Government Actuary's Department

Report by the Government Actuary on:

The draft Social Security Benefits Up-rating Order 2025;

and

The draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments, National Insurance Funds Payments and Extension of Veteran's Relief) Regulations 2025

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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.

15 January 2025

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To:

The Right Hon. Liz Kendall MP, Secretary of State for Work and Pensions

The Hon. James Murray MP, Exchequer 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 2025 and the draft Social Security (Contributions) (Rates, Limits and Thresholds Amendments, National Insurance Funds Payments and Extension of Veteran's Relief) Regulations 2025.

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.

Fiona Dunsire
Government Actuary
15 January 2025

Contents

1 Executive summary

1.1 This report sets out the Government Actuary's 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 30 October 2024), as set out in the draft Social Security Benefits Up-rating Order 2025 ("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, National Insurance Funds Payments and Extension of Veteran's Relief) Regulations 2025 ("the draft Regulations").

1.2 This report includes projections of the Fund up to and including 2029-2030.

1.3 This report also includes the expected effect on the Fund of the National Insurance Contributions (Secondary Class 1 Contributions) Bill ("the Bill").

1.4 The draft Regulations and the Bill are together projected to increase Fund income by £21.7 billion in 2025-2026 and around £25 billion in each of the subsequent years, up to and including 2029-2030. There is a 5-6 week delay in payment of NICs to the Fund. This is the main reason why the 2025-2026 impact is less than the impact in subsequent years.

1.5 The draft Order is projected to increase[1] annual Fund expenditure, in 2025-2026 this increase is projected to be £5.1 billion.

1.6 The Fund balance is projected to increase from 2024-2025 through the remainder of the projection period. It is projected to remain above the recommended minimum of one-sixth[2] of benefit expenditure up to and including 2029-2030.

1.7 This report allows for the changes to NICs rates and thresholds which were announced in the March 2024 fiscal event, after the publication of the previous January 2024 report.

[1] Effect relative to no changes in benefit rates in 2025-2026.
[2] Further detail is provided in 2.20-2.22.

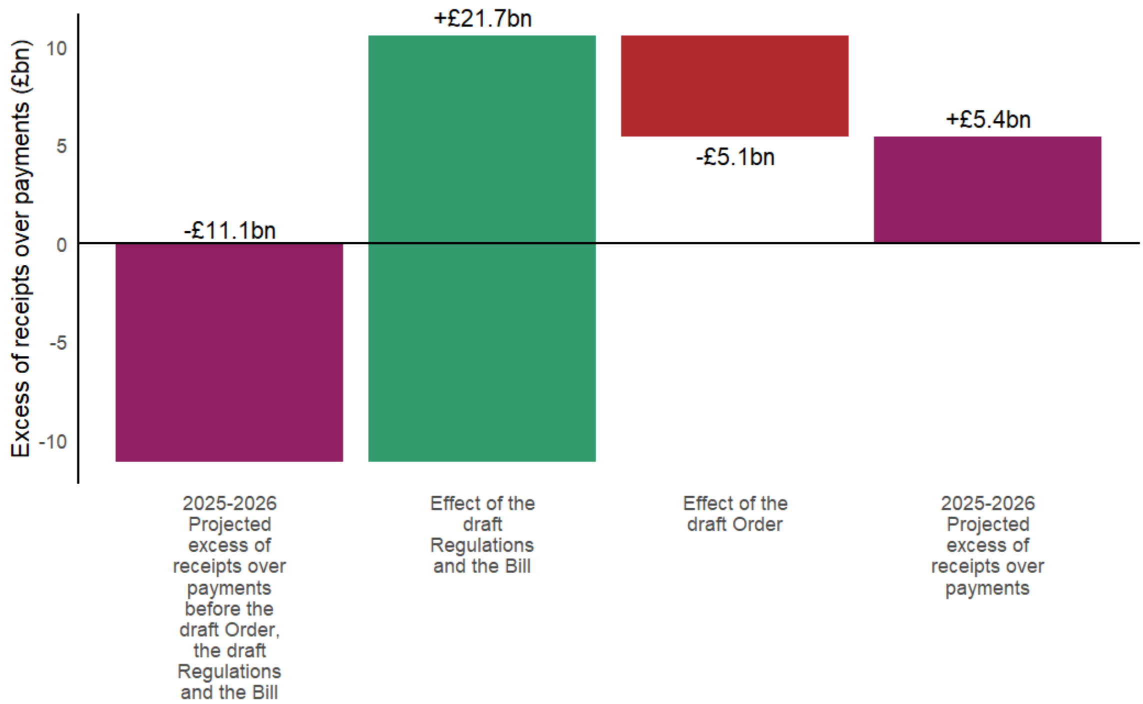
Impact of the draft Order, the draft Regulations and the Bill on the Fund up to 2025-2026

1.8 The total Fund income in 2025-2026 is estimated at £159.9 billion and total Fund expenditure at £154.4 billion. Receipts to the Fund are expected to exceed payments from the Fund in 2025-2026 by £5.4 billion, increasing the balance in the Fund during financial year 2025-2026. The Fund balance at 31 March 2026 is estimated at £81.6 billion.

1.9 In the absence of the measures proposed in the draft Order, the draft Regulations and set out in the Bill, the total Fund income in 2025-2026 would be estimated at £138.2 billion and total Fund expenditure at £149.3 billion. Payments from the Fund would be projected to exceed Receipts to the Fund in 2025-2026 by £11.1 billion, decreasing the balance in the Fund during financial year 2025-2026. The Fund balance at 31 March 2026 would be projected at £65.1 billion.

1.10 Charts 1.1 shows the impact of the draft Order, the draft Regulations and the Bill on the projected excess of receipts over payments in 2025-2026[1].

Chart 1.1 – Impact of the draft Order, the draft Regulations and the Bill on the excess of receipts over payments in 2025-2026



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

Projected financial position of the Fund to 2029-2030

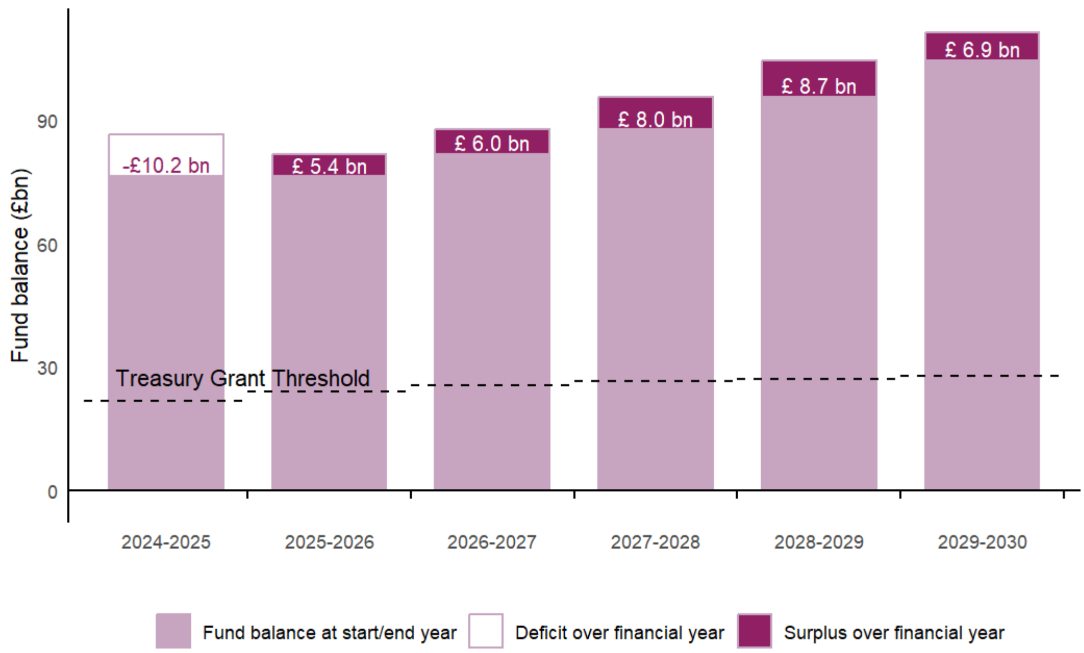
Principal projections

1.11 The projection to 2029-2030 is shown in Chart 1.2. Under the principal assumptions, the balance of the Fund is projected to increase over the projection period as contribution income is projected to exceed benefit expenditure in 2025-2026 and in every subsequent year of the projection period.

