Pay (SPP)
- Statutory Shared Parental Pay (ShPP)
- Statutory Adoption Pay (SAP), and
- Statutory Parental Bereavement Pay (SPBP).

E.19 In broad terms, amounts reclaimed by employers are estimated by adjusting data on amounts reclaimed in the latest complete year (2021-2022) in line with changes in numbers of employees, the numbers of births (or children, in respect of adoption), rates of benefit, and (where relevant) the average earnings of potential recipients.

E.20 The Fund receives payments from the Consolidated Fund to offset the amounts recovered by employers (apart from the compensation element). These payments are estimated in a similar way to the amounts recovered by employers.

Comparison with HMRC estimates

E.21 HMRC make estimates of NICs using their own models. I have compared my contribution estimates with those made by HMRC. My estimates of total NICs are generally around 0.5% lower than the figure produced by HMRC. I consider this a reasonable level of agreement between the two models.

Other receipts modelling

E.22 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 Fund is expected to be close to the Official Bank of England Rate (Bank Rate) given that the assets of the Fund are deposited with the Commissioners for the Reduction of National Debt. The assumed rate of investment return is based on the 3-month interbank LIBOR contained in the EFO report published in November 2022. This is assumed to be close to the Bank Rate over the period of the projection.

Pension benefits modelling

E.23 Estimates of expenditure on contributory benefits are projected separately for each of the following 5 types of benefit;

- basic State Pension
- Additional Pension (SERPS and S2P)
- Graduated Retirement Benefit
- new State Pension
- Protected Payments (paid alongside new State Pension)

E.24 The projection approaches adopted for each type of benefit are detailed in paragraphs E.32 to E.71. The projections allow for the increase in SPa from 66 to 67 during 2026-2028.

Data

E.25 Data for current pensioners:

- The "quarterly statistical extract" of state pension payments (QSE) is used in the modelling of all pre-April 2016 benefits. This contains anonymised data for a sample of individuals in receipt of benefits, and the amount of benefit in payment. QSE is a 5% sample taken from DWP's legacy system which holds records for all State Pension recipients who reached State Pension age before 2019, and around half of those who reached State Pension age after. The estimates in this report are based on the QSE as at 31 March 2022 - QSE data sets also include past lump sums paid where the recipient is still in receipt of a benefit
- Post-April 2016 benefit modelling is also based on QSE data, but reflecting the lower sample rate which applies at some ages. Derived values for all age groups are compared to each other and historic equivalents to provide assurance that statistical differences between the claimant groups on the two systems are minimal.

E.26 Data for future pensions comes from the "lifetime labour market database 2" (L2) data set provided by DWP. This is a data set which sets out anonymised data for a 1% sample of the population showing past earnings and contribution record history - the estimates in this report are based on the L2 data set as at 31 March 2020.

E.27 Comparison against DWP figures is based on "forecast data" - this is DWP management data forecasting aggregate amounts of benefit expenditure over the current financial year, revised monthly based on actual out-turn

E.28 The projections use the following data sets published by ONS:

- 2020-based interim population estimate for Great Britain
- 2008-based marital status projections for England and Wales

General approach

E.29 The 5 separate benefit projections were scaled so that the 2022-2023 estimates align with the forecast data in 2022-2023.

E.30 The adjustment factors used in the year 2022-2023 are as set out below and the adjustment factors in future years of the projections differ from these by less than 1% for all benefits for all future years:

- basic State Pension: 1.01
- Additional Pension: 1.02
- Graduated Retirement Benefit: 0.95
- new State Pension: 0.99
- Protected Payments: 1.00

E.31 The majority of the adjustment factors are close, or equal to 1.00. There are various reasons why a factor may not equal 1.00. For example, the QSE data set is only a 5% sample size and is produced close to the extract date so does not allow for corrected payments made retrospectively where incorrect benefit payments have initially been made.

