Report by the Government Actuary on the drafts of the Social Security Benefits Up-rating (No. 2) Order 2000 and the Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2001.

Presented to Parliament by the Secretary of State for Social Security and the Paymaster General by Command of Her Majesty
November 2000

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Contents

Terms of Reference

Summary

Description of the changes to benefits and contributions

Methods and assumptions used to project receipts and payments

Estimates of receipts and payments and balance in the fund

Analysis of benefit payments and contribution receipts

Effect of different assumptions about unemployment, earnings and contracting out

Conclusion

Appendices

1 Main rates of benefit

2 Main features of the contribution system

3 Detailed methods and assumptions used

4 Estimated payments from the National Insurance Fund for benefits, and effect of benefit up-rating on payments in 2001-02

5 Analysis of the changes in contribution receipts for 2001-02 as a result of the contribution re-rating order and other measures

6 Analysis of contribution receipts by fund and class of contributor, and analysis of payments in respect of appropriate personal pensions and age-related rebates in respect of contracted-out money purchase schemes made by the Inland Revenue

To: The Right Hon. Alistair Darling MP, Secretary of State for Social Security

Ms Dawn Primarolo MP, Paymaster General

REPORT BY THE GOVERNMENT ACTUARY ON THE DRAFTS OF THE SOCIAL SECURITY BENEFITS UP-RATING (NO.2) ORDER 2000 AND THE SOCIAL SECURITY (CONTRIBUTIONS) (RE-RATING AND NATIONAL INSURANCE FUNDS PAYMENTS) ORDER 2001

Sir and Madam,

I attach a report on the likely effects on the National Insurance Fund of the *Social Security Benefits Up-rating (No.2) Order 2000* and the *Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2001*. This report is made in accordance with sections 142(1), 147(2) and 150(8) of *the Social Security Administration Act 1992*, as amended by the *Social Security Contributions (Transfer of Functions Act, etc.) 1999*.

The report estimates the receipts of and payments from the National Insurance Fund for the years 2000-01 and 2001-02 and the balance in the fund at the start and end of each year. The economic assumptions used correspond with those prepared by Her Majesty's Treasury at the time of the Pre-Budget Report in November 2000.

On the basis of the estimates in the report, the level of the National Insurance Fund at 31st March 2002 will be greater than one-sixth of benefit payments in 2001-02. Thus it exceeds the minimum level that I recommend to ensure that a reasonable working balance is maintained. It will not therefore be necessary for any Treasury grant to be made to the National Insurance Fund in 2001-02.

Christopher Daykin
Government Actuary
November 2000

Summary

1. This report is on the likely effects on the Great Britain National Insurance Fund of:

(i) the *Social Security Benefits Up-rating (No.2) Order 2000* (the Up-rating Order). Section 150(8) of the Social Security Administration Act 1992 requires the Secretary of State for Social Security to lay a report by the Government Actuary before Parliament with drafts of any orders which alter the rates of benefits made under that section of the Act, and

(ii) the *Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2001* (the Re-rating Order). Sections 142(1), and 147(2) of the Social Security Administration Act, as amended by the Social Security Contributions (Transfer of Functions, etc.) Act 1999, require the Treasury to lay a report by the Government Actuary before Parliament with drafts of any orders which alter the rates of contributions made under those sections of that Act.

The report also sets out the effects on the National Insurance Fund of changes which will be made by the *Social Security (Contributions) (Amendment) Regulations 2001*. This report does not consider the separate Northern Ireland National Insurance Fund, nor the effects of the orders on that Fund.

2. The report shows estimates of the receipts of and payments from the National Insurance Fund for 2000-01 and 2001-02. The receipts from contributions and the payments on benefits in these years will depend, among other things, upon the levels of unemployment and employment, and the rate of increase in earnings. The estimates have been made using assumptions about the levels of unemployment, employment and earnings increases which correspond with those prepared by Her Majesty's Treasury at the time of the Pre-Budget Report in November 2000 (see paragraph 15 and Appendix 3, paragraph 24).

3. The orders and regulations covered and the financial effects are as follows:

- the proposed Up-rating Order, which increases from April 2001 the rates at which many benefits are paid, and which is estimated to result in extra benefit payments in 2001-02 of £2,965 million;
- the proposed Re-rating Order, which alters the rates of Class 1 secondary and Class 3 contributions, adjusts the bands of earnings on which contributions are paid and will reduce receipts to the National Insurance Fund by an amount which is estimated to be £855 million in 2001-02;
- the proposed *Social Security (Contributions) (Amendments) Regulations 2001*, which increase the lower and upper earnings limits and the primary and secondary thresholds for Class 1 National Insurance contributions. It is estimated that these changes will reduce receipts to the National Insurance Fund in 200102 by £777 million.

4. On the basis of the estimates in this report, no Treasury grant is required in 2001-02, as the balance in the fund at 31st March 2002 is estimated to be £20,804 million (41.1% of estimated benefit payments), and so significantly exceeds one-sixth of estimated benefit payments in 2001-02.