1.12 The yearly Fund balances in this projection differ from those projected in the January 2024 report. Changes to NICs rates and thresholds were announced in the March 2024 and October 2024 fiscal events. Experience (such as earnings increases) since the previous report has differed from the assumptions employed. The combined effect of these factors is to reduce the income to the Fund for 2024-2025 and increase the income for 2025-2026 onwards relative to the projections shown in the January 2024 report. Appendix A contains a comparison of the projected Fund balances at 31 March 2025 from the two reports.

1.13 The projections in this report indicate that the estimated 2025-2026 end-year Fund balance (£81.6 billion) will be around 53% of estimated benefit expenditure of £152.9 billion (including redundancy payments). This proportion is projected to remain above the recommended minimum of one-sixth[1] of benefit expenditure. 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.

Chart 1.2 – Projected Fund balance up to 2029-2030



[1] Further detail is provided in 2.20-2.22.

Variant projections

1.14 The estimates of receipts and payments and the Fund balance are based on various assumptions and are sensitive to some of these. Section 3 of this report shows these sensitivities through a series of variant projections.

Long term review

1.15 As with many countries round the world, the UK faces significant long term demographic challenges. The most recent long-term review of the Fund - the (2020) Quinquennial Review - was published on 17 March 2022[1]. This provided projections of the Fund up to 2085 and showed that the Fund was projected to become exhausted within that projection period. Since that time there have been a number of changes to NICs, as well as a period of unusually high inflation. The next Quinquennial Review of the Fund (which will have an effective date of 1 April 2025) will provide an update to these longer term projections of the Fund and illustrations of the sensitivity of the results to demographic and other factors.

Professional standards and limitations

1.16 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.

1.17 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.

1.18 This report does not include projections for the Northern Ireland National Insurance Fund.

[1] Quinquennial Review of the Fund (2020)

2 Principal estimates for receipts, payments and the Fund balance

2.1 Table 2.1 below sets out the estimates of receipts and payments of the Fund for 2024-2025 and 2025--2026 allowing for the draft Order, the draft Regulations and the Bill.

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

Great Britain, £ million	2024-2025[1]		2025-2026	
Receipts				
Contributions at present rates	131,949		135,185	
Increase due to proposed changes			21,658	
Less recoveries of statutory payments (and abatements)	3,201		3,291	
Net contribution income		128,748		153,552
Treasury Grant		0		0
Compensation from Consolidated Fund for statutory payments recoveries		3,174		3,273
Income from investments		3,869		3,026
Total receipts[2]		135,791		159,851
Payments				
Benefits at present rates	144,240		147,366	
Increase due to proposed changes			5,137	
Total		144,240		152,502
Administration costs		513		529
Redundancy fund payments (net)		438		428
Transfer to Northern Ireland		691		869
Other payments		118		120
Total payments[2]		146,000		154,447
Statement of balances				
Balance at beginning of year[3]		86,419		76,210
Excess of receipts over payments		(10,209)		5,403
Balance at end of year		76,210		81,613
Balance at end of year as percentage of annual benefit payments[4]		52.7%		53.4%

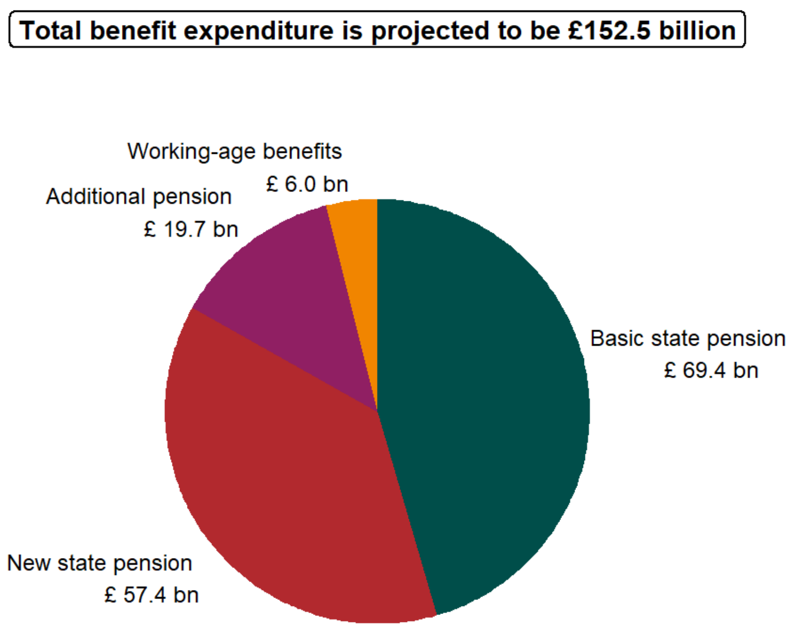
1 These estimates update those in the report of January 2024, reflecting the latest accounts of the Fund and other more recent information. A breakdown and analysis of this change is provided in Appendix A.
2 Figures may not sum to totals shown due to rounding.
3 The balance at 31 March 2024 is taken from the published accounts of the Fund for the year 2023-2024.
4 Percentages of benefit payments include net redundancy fund payments, they exclude administration costs and transfer to Northern Ireland NI Fund.

Estimates for 2025-2026

Benefit expenditure

2.2 The proposed measures in the draft Order increase the rates of social security benefits paid from the Fund from April 2025. The full rate of the basic State Pension increases from £169.50 week to £176.45 per week and the full rate of the new State Pension increases from £221.20 per week to £230.25 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[1].

Chart 2.1 – Breakdown of benefit expenditure for 2025-2026



[1] New State Pension and basic State Pension includes Christmas bonus in this breakdown.

2.3 The estimated increase in benefit expenditure in 2025-2026 as a result of the proposed measures in the draft Order is £5.1 billion, taking estimated expenditure on the benefits covered by the draft Order from £147.2 billion to £152.4 billion. Table 2.2 below shows this estimate, and the effect of the draft Order, split by benefit type.

2.4 In the absence of the draft Order, benefit expenditure would have increased from an estimated £144.1 billion to £147.2 billion. This is due to the change in pensioner population and entitlements to benefits in 2025-2026 compared to 2024-2025. This is also shown in Table 2.2.

Table 2.2 – Benefit expenditure and the effect of the proposed changes in 2025-2026

Benefit	2024-2025 benefit payment estimates (£m)	2025-2026 benefit payment estimates (£m)		
		Before the proposed changes	Impact of the proposed changes	After the proposed changes
New State Pension[1]	47,340	55,272	2,122	57,394
Basic State Pension[2,3]	70,506	66,755	2,517	69,273
Additional Pension	20,122	19,297	406	19,703
Incapacity benefit	2	2	0	2
Widows'/bereavement benefits	164	138	2	140
Contributory employment and support allowance	5,131	4,921	78	4,999
Contribution-based jobseeker's allowance	220	217	4	221
Maternity allowance[4]	410	419	7	426
Bereavement support payment	210	207	0	207
Total of benefits covered by the draft Order[5]	**144,105**	**147,229**	**5,136**	**152,366**
Guardian's allowance[6]	4	4	0	4
Christmas bonus	130	132	0	132
Total of benefits not covered by the draft Order[5]	**134**	**136**	**0**	**137**
Total benefits[5]	**144,240**	**147,366**	**5,137**	**152,502**

1 Includes expenditure on Protected Payments. Revaluation of Protected Payments which will come into payment during 2025-2026 is set by the State Pension Revaluation for Transitional Pensions Order 2024.