Basic State Pension

E.32 To project expenditure on basic State Pension, for each projection year, I multiplied together:

- a projected number of people over SPa
- an assumed “proportion of the population entitled” (PEnt) to any basic State Pension
- an assumed “mean proportion of the standard rate” (MPnSR) payable to those entitled to any basic State Pension
- an annual standard benefit rate

E.33 I have carried out the above calculations separately for each age and for 5 categories of people; men, single women, married women, divorced women and widows.

E.34 The number of men and women at each age over SPa is taken directly from the 2020-based interim population projection for Great Britain. I then split the numbers for women into single, married, divorced and widowed women using ONS’s England and Wales 2008-based marital status projections.

Proportions entitled (PEnt)

E.35 For each age for each of the 5 categories of people I have determined a PEnt assumption for the year 2022-2023 by comparing the number of people receiving basic State Pension in the QSE data with the number of people in the population projection. For married women I have set PEnt assumptions separately depending on whether entitlement is to Category A pension, Category BL pension or both.

E.36 In 2021-2022 this comparison showed that for men and divorced and widowed women the proportion entitled is close to 100% at all ages old enough to qualify for basic State Pension. For single and married women the proportion is age related matching recent demographic trends - for example that there were more female earners in younger generations. Based on these observations I have set PEnt assumptions as 98% for men, 96% for divorced women, 100% for widows and age related assumptions for single women and married women.

E.37 The same PEnt assumptions are then used in every future year of the projection but with the age related assumption applying to those aged one year older in each subsequent projection year reflecting ageing of recipients.

Mean proportion of the standard rate (MPnSR)

E.38 For each age for each of the 5 categories of people I have determined an MPnSR assumption for the year 2021-2022. This is done by calculating the average amount of basic State Pension received by those receiving some basic State Pension in the QSE data and expressing this as a proportion of the standard benefit rate. For married women I have set MPnSR assumptions separately depending on whether entitlement is to Category A pension, Category BL pension or both.

E.39 In 2021-2022 this comparison shows that for men and single, divorced and widowed women the proportion entitled is between 88% and 100% at all ages old enough to qualify for basic State Pension. For married women the proportion is age related matching recent demographic trends. Based on these observations I have set MPnSR assumptions as 97% for men, 91% for single women, 94% for divorced women, 98% for widows and age related assumptions for married women entitled to different categories of basic State Pension.

E.40 The same MPnSR assumptions were then used in every future year of the projection but with the age related assumption applying to those aged one year older in each subsequent projection year reflecting ageing of recipients.

Adjustments for Category D pensions and increments

E.41 Some pensioners in receipt of basic State Pension are eligible for an increase in pension up to a specified amount on reaching age 80 (the Category D “Over 80 Pension”). This increase is not based on NICs and is not payable from the Fund but is included and not separately identified in the QSE data. The projection therefore includes an adjustment to the MPnSR assumptions described above to model the exclusion of Over 80 Pension payments from the expenditure projections for basic State Pension. These adjustments range between a 0% and 4% reduction in the MPnSR assumption depending on the category of person being projected. In general larger reductions are made to those with lower MPnSR assumptions.

E.42 After calculating the MPnSR assumptions described above I have made an adjustment to those assumptions to reflect that some basic State Pension relates to increments paid to those who have previously deferred their basic State Pension and are now in receipt of it. These adjustments reflect the proportion of basic State Pension that is made up of increments as shown in the QSE data and the different up-rating that increments attract (CPI rather than the Triple Lock that applies to basic State Pension).

E.43 Apart from lump sums arising from deferment, described below, new awards in relation to those who have deferred their basic State Pension and are not yet in receipt of it are ignored.

E.44 Except for women with entitlement to Category BL pension (regardless of any entitlement to Category A), the standard benefit rate for projection year 2023-2024 is £156.20 per week. For women with entitlement to Category BL pension the standard benefit rate for projection year 2023-2024 is £93.60 per week. The standard benefit rates used are thereafter up-rated in line with Triple Lock up-rating implied by the economic assumptions for future projection years.

Overseas pensioners receiving basic State Pension

E.45 Pensioners residing overseas are not captured in the approach to projecting basic State Pension expenditure described above as the population projections used only cover those in GB.