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.76-E.79.

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 The contributions shown in this report are estimated based on the date they are paid, as opposed to the date they are accrued. 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 Bill increase the Class 1 rate of employer NICs from 13.8% to 15% and reduce the Class 1 secondary threshold (the level at which employer NICs starts being levied) from £9,100 to £5,000 a year. These measures increase the Fund contribution income.

2.7 The proposed measures in the Bill also increase the Employment Allowance from £5,000 to £10,500 and remove the Employment Allowance threshold which was previously set to £100,000. These measures decrease the Fund contribution income.

2.8 The Government also announced in the October 2024 Autumn Budget that it would support the public sector for these changes to employer NICs. This support will not be paid from the Fund and instead will be effected via adjusted Resource Departmental Expenditure Limits (RDEL) budgets, which will fund the additional contributions paid by public sector employers.

2.9 The measures in the Bill do not change the NHS allocation[1] as a percentage of earnings for secondary Class 1 NICs. The exact proportion of total NICs receipts received by the NHS allocation fluctuates from year to year, depending on the amount of NICs paid in each Class. The remainder of NHS funding comes from the Consolidated Fund and the value of the NHS allocation does not impact the total funding allocated to NHS budgets.

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

2.11 The estimated effect of the Bill together with the draft Regulations, is an increase in Fund contribution income of £21.7 billion in 2025-2026 and by around £25 billion in each of the subsequent years, up to and including 2029-2030. There is a 5-6 week delay in payment of NICs to the Fund. This is the main reason why the 2025-2026 impact is less than the impact in subsequent years.

[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.

2.12 The principal projection allows for changes in behaviour such as hours worked or changes in wages which may occur as a result of the draft Regulations. Chapter 3 of the Office for Budget Responsibility's (OBR) Economic and Fiscal Outlook (EFO) report provides some commentary on the impact of these factors on government finances[1].

2.13 In line with the announcement at the November 2022 Autumn Statement, the Upper Earnings Limit and the Upper Profits Limit have been assumed to remain constant at the 2021-2022 level up to and including 2027-2028. In line with the announcement in the October 2024 Autumn Budget, the Lower Earnings Limit (LEL) and the Small Profits Threshold (SPT) have been assumed to increase in line with the Consumer Price Index (CPI) in 2025-2026. Following the announcement at the October 2024 Autumn Budget, from 2028-2029 contribution thresholds have been assumed to increase in line with CPI each year. All NICs limits have also been assumed to increase in line with CPI each year from 2028-2029.

2.14 The requirement for self-employed people to pay Class 2 National Insurance contributions was removed from 6 April 2024, though accruals from 2023-2024 will be received in 2024-2025. From 2025-2026 onwards, only Class 2 voluntary contributions will be received. Data is not currently available for the modelling of Class 2 voluntary contributions in isolation and so in the absence of any data, these have been ascribed a zero value from 2025-2026 onwards. This understatement of the contribution income is not material in the context of the overall Fund.

2.15 If there were 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, the estimated size of this effect would be a £3.2 billion increase in 2025-2026 NICs compared to 2024-2025 levels.

2.16 Allowing for the changes in the draft Regulations, Fund contribution income in 2025-2026 is projected to be £156.8 billion. A breakdown of this estimate by contribution type is shown in Table 2.3, compared to 2024-2025.

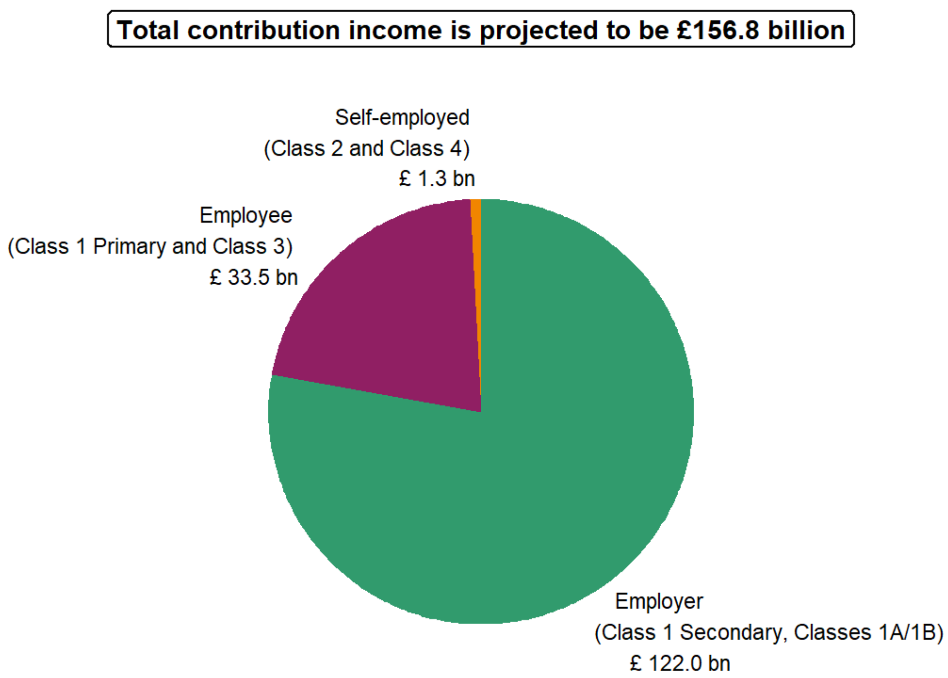
[1] When calculating the financial impact of the draft Regulations and the Bill, changes in behaviour such as hours worked or changes in wages which may occur as a result of the Bill and the draft Regulations have been allowed for in both the pre-draft Regulations and post-draft Regulations assumptions.

Table 2.3 – Contribution income in 2024-2025 and 2025-2026

NIC class	2024-2025 contribution estimates (£m)	2025-2026 contribution estimates (£m)	
		Contribution before allowing for the Bill and the draft Regulations	Contribution after allowing for the Bill and the draft Regulations
Class 1	127,025	131,998	153,656
Class 1A and 1B	1,558	1,595	1,595
Class 2[1]	469	0	0
Class 3[2]	269	269	269
Class 4	2,628	1,323	1,323
Total[3]	131,949	135,185	156,843

1 Please refer to paragraph 2.14.
2 Levels of voluntary contributions are variable and rates applied depend on the tax year the credit relates to. The 2024-2025 estimate for has been used for 2025-2026.
3 Figures may not sum to totals shown due to rounding.

Chart 2.2 – Breakdown of contribution income for 2025-2026



Projections to 2029-2030

2.17 Table 2.4 below provides projections for the period to 2029-2030. The projection methodology and assumptions are described in Appendix E.

2.18 The Fund balance is projected to increase from 2025-2026 to the end of the projection period in 2029-2030.

2.19 State Pension age is scheduled to increase from 66 to 67 from April 2026 to March 2028. This causes increases in NICs receipts and reduces benefit expenditure in the latter part of the projection period.

Table 2.4 – Fund projections from 2024-2025 to 2029-2030

Great Britain, £ million	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Total receipts	135,791	159,851	167,382	172,160	177,208	182,462
Total payments	146,000	154,447	161,410	164,121	168,461	175,602
Excess of receipts over payments	(10,209)	5,403	5,972	8,038	8,747	6,860
Balance in fund at end of year	76,210	81,613	87,585	95,624	104,370	111,231
Balance at end of year as a percentage of benefit payments[1]	52.7%	53.4%	54.8%	58.9%	62.6%	64.0%

1 Benefit payments (from the NIF) include net redundancy fund payments, they exclude administration costs and transfers to the Northern Ireland NI Fund.

Treasury Grant

2.20 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.

2.21 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, this "minimum fund balance" was formally reviewed by the Government Actuary. It was recommended that the minimum fund balance should continue to be one-sixth of estimated annual benefit expenditure, subject to an interim review as part of this annual Up-rating Report process, with a more substantive review carried out as part of the next Quinquennial Review of the Great Britain NIF. This recommendation is considered to remain appropriate.

2.22 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 and 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.

Variant 2-year projections

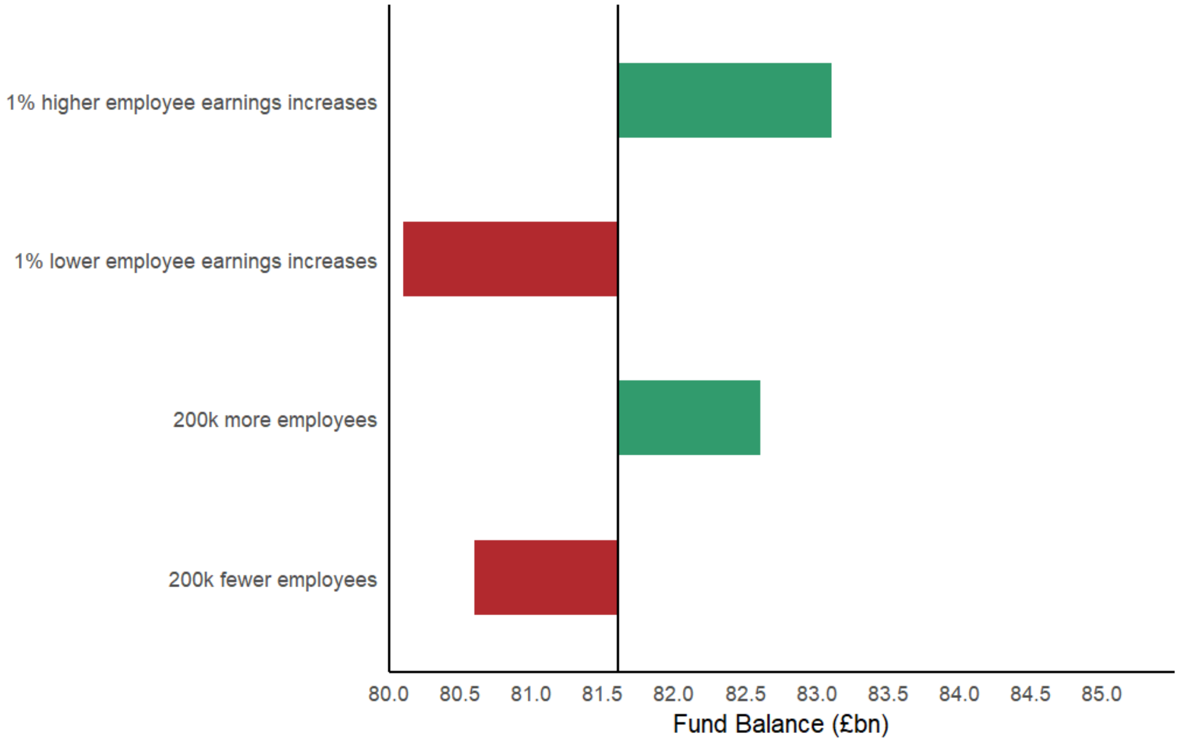
3.5 Future contribution income could vary significantly in the short-term as a result of changes in employment numbers and general earnings increases. Higher earnings growth leads to higher contribution income which increases the Fund balance (and vice versa). Benefit expenditure over the same timescale 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 2025-2026 and 2026-2027. The change in number of employees is assumed to occur on 1 April 2025. Chart 3.1 shows the effect on the Fund balance.

Table 3.1 – Effect on contribution income of variant assumptions (£ million)

Variant assumption	Effect on contribution income in 2025-2026	Effect on contribution income in 2026-2027	Approximate effect on the 31 March 2027 Fund balance
1 percentage point lower employee earnings increases per annum	(1,543)	(3,355)	(4,899)
1 percentage point higher employee earnings increases per annum	1,538	3,391	4,929
Lower number of employees by 200,000	(989)	(1,128)	(2,117)
Higher number of employees by 200,000	989	1,128	2,117

Chart 3.1 – Effect of variant scenarios on the Fund balance as at 31 March 2027



Variant 5-year projections

3.7 Variant estimates for the projected cash flow and balance of the Fund for the 5-year projections are used to illustrate the sensitivity of the estimates to economic and policy assumptions.

3.8 The economic variant scenarios considered are:

- **1 percentage point higher earnings increases** – earnings increases are one percentage point higher than the principal assumption each year
- **1 percentage point lower earnings increases** – earnings increases are one percentage point lower than the principal assumption each year
- **1 percentage point higher CPI together with 1 percentage point lower earnings increases** – CPI is one percentage point higher and earnings increases are one percentage point lower than the principal assumption each year. This stresses the Fund as it raises benefit expenditure and reduces contribution income.
- **200,000 more GB employees -** from 2025-2026 onwards the number of GB employees is assumed to be 200,000 more than under the principal projection
- **200,000 fewer GB employees** from 2025-2026 onwards the number of GB employees is assumed to be 200,000 fewer than under the principal projection

The policy variant scenario considered is:

- **earnings linkage** – basic State Pension and new State Pension are increased in line with the draft Order in April 2025 and in line with earnings from April 2026 onwards (other pension benefits continue to be increased with CPI). Increases from April 2026 onwards are equal to those in the Average Weekly Earnings ('AWE') column of Table 3.3

3.9 These variant projections are shown in the table and charts below. The shading shows the effect on the Fund balance relative to the principal projection. Details of the underlying figures are provided in Appendix G.

Table 3.2 – Fund position in 2029-2030 under 7 scenarios

Scenario	Fund balance at end of 2029-2030	
	(£bn)[2]	As a percentage of benefit payments[1]
Principal projection	£111.2 bn	64.0%
1 percentage point higher earnings increase	£129.7 bn	73.0%
1 percentage point lower earnings increase	£88.5 bn	51.3%
1 pp higher CPI and 1 pp lower earnings increase	£77.2 bn	43.7%
200,000 more GB employees from 2025-2026	£117.2 bn	67.5%
200,000 fewer GB employees from 2025-2026	£105.2 bn	60.6%
Earnings linkage	£114.6 bn	66.6%

1 Benefit payments (from the NIF) 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 percentage point higher earnings variant projection

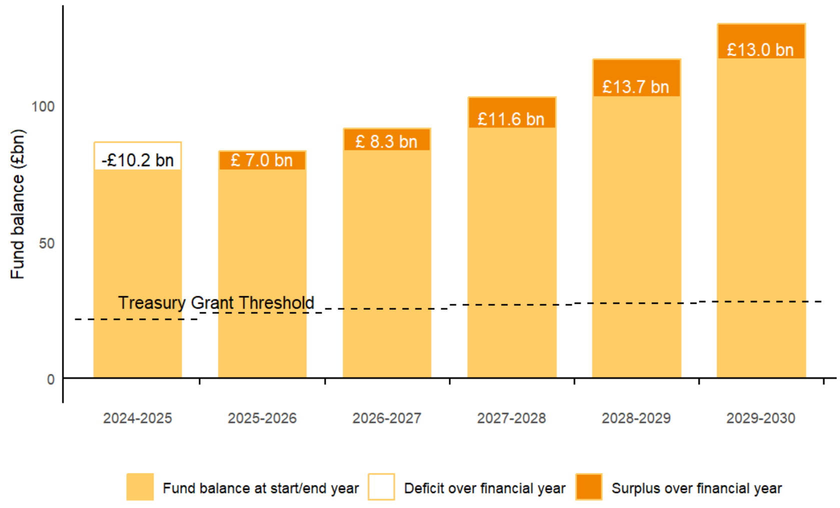
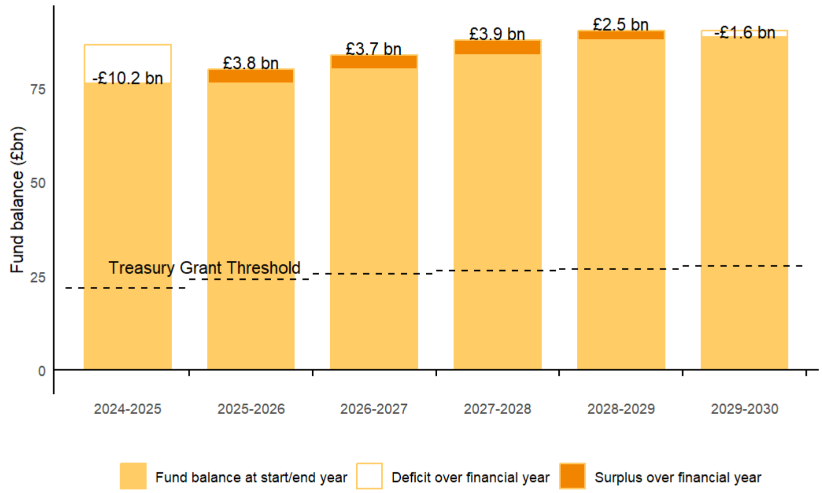


Chart 3.3 – 1 percentage point lower earnings variant projection



3.10 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 percentage point 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.