E.46 The QSE data set shows that the net impact of immigration and emigration over SPa is immaterial to the total level of overseas state pension payable. I therefore model payment of basic State Pension to overseas pensioners separately as though this group are a closed population. This separate projection is then added to the basic State Pension projection described above.

E.47 Payments of basic State Pension to pensioners overseas (including increments already in payment) are projected forward by running off the existing payments shown in the QSE data set. The run off uses mortality rates based on ONS’s 2020-based interim GB population projection (i.e. assuming mortality rates for overseas pensioners are in line with those experienced domestically).

E.48 The modelling approach is the same as applied for domestic basic State Pension, except that these projections do not uprate pensions for those living in countries where pensions are frozen.

Lump sums

E.49 People reaching SPa before 6 April 2016 can defer payment of their basic State Pension and take a lump sum when they bring their basic State Pension into payment. DWP produce projections of the amounts of lump sum payable in the future to those still deferring their basic State Pension.

E.50 Given the low and decreasing level of this benefit, I have used figures from DWP's management information in this report.

Additional Pension and Graduated Retirement Benefit

E.51 I have projected Additional Pension and Graduated Retirement Benefit by running off the existing payments shown in the QSE data set using mortality rates based on ONS's 2020-based interim GB population projection.

E.52 The QSE data set shows that people with Additional Pension exhibit lower mortality rates than in the population. Mortality rates used for modelling these benefits are therefore set lower than those implied by the population data in E.28. The adjustments vary by age and gender but, on average for those receiving Additional Pensions, are equivalent to Additional Pensions being in payment for about half a year longer (from age 65) than if standard population mortality rates were used.

E.53 These projections allow for CPI up-rating of these benefits throughout the projection period with adjustments for additional pension for contracting-out deductions and their pre 1988 and post 1988 up-rating rules.

E.54 These projections allow for the inheritance of benefits to widows, widowers and bereaved civil partners using the 2008-based marital status projections for England and Wales. For Additional Pension the rate of inheritance is assumed to lie between 50% and 100%. For Graduated Retirement Benefit the rate of inheritance is assumed to be 50%.

E.55 As the QSE data set includes payment to overseas pensioners this projection approach automatically captures payments of Additional Pension and Graduated Retirement Benefit to overseas pensioners.

E.56 This modelling approach involves various simplifications which I do not expect to be material. For example, I have ignored the possibility of new awards in relation to current deferrals (new awards to current deferrers will be increasingly rare as the minimum period of deferral increases with the passage of time)

New State Pension

E.57 To project expenditure on new State Pension, for each projection year, I multiplied together:

- the projected number of people over SPa
- an assumed "proportion of the population entitled" (PEnt) to any new State Pension
- an assumed "mean proportion of the standard rate" (MPnSR) payable to those entitled to any new State Pension
- the annual standard benefit rate

E.58 I have carried out the above calculations separately for each age and for men and women. The number of men and women at each age over SPa was taken directly from the 2020-based interim population projection for Great Britain.

E.59 For each age for men and women I have determined a PEnt assumption by comparing the number of people receiving new State Pension in the QSE data with the number of people in the population projection.

E.60 For each age for men and women I have determined an MPnSR assumption using the QSE and L2 datasets. For each individual in the L2 dataset I have assumed that their post 6 April 2020 contribution record extends such that when they reach SPa they have completed half of their remaining potential qualifying years.

E.61 The same PEnt and MPnSR assumptions were then used in every future year of the projection but with the age-related assumption applying to those aged one year older in each future projection year reflecting the ageing of recipients.

E.62 This leads to a PEnt assumption of 96% and an MPnSR assumption of around 95% for both men and women, with variation by age. The MPnSR decreases as age increases, so future recipients are assumed to have a slightly higher MPnSR than current recipients. The lower MPnSR assumptions for older members reflects a number of factors, including changes to SPa and the effects of historic contracting-out.

E.63 The standard benefit rate for projection year 2023-2024 is £203.85 per week. This is thereafter up-rated in line with Triple Lock up-rating implied by the economic assumptions for future projection years.