3.11 Lower earnings growth leads to lower contribution income and therefore a decrease in the Fund balance. In the 1 percentage point lower earnings increases variant, the reduction in earnings only has an effect on the Triple Lock increase in 2026-2027. There is no effect on Triple Lock increase in other years because these are projected to be equal to 2.5%. The overall effect is a lower Fund balance, relative to the principal projection.

3.12 The above two variant scenarios have unequal effects on the projected Fund balance. In the higher earnings increase scenario, higher earnings often result in a higher Triple Lock increase, due to the level of the earnings assumption relative to CPI and 2.5%. In the lower earnings increases scenario, there is a lesser impact on Triple Lock increases as the lower earnings often falls below CPI or 2.5%.

3.13 An increase in employment levels leads to an increase in contribution income. In these variant scenarios with variation to employment levels, no allowance has been made for any change in benefit expenditure over the projection period caused by the assumed variation in the employment level. In practice, an increase (or decrease) in employment levels would also be expected to increase (or decrease) benefit expenditure in the long term when those workers reach retirement, but this effect would be very small over the projection period. The overall effect therefore of an increase in employment levels is an increase in Fund balance. A decrease in employment levels has the opposite effect.

3.14 If the CPI value used to derive the up-ratings for April 2026 onwards was projected to be 1 percentage point higher and earnings 1 percentage point lower, the up-ratings for basic and new State Pensions in April 2027, April 2028 and April 2029 would be expected to be higher than under the principal projection. There would be a negative effect on contribution income as NICs would be levied on lower overall earnings, whilst the limits and thresholds are frozen in all but the final year of the projection period. The overall effect is a reduction in Fund balance of £34 billion in March 2030, 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. The legislative basis for increasing the basic and new State Pensions is at least in line with average earnings. The October 2024 Autumn Budget committed to maintain the Triple Lock for the duration of this Parliament. It has therefore been assumed that the current policy will operate in all future years in the principal projection.

The Triple Lock rule has been applied to the increase in earnings and CPI assumptions for each year in the principal projection. For example, under the principal projection in April 2026 AWE is 4.3% and CPI is 2.7% and so the Triple Lock assumption is 4.3% as AWE is higher than CPI 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 of the three measures used for Triple Lock up-rating highlighted. Over these 10 years, earnings is the highest in 4 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 2 of the years.

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
2020	1.7%	**3.9%**	2.5%	3.9%	£100.00
2021	0.5%	(1.0)%	**2.5%**	2.5%	£102.50
2022	**3.1%**[1]	8.6%[1]	2.5%	3.1%	£105.68
2023	**10.1%**	5.5%	2.5%	10.1%	£116.35
2024	6.7%	**8.5%**	2.5%	8.5%	£126.24
2025	1.7%	**4.1%**	2.5%	4.1%	£131.42
2026[2]	2.7%	**4.3%**	2.5%	4.3%	£137.07
2027[2]	2.2%	2.1%	**2.5%**	2.5%	£140.49
2028[2]	2.1%	2.0%	**2.5%**	2.5%	£144.01
2029[2]	2.1%	2.2%	**2.5%**	2.5%	£147.61

1 For the April 2022 up-rating, the earnings component of Triple Lock was excluded from the calculation.
2 Figures for 2026-2029 up-ratings are projections.

3.15 Table 3.3 shows projected values of 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.

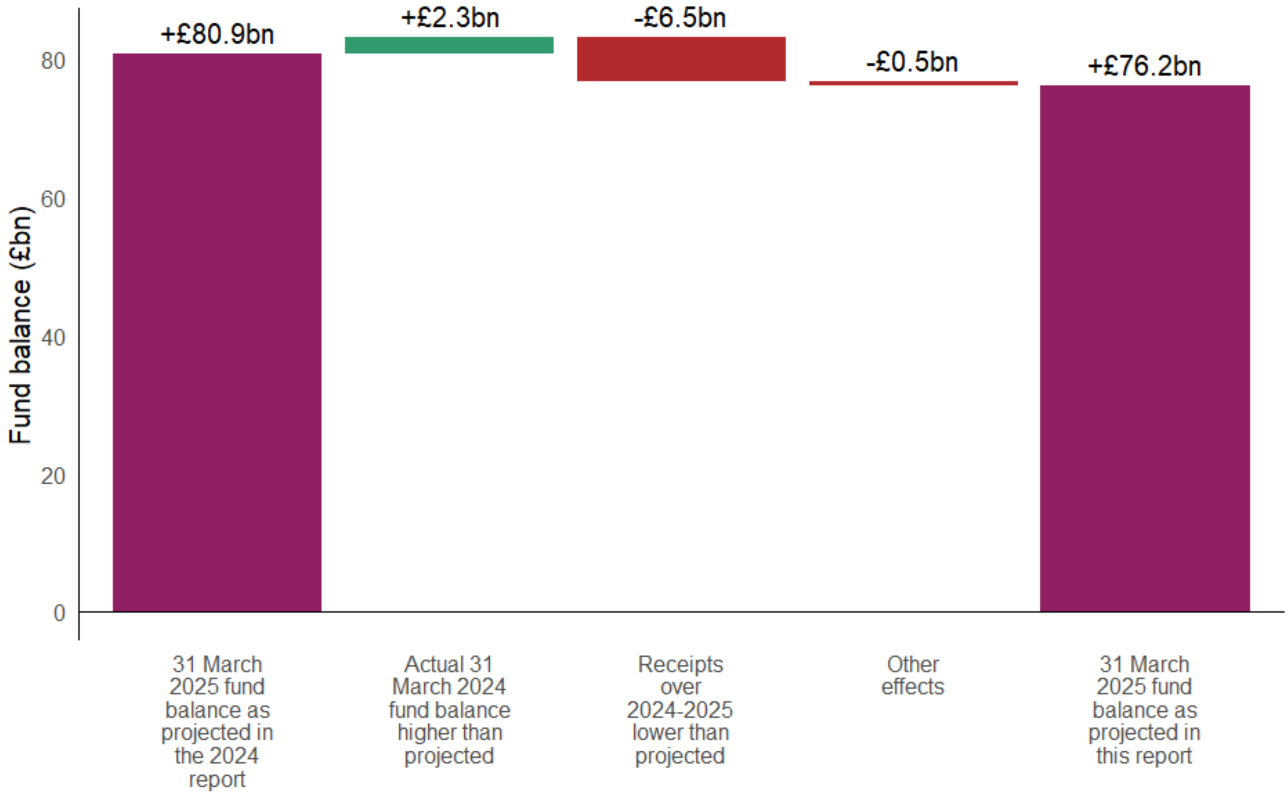
3.16 If basic and new State Pension were increased with AWE rather than Triple Lock, from April 2026 onwards, then under the assumptions in this report, the increases in the dashed boxes in Table 3.3 would apply instead of the highlighted values. This would lead to lower increases to basic and new State Pensions in April 2027, April 2028 and April 2029. There would be no changes to increases in the other years of the projection period given earnings are already expected to be the highest component of the Triple Lock. There would be no direct impact on contribution income. The overall effect is a Fund balance in March 2030 that is £3 billion higher compared to the principal projection (i.e. a saving of £3 billion by the end of 2029-2030).

Appendix A: Revised 2024-2025 estimates

A.1 The 2024-2025 estimates shown in Table 2.1 differ from the estimates for the same period included in the previous report of January 2024.

A.2 In particular the estimated balance of the Fund as at 31 March 2025 of £76.2 billion differs from that estimated in last year's report of £80.9 billion. Chart A.1 below sets out a reconciliation between these results.

Chart A.1 – Reconciliation of Fund balance at 31 March 2025 with 2024 Up-rating Report



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

- the actual Fund balance as at 31 March 2024 of £86.4 billion being £2.3 billion higher than that estimated in the report last year (£84.1 billion). This was primarily due to higher than projected growth in earnings and the number of employees.
- receipts being £6.5 billion lower than previously estimated, primarily due to the reduction in the rate of Class 1 Primary contributions and Class 4 contributions introduced as at 6 April 2024
- other positive and negative effects which in aggregate result in the Fund projection being £0.5 billion lower relative to the previous report

A.4 Table A.1 below sets out a detailed breakdown of the 2024-2025 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 2024-2025 estimates from this report and last year's report

Great Britain **£ million**		**2024-2025 estimates in Table 2.1 of this report**		**2024-2025 estimates in Table 2.1 of last year's report**
Receipts				
Contributions	131,949		138,280	
Less recoveries of statutory payments (and abatements)	3,201		3,079	
Net contribution income[1]		128,748		135,201
Treasury Grant		0		0
Compensation from Consolidated Fund for statutory payments recoveries		3,174		3,064
Income from investments		3,869		4,018
Other receipts		0		0
Total receipts[1]		**135,791**		**142,283**
Payments				
Benefits		144,240		143,779
Administration costs		513		462
Redundancy fund payments (net)		438		404
Transfer to Northern Ireland		691		763
Other payments		118		122
Total payments[1]		**146,000**		**145,530**
Excess of receipts over payments[1]		(10,209)		(3,247)

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 2025 by 4.1% in line with the May-July 2024 AWE earnings 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 paragraph 3.14.

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 1.7%. 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 2025 up-rating

All figures in £s	Weekly rate in 2024-2025	Weekly rate proposed from April 2025
State pension		
New State Pension (full rate)[1]	221.20	230.25
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]	169.50	176.45
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]	101.55	105.70
Graduated Retirement Benefit (unit)	0.1753	0.1783
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)	148.40	150.90
Employment and Support Allowance[5]		
Personal allowance (age 25 or over)	90.50	92.05
Work-related activity component	35.95	36.55
Support component	47.70	48.50
Jobseeker's Allowance[6]		
Personal benefit for those aged 18 to 24	71.70	72.90
Personal benefit for those aged 25 and over	90.50	92.05
Maternity Allowance, Statutory Maternity Pay, Statutory Paternity Pay, Statutory Adoption Pay, Statutory Shared Parental Pay and Statutory Parental Bereavement Pay[7]	184.03	187.18
Guardian's allowance		
First child/other children[8]	21.75	22.10
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 sum and 18 monthly payments) is paid to persons of working age whose spouse or civil partner died on or after 6 April 2017. A higher rate is payable if the surviving spouse or civil partner has dependent children (linked to Child Benefit entitlement). Widowed Parent's Allowance is paid to working age parents whose spouse or civil partner died before 6 April 2017 for as long as there is a Child Benefit entitlement. Both these benefits are also paid to cohabitees with dependent children, but only in respect of entitlement from 30 August 2018.

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 are looking for work and meet certain other conditions, primarily relating to the payment of NICs in the period recently before they become unemployed, can claim Jobseeker's Allowance. Other unemployed people who either exhaust or have no entitlement to the contributory benefit may apply for Universal Credit. Universal Credit may also be paid to recipients of Jobseeker's Allowance if their household's income-based benefit requirements exceed the rate of 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

The draft Regulations and the Bill

C.1 The measures in the Bill increase the rate of employer NICs and reduce the secondary threshold. These measures increase the Fund contribution income. The table below shows the changes in contribution rates, limits and thresholds.

Table C.1 – NIC rates, limits and thresholds

		Rate in 2024-2025	Rate in 2025-2026
Class 1			
	Lower earnings limit (LEL)	£123 a week	£125 a week
	Upper earnings limit (UEL)	£967 a week	£967 a week
	Primary threshold	£242 a week	£242 a week
	Secondary threshold	£175 a week	£96 a week
	Upper secondary threshold for under age 21 group	£967 a week	£967 a week
	Upper secondary threshold for relevant apprentices	£967 a week	£967 a week
Contribution rates (NI Fund and NHS combined)			
Primary (employee)	On earnings between the primary threshold and UEL	8.00%	8.00%
	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%	15.00%
	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%

		Rate in 2024-2025	Rate in 2025-2026
Class 1A and Class 1B			
Contribution rate (employer only)		13.80%	15.00%
NHS allocation included in above		1.90%	1.90%
Class 2			
	Flat-rate contribution[2]	£nil a week	£nil a week
	Small profits threshold	£6,725.00 a year	£6,845.00 a year
	Lower Profits Threshold[2]	£12,570 a year	£ 12,570 a year
	NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 3			
	Flat-rate contribution	£17.45 a week	£17.75 a week
	NHS allocation included in above (percentage of contribution)	15.50%	15.50%
Class 4			
	Lower Profits Limit (LPL)	£12,570 a year	£12,570 a year
	Upper Profits Limit (UPL)	£50,270 a year	£50,270 a year
Contribution rate			
	On profits between the LPL and UPL	6.00%	6.00%
	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 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 From 6 April 2024, the flat rate only applies to those who pay Class 2 NICs voluntarily.

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 variant projections in Section 3.

D.2 The population assumptions used in this report are based on the Office for National Statistics (ONS) National population projections: 2021-based interim, published in January 2024. The ONS is the national statistical institute of the UK and conducted the 2021 census. For contribution modelling, the population assumptions include the small adjustment to migration figures as adopted by the Office for Budget Responsibility ('OBR') in its Economic and Fiscal Outlook (EFO) report published on 30 October 2024.

D.3 The economic assumptions used in this report are consistent with the central assumptions used by the OBR in its EFO report. The OBR exist to provide independent analysis of the UK public finances, their EFO assumptions reflect the measures in the October 2024 budget.

D.4 Our understanding is that both ONS and OBR have determined these assumptions with the intention that there is no allowance for prudence or optimism. In our 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 have therefore been adopted as the principal assumptions.

D.5 This report includes variant projections to show the impact on the Fund if other economic assumptions were adopted.

D.6 The estimates in the previous January 2024 report were based on the most recent population projections and EFO at the time. These were ONS's 2020-based principal population projection for Great Britain (published in January 2023) and the EFO published on 22 November 2023. Those assumptions are the "UR 2024" assumptions shown in the tables in this appendix.

Population projections

D.7 The assumptions for the number of individuals over State Pension age (SPa) are based on the ONS 2021-based interim national population projections, published in January 2024, as shown in Table D.1. These projections now allow for England, Wales and Northern Ireland 2021 census data. These projections do not include any individuals over SPa who receive a state pension while living overseas.

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

Financial year	UR 2025 (millions)	UR 2024 (millions)	Change (millions)
2024-2025	12.0	12.2	(0.2)
2025-2026	12.2	12.4	(0.2)
2026-2027	12.3	12.5	(0.2)
2027-2028	12.1	12.3	(0.2)
2028-2029	12.2	12.3	(0.1)
2029-2030	12.4	N/A	N/A

D.8 These figures show that the number of individuals over SPa is projected to be relatively stable over the 5 year period. However, the population over SPa is expected to rise as a result of increasing life expectancy and high numbers of people reaching SPa. At the same time this period coincides with the increase in SPa from 66 to 67. The overall effect of these factors on the sustainability of the Fund is highlighted in the longer-term projections in the Quinquennial Review.