E.64 New State Pension projections assume 6% choose to defer receipt past State Pension age. Of those, 50% are assumed to defer for up to 1 year and the rest for 1-2 or 2-3 years. This assumption is derived from QSE data.

Overseas pensioners receiving new State Pension

E.65 Pensioners residing overseas are not captured in the approach to projecting new State Pension expenditure described above as the population projections used only cover those in GB.

E.66 The new State Pension projections therefore include a separate projection for new State Pension payable to individuals residing overseas. This separate projection is then added to the new State Pension projection for those resident in Great Britain described above.

E.67 The modelling approach is the same as applied for domestic new State Pension, except that these projections do not uprate pensions for those living in countries where pensions are frozen.

Protected Payments

E.68 Those reaching SPa from 6 April 2016 onwards may be entitled to Protected Payments in addition to new State Pension. A person's Protected Payment is their entitlement at the introduction of the new State Pension based on the pre-Pensions Act 2014 system less the full rate of new State Pension. If this amount is less than zero a person has no Protected Payment.

E.69 I have identified individuals from the QSE and L2 datasets who would be affected by the new State Pension transitional arrangements and calculated Protected Payment amounts for all in this group.

E.70 I projected these Protected Payments by running off these amounts using the same mortality rates used to project Additional Pensions and Graduated Retirement Benefit (see paragraph E.51 and E.52). These projections allow for CPI up-rating and mortality before and after coming into payment. Allowance is made for inheritance of Protected Payments using ONS's 2008-based marital status projections for England and Wales and assuming a 50% inheritance rate.

E.71 As the L2 data set includes contribution records for those who have paid NICs and then emigrated overseas this projection approach automatically captures Protected Payments to overseas pensioners.

Working age benefits and other payments modelling

E.72 The estimates of benefits for widows, bereavement, incapacity, employment and support, jobseekers, maternity, and Christmas bonus are based on information provided by the DWP.

E.73 Estimates for Guardian's Allowance are derived from recent data, adjusted in line with the projected number of children in the population and the assumed increase in the benefit rate.

E.74 The Insolvency Service has provided projections of gross and net redundancy payments to 2026/27, which underlie recent OBR projections. These are assumed to increase in line with earnings growth thereafter.

E.75 DWP has identified certain groups of basic State Pension recipients who may have been underpaid. The total size of the underpayments has been estimated by DWP as £1.349bn as at 31 March 2022. £1.299bn of this would be due from the Fund. The historic underpayments are expected to be repaid by the end of 2024, I have assumed that repayments outstanding at 31 March 2022 will be spread evenly over the remainder of the repayment period. Future benefit payments are also expected to increase once records are corrected. I have used details from DWP's report on 'Fraud & Error in the benefit system' to allow for uplifts to future benefit outgoings. These amounts are included within basic State Pension figures in this report.

E.76 Although data used in these projections is checked for reasonableness, such issues are not always detectable (see E.1).

E.77 The administration costs are based on those incurred in 2021-2022 as recorded in the published Fund accounts, with future costs estimated as the 2021-2022 costs increased in line with earnings growth.

E.78 Each year transfers between the Great Britain National Insurance Fund and the Northern Ireland National Insurance Fund are made in order to keep the balance in the Northern Ireland National Insurance Fund at a certain percentage of the combined balance in the two funds (the "parity ratio"). The projections in this report allow for estimated transfers between the two Funds.

E.79 The total payment made in 2022-2023 will be based on a parity ratio of 2.77%. This proportion is based on analysis of the populations aged 16 and over in Great Britain and Northern Ireland as provided in the results of the 2021 census for England and Wales, published by ONS in June 2022 and the published mid-2021 population estimates for Scotland and for Northern Ireland. This follows the approach that the populations should be measured using the most up to date population estimates or census data published by the Office for National Statistics agreed following my review of the parity process in 2020. Payments made after 2022-2023 are assumed to be based on the same parity ratio.