Employment levels and increase in earnings

D.9 The 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 2025 (millions)	UR 2024 (millions)	Change (millions)
2024-2025	28.1	27.9	0.2
2025-2026	28.4	28.1	0.3
2026-2027	28.5	28.3	0.2
2027-2028	28.6	28.5	0.1
2028-2029	28.7	28.6	0.1
2029-2030	28.9	N/A	N/A

D.10 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 October 2024 EFO.

D.11 The assumptions in Table D.2 have been derived by taking the number of UK employees from Table 1.6 of the economy detailed forecast tables published alongside the October 2024 EFO and, adjusting these figures to exclude Northern Ireland employees.

D.12 The assumptions for the employee earnings increases used in NICs modelling are set out in Table D.3 below:

Table D.3 – Employee earnings increase (from FY-1 to FY)

Financial year	UR 2025 Employee earnings increase (from FY-1 to FY)	UR 2024 Employee earnings increase (from FY-1 to FY)	Change
2024-2025	4.5%	3.3%	1.2%
2025-2026	3.0%	1.9%	1.1%
2026-2027	2.1%	2.2%	(0.1%)
2027-2028	2.0%	2.6%	(0.6%)
2028-2029	2.3%	2.8%	(0.5%)
2029-2030	2.6%	N/A	N/A

Benefit up-rating assumptions - increase in earnings and CPI

D.13 The assumptions for increases in earnings and CPI are set out in Table D.4 below. These figures are the Q2 earnings and Q3 CPI assumptions (taken from tables 1.6 and 1.7 of the EFO economy detailed forecast 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.4 – Annual increase in earnings and CPI

Year of April up-rating	CPI			Increase in earnings		
	UR 2025	UR 2024	Change	UR 2025	UR 2024	Change
2024	6.7	6.7	0.0	8.5	8.5	0.0
2025	1.7	3.3	(1.6)	4.1	3.6	0.5
2026	2.7	1.6	1.1	4.3	2.1	2.2
2027	2.2	1.4	0.8	2.1	1.9	0.2
2028	2.1	1.8	0.3	2.0	2.5	(0.5)
2029	2.1	N/A	N/A	2.2	N/A	N/A

[1] The increases to be applied in April 2024 and April 2025 are now determined. Last year the April 2024 increase was determined.

D.14 When projecting earnings for the purpose of estimating contribution income, the 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 This report relies on the data sets supplied. In particular, this report relies on the general completeness and accuracy of the information supplied without independent verification. Data used in these projections is checked for reasonableness where feasible, but we 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 latest available employment projection model used for its Fiscal Sustainability and Risk 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. We believe this data is a reasonable representation to use within our modelling and do not expect more recent data to make a material difference.
- earnings distributions, by age and gender; these were derived using the 2019 Annual Survey of Hours and Earnings (ASHE) produced by ONS[1]. We have checked that more up to date data provides a similar distribution and intend to update this fully as part of the QR 2025 process.
- 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.

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

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.

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 2023-2024.

E.9 As announced at the November 2022 Autumn Statement, the Upper Earnings Limit and the Upper Profits Limit have been assumed to remain constant at the 2021-2022 level up to and including 2027-2028. In line with the announcement in the October 2024 Autumn Budget, the Lower Earnings Limit (LEL) and the Small Profits Threshold (SPT) have been assumed to increase in line with CPI in 2025-2026. As announced at the October 2024 Autumn Budget, from 2028-2029 contribution and thresholds have been assumed to increase in line with CPI each year. All limits have also been assumed to increase in line with CPI each year from 2028-2029.

E.10 Modelled estimates of NICs for future years were compared with data provided by HMRC on actual NIC receipts up to and including 2023-2024. For Classes 2 and 4, estimates have been aligned with the data on NICs payable in respect of income in 2022-2023.

E.11 For Class 1 NICs, the projection has been aligned with data on NICs due in respect of 2023-2024 earnings.

E.12 In preparing the Fund accounts, HMRC needs 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 and has remained at this level. A different split is applied to Class 4 receipts using an analysis of postcodes relating to Class 4 liabilities.

E.13 In the October 2024 Autumn Budget, changes were announced in respect of the Employment Allowance which we have allowed for within these adjustments and represent around 2% of total projected NICs.

E.14 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. All remaining post budget adjustments (e.g., allowances for changes in behaviour) represent less than 0.5% of total projected NICs income.

NICs allocation between the Fund and the NHS

E.15 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.16 Class 1 NICs are split into primary (employee) and secondary (employer) contributions as well as between the Fund and the NHS as set out in Appendix C. Historic splits are observed from end of year returns from the National Insurance PAYE System (NPS) database and the Earnings Limits Scan supplied by HMRC. The latest Earnings Limits Scan provides information up to and including 2022-2023. This information is used to split the total Class 1 NICs received in 2022-2023, as produced by our calculation model, between the different components. Our model is then adjusted to be consistent with the split shown in the Earnings Limits Scan to derive the split of NICs in future years.

E.17 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.18 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, the calculation model has been used 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.19 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)
- Statutory Parental Bereavement Pay (SPBP), and
- Statutory Neonatal Care Pay from April 2025

E.20 In broad terms, amounts reclaimed by employers are estimated by adjusting data on amounts reclaimed in the latest complete year (2023-2024) 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.21 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.

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 taken to be the projected Bank Rate contained in the EFO report published in October 2024.

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
- new State Pension
- Additional Pension (SERPS and S2P)
- Graduated Retirement Benefit
- 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. We also received additional summary level statistics for recipients on DWP's new system.
- The estimates in this report are based on the QSE and additional summary data as at 31 March 2024. 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:

- 2021-based interim national population projections for Great Britain
- 2021-based interim national population projections for Northen Ireland
- 2008-based marital status projections for England and Wales

General approach

E.29 The 5 separate benefit projections were scaled so that the 2024-2025 estimates align with the forecast data in 2024-2025.

E.30 The adjustment factors used in the year 2024-2025 are as set out below:

- basic State Pension: 1.00
- new State Pension: 1.01
- Additional Pension: 1.01
- Graduated Retirement Benefit: 0.94
- Protected Payments: 0.98

E.31 The majority of the adjustment factors are close 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, we have 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 The above calculations have been carried out 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 national population projections: 2021-based interim for the UK and 2021-based interim for Northern Ireland. The numbers for women have then been split into single, married, divorced and widowed women using ONS's England and Wales 2008-based marital status projections, and adjusted to align with the ONS 2021 England and Wales census data.

Proportions entitled (PEnt)

E.35 For each age for each of the 5 categories of people, a PEnt assumption for the year 2024-2025 has been determined 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 PEnt assumptions have been set separately depending on whether entitlement is to Category A pension, Category BL pension or both. 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.

E.36 Based on these observations PEnt assumptions have been set as close to 100% for men, 93% 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, an MPnSR assumption has been determined for the year 2024-2025. 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 the MPnSR assumptions have been set separately depending on whether entitlement is to Category A pension, Category BL pension or both. For married women the proportion is age related matching recent demographic trends.

E.39 Based on these observations MPnSR assumptions have been set as 97% for men, 92% for single women, 94% for divorced women, 98% for widows, 40% for married women in category A lower and age related assumptions for married women in category A higher.

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 an adjustment has been made 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 2025-2026 is £176.45 per week. For women with entitlement to Category BL pension the standard benefit rate for projection year 2025-2026 is £105.70 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. Therefore payment of basic State Pension to overseas pensioners is modelled 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 2021-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 produces 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, figures from DWP's management information have been used in this report.

New State Pension

E.51 To project expenditure on new State Pension, for each projection year, we have 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.52 The above calculations have been carried out 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 2021-based interim population projection for Great Britain.

E.53 For each age for men and women a PEnt assumption has been determined by comparing the number of people receiving new State Pension in the QSE data with the number of people in the population projection.

E.54 For each age for men and women an MPnSR assumption has been determined using the QSE, L2 datasets and the additional summary level statistics for recipients on DWP's new system. This is done by calculating the average amount of new State Pension received by recipients in the QSE data and the additional summary data from the new system, and expressing this as a proportion of the full rate.

E.55 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.56 This leads to a PEnt assumption of 96% and an MPnSR assumption of around 95% for both future male and female recipients. For current recipients the current cohort MPnSRs are adopted.

E.57 The standard benefit rate for projection year 2025-2026 is £230.25 per week. This is thereafter up-rated in line with Triple Lock up-rating implied by the economic assumptions for future projection years.

E.58 New State Pension projections assume 6% choose to defer receipt beyond 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.59 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.60 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.61 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.

Additional Pension and Graduated Retirement Benefit

E.62 Additional Pension and Graduated Retirement Benefit have been projected by running off the existing payments shown in the QSE data set using mortality rates based on ONS's 2021-based interim GB population projection.

E.63 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.64 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.65 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, adjusted to align with the ONS 2021 England and Wales census data. 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.66 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.67 This modelling approach involves various simplifications which are not expected to be material. For example, this approach ignores 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).

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 We 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 We have 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.62 and E.63). 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 (adjusted to align with the ONS 2021 England and Wales census data) 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

General

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

Redundancy payments

E.75 The Insolvency Service has provided projections of gross and net redundancy payments to 2028-2029, which underlie recent OBR projections. These are assumed to increase in line with earnings growth thereafter.

State pension underpayments

E.76 DWP has identified groups of basic State Pension recipients who may have been underpaid. These underpayments are due to:

- historical official errors relating to married pensioners, widows and people aged over 80
- errors in recording Home Responsibilities Protection (HRP)

E.77 The total size of the remaining underpayments due from the Fund in relation to the first group has been estimated by DWP as £0.4bn at 31 March 2024 based on information available at that point in time. It has been assumed these repayments will be made in 2024-2025.

E.78 The total size of the remaining arrears underpayments due from the Fund due to HRP errors has been estimated by DWP as £1.2bn as at 31 March 2024, based on information available at that point in time. Following discussion with DWP in November 2024, it has been assumed that 15% of these repayments will be made in 2024-2025, 40% will be made in 2025-2026, 40% will be made in 2026-2027 and the remaining 5% will be made in 2027-2028.

E.79 Future benefit payments are also expected to increase once records are corrected. We have used details from OBR's November 2023 Economic and Fiscal Outlook and from OBR's 'Supplementary forecast information release – State pension underpayment correction' (released in March 2021) to allow for uplifts to future benefit outgoings. These amounts are included within basic State Pension figures in this report.

Administration costs

E.80 The administration costs are based on those incurred in 2023-2024 as recorded in the published Fund accounts, with future costs estimated as the 2023-2024 costs increased in line with earnings growth.

Transfer to/from Northern Ireland

E.81 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.82 The total payment made in 2024-2025 will be based on a parity ratio of 2.75% 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 and the published mid-2021 population estimates for Great Britain and for Northern Ireland published in November 2023. 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 the Government Actuary's review of the parity process in 2020. Payments made after 2024-2025 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		2024-2025		2025-2026	
National Insurance Fund					
Class 1[1]	Primary	33,034		33,238	
	Secondary	93,991		120,418	
	Total		127,025		153,656
Classes 1A and 1B			1,558		1,595
Class 2			469		0
Class 3			269		269
Class 4			2,628		1,323
Total National Insurance Fund contributions[2,3]			**131,949**		**156,843**
National Health Service					
Class 1	Primary	13,030		13,602	
	Secondary	20,611		20,978	
	Total		33,641		34,580
Classes 1A and 1B			249		255
Class 2			86		0
Class 3			49		49
Class 4			755		1,110
Total National Health Service contributions[3]			**34,780**		**35,994**
All contributions					
Class 1[1]	Primary	46,063		46,840	
	Secondary	114,602		141,396	
	Total		160,666		188,236
Classes 1A and 1B			1,806		1,850
Class 2			555		0
Class 3			319		319
Class 4			3,383		2,433
Total contributions[3]			**166,729**		**192,838**

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 2029-2030

G.1 This section provides details of the projected cash flow and balance of the Fund over the period to 2029-2030 under the select variant assumptions.

Table G.1 - Variant fund projections to 2029-2030 – 1 percentage point higher earnings

Great Britain, £ million	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Total receipts	135,791	161,419	170,870	177,681	184,925	192,532
Total payments	146,000	154,457	162,590	166,119	171,237	179,533
Excess of receipts over payments	(10,209)	6,962	8,281	11,562	13,687	13,000
Balance in fund at end of year	76,210	83,172	91,453	103,014	116,702	129,701
Balance at end of year as a percentage of benefit payments	52.7%	54.4%	56.8%	62.7%	68.9%	73.0%

Table G.2 - Variant fund projections to 2029-2030 – 1 percentage point lower earnings

Great Britain, £ million	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Total receipts	135,791	158,278	163,930	166,703	169,592	172,519
Total payments	146,000	154,438	160,214	162,827	167,108	174,163
Excess of receipts over payments	(10,209)	3,840	3,716	3,876	2,484	(1,644)
Balance in fund at end of year	76,210	80,050	83,765	87,641	90,125	88,482
Balance at end of year as a percentage of benefit payments	52.7%	52.3%	52.8%	54.4%	54.5%	51.3%

Table G.3 - Variant fund projections to 2029-2030 – 1 percentage point higher CPI together with 1 percentage point lower earnings increases

Great Britain, £ million	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Total receipts	135,791	158,278	163,916	166,641	169,216	171,727
Total payments	146,000	154,438	160,994	164,751	170,151	178,423
Excess of receipts over payments	(10,209)	3,840	2,922	1,890	(936)	(6,696)
Balance in fund at end of year	76,210	80,050	82,971	84,861	83,925	77,229
Balance at end of year as a percentage of benefit payments	52.7%	52.3%	52.0%	52.0%	49.8%	43.7%

Table G.4 - Variant fund projections to 2029-2030 – 200,000 more employees from 2025-206 onwards

Great Britain, £ million	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Total receipts	135,791	160,859	168,566	173,410	178,528	183,858
Total payments	146,000	154,475	161,441	164,153	168,494	175,635
Excess of receipts over payments	(10,209)	6,384	7,125	9,256	10,034	8,223
Balance in fund at end of year	76,210	82,594	89,719	98,975	109,009	117,232
Balance at end of year as a percentage of benefit payments	52.7%	54.0%	56.1%	60.9%	65.4%	67.5%

Table G.5 - Variant fund projections to 2029-2030 – 200,000 fewer employees from 2025-206 onwards

Great Britain, £ million	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Total receipts	135,791	158,843	166,198	170,910	175,888	181,066
Total payments	146,000	154,420	161,379	164,090	168,429	175,569
Excess of receipts over payments	(10,209)	4,423	4,819	6,820	7,459	5,498
Balance in fund at end of year	76,210	80,633	85,452	92,272	99,731	105,229
Balance at end of year as a percentage of benefit payments	52.7%	52.7%	53.5%	56.8%	59.8%	60.6%

Table G.6 - Variant fund projections to 2029-2030 – Triple Lock replaced with earnings linkage from April 2026

Great Britain, £ million	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Total receipts	135,791	159,851	167,382	172,168	177,245	182,551
Total payments	146,000	154,447	161,410	163,642	167,314	173,950
Excess of receipts over payments	-10,209	5,403	5,972	8,526	9,931	8,601
Balance in fund at end of year	76,210	81,613	87,585	96,111	106,043	114,643
Balance at end of year as a percentage of benefit payments	52.7%	53.4%	54.8%	59.3%	64.1%	66.6%

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