Appendix F: NICs split by NI Fund and NHS

Table F.1 – NICs split between NI Fund and NHS

Great Britain, £ million		**2022-2023**		**2023-2024**	
National Insurance Fund					
Class 1[1]	Primary	47,335		47,188	
	Secondary	75,025		80,840	
	Total		122,359		128,027
Classes 1A and 1B			1,300		1,411
Class 2			418		325
Class 3			179		179
Class 4			2,925		2,443
Total National Insurance Fund contributions[2,3]			**127,181**		**132,385**
National Health Service					
Class 1	Primary	15,884		11,383	
	Secondary	24,515		18,229	
	Total		40,399		29,612
Classes 1A and 1B			208		309
Class 2			77		60
Class 3			33		33
Class 4			1,126		1,767
Total National Health Service contributions[3]			**41,843**		**31,781**
All contributions					
Class 1[1]	Primary	63,218		58,571	
	Secondary	99,540		99,068	
	Total		162,758		157,639
Classes 1A and 1B			1,507		1,720
Class 2			495		385
Class 3			212		212
Class 4			4,051		4,210
Total contributions[3]			**169,024**		**164,166**

1 All figures are gross of recoveries by employers of Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay.
2 These figures appear in Table 2.1 in the main report.
3 Figures may not sum to totals shown due to rounding.

Appendix G: Variant projections of the Fund to 2027-2028

G.1 This section provides details of the projected cash flow and balance of the Fund over the period to 2027-2028 under the select variant assumptions. Actual receipts and payments in 2021-2022 from the Fund accounts are included.

Table G.1 - Variant fund projections to 2027-2028 - 1% higher earnings

Great Britain, £ million	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Total receipts	125,584	130,093	139,043	142,717	147,456	153,769	161,228
Total payments	111,193	117,973	133,046	144,813	150,467	154,391	157,332
Excess of receipts over payments	14,391	12,120	5,997	(2,096)	(3,011)	(622)	3,896
Balance in fund at end of year	56,875	68,995	74,992	72,896	69,885	69,263	73,159
Balance at end of year as a percentage of benefit payments	51.9%	59.5%	57.2%	51.0%	47.1%	45.5%	47.2%

Table G.2 - Variant fund projections to 2027-2028 - 1% lower earnings

Great Britain, £ million	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Total receipts	125,584	127,349	132,384	132,665	133,472	135,497	138,459
Total payments	111,193	117,939	132,967	144,731	150,133	153,776	156,304
Excess of receipts over payments	14,391	9,410	(583)	(12,067)	(16,661)	(18,279)	(17,845)
Balance in fund at end of year	56,875	66,285	65,702	53,636	36,974	18,695	850
Balance at end of year as a percentage of benefit payments	51.9%	57.1%	50.1%	37.6%	25.0%	12.3%	0.6%

Table G.3 - Variant fund projections to 2027-2028 – slower CPI reduction

Great Britain, £ million	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Total receipts	125,584	128,724	135,699	137,653	140,379	144,423	149,498
Total payments	111,193	117,964	133,018	144,768	152,282	156,030	158,339
Excess of receipts over payments	14,391	10,760	2,681	(7,115)	(11,904)	(11,608)	(8,840)
Balance in fund at end of year	56,875	67,635	70,316	63,201	51,297	39,690	30,849
Balance at end of year as a percentage of benefit payments	51.9%	58.3%	53.6%	44.2%	34.1%	25.8%	19.8%

Table G.4 - Variant fund projections to 2027-2028 – Triple Lock replaced with earnings linkage from April 2024

Great Britain, £ million	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Total receipts	125,584	128,724	135,699	137,685	140,534	144,755	150,038
Total payments	111,193	117,964	133,018	143,392	147,794	150,406	152,031
Excess of receipts over payments	14,391	10,760	2,681	(5,708)	(7,260)	(5,650)	(1,994)
Balance in fund at end of year	56,875	67,635	70,316	64,608	57,348	51,698	49,705
Balance at end of year as a percentage of benefit payments	51.9%	58.3%	53.6%	45.7%	39.3%	34.9%	33.2%

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