Description of the changes to benefits and contributions

5. The Up-rating Order increases the rates of social security benefits paid from the National Insurance Fund, from the week beginning 9th April 2001 by the increase in the retail prices index in the year to September 2000 (3.3%), except for retirement pension and widows' / bereavement benefit which are increased by £5 a week (7.4%) and contribution-based jobseeker's allowance which is increased by 1.6%. Table 1 shows the changes to the major benefit rates. A more complete summary of the principal rates of benefit before and after the proposed changes is given in Appendix 1.

Table 1 - Changes to the major benefits rates

	Weekly rate in 2000-01	**Proposed increase in weekly rate**	**Weekly rate proposed from 9th April 2001**
Retirement pension single person standard rate	£67.50	£5.00	£72.50
Retirement pension married couple standard rate	£107.90	£8.00	£115.90
Contribution-based jobseeker's allowance single person over 25	£52.20	£0.85	£53.05
Incapacity benefit long-term main rate	£67.50	£2.25	£69.75

6. Earnings-related additional pensions of retirement pensioners and widow beneficiaries who qualified for these pensions before 6th April 2001 will be increased by 3.3%. There is no increase in additional pension for those on incapacity benefit below state pension age. The increase applies to additional pensions before abatement for any guaranteed minimum pensions paid from occupational pension schemes where the pensioner has been contracted-out before 6th April 1997. However, where a guaranteed minimum pension in payment includes an amount arising from earnings between 6th April 1988 and 5th April 1997, such amount is required to be increased by 3.0% by the occupational scheme, and the increase in additional pension is correspondingly reduced.

7. The Social Security Act 1986 provided for new awards of additional pensions to widows and widowers to fall from 100% of their deceased spouse's additional pension to 50% from 6th April 2000. However, the Child Support, Pensions and Social Security Act 2000 specified that this reduction would be delayed until October 2002 and the government has announced further proposals for cases where the spouse dies after October 2002. As a result, awards of additional pensions to widows and widowers in 2001-02 will be 100% of their deceased spouse's additional pension.

8. For deaths on or after 9 April 2001, widows' benefits will be replaced by a new system of bereavement benefits. This will give equal rights to men and women. The main benefit will be a widowed parent's allowance which will be at the same rate as widowed mother's allowance. A bereavement allowance is also paid at the same rate for 12 months to those without children.

9. The Re-rating Order will decrease the Class 1 secondary rate from 12.2% to 11.9% as announced in the November 1999 pre budget report. It will also increase the Class 3 weekly contribution rate broadly in line with the increase in benefits other than retirement pension, widows' / bereavement benefit and contribution-based jobseeker's allowance. The Class 2 rate will remain at £2 per week. This will be paid by self-employed people with earnings above the small earnings exception, which will be increased from £3,825 to £3,955 a year. For Class 4, the lower profits limit and the upper profits limit will be altered to align them with the Income Tax Personal Allowance and the upper earnings limit for Class 1 contributions respectively.

10. The proposed *Social Security (Contributions) (Amendment) Regulations 2001* will increase the lower and upper earnings limits for Class 1 contributions to £72 (from £67) a week and £575 (from £535) a week respectively. The increase to the LEL is in line with the increase to the basic state retirement pension while the increase to the UEL is as announced by the Chancellor of the Exchequer in the March 1999 Budget.

11. The proposed *Social Security (Contributions) (Amendment) Regulations 2001* will align both the primary and the secondary thresholds for Class 1 contributions with the income tax personal allowance, which has been increased in line with the increase in the retail prices index in the year to September 2000. This will be £87 a week for weekly-paid employees and £378 a month for other employees. The primary threshold has been increased from £76 a week and the secondary threshold has been increased from £84 a week in 2000-01. All the changes introduced by the Re-rating Order and the proposed regulations, are shown in Appendix 2. The financial effects of all these changes are shown in Appendix 5. The effects of the orders on the Northern Ireland National Insurance Fund have not been included in this report.

12. The changes to Class 1 National Insurance contribution limits do not give rise to any change in benefit entitlement for employees. Accrual of the state earnings-related pension and contracted-out rebates for both employees and employers will continue to be calculated on earnings between the lower earnings limit and the upper earnings limit. In some circumstances this could result in a contracted-out rebate being greater than the National Insurance contribution liability for primary or secondary contributions. However, for secondary contributions the employer can offset the surplus contracted-out rebate against her or his total payment of secondary and primary National Insurance contributions. The deduction by employers of part or all of statutory sick pay (SSP) and statutory maternity pay (SMP) paid to employees will be unaffected.

13. Two further changes will come into force from April 2001, although they were announced some time ago. The Class 1 secondary contribution rate will reduce from 12.2% to 11.9% and the first contracting out via stakeholder pensions will occur. These have been taken into account in the estimates included in this report.

Previous Contents Next Official Documents

Methods and assumptions used to project receipts and payments

14. Each significant item of receipts and payments of the National Insurance Fund is estimated separately. The results are laid out in a format similar to the accounts for the National Insurance Fund for the year 1999-2000. Redundancy receipts are not shown as a separate item, but redundancy payments are shown net of receipts.

15. The main economic assumptions which have been used are those which were, in part, set out in table B3 of Annex B of the Chancellor of the Exchequer's Pre-budget Report. The important assumptions are that the number of jobs in the UK, including the armed forces, is assumed to be 24.6 million in 2000-01 and 24.7 million in 200102, the increase in average earnings is assumed to be 3.9% over the year to 2000-01 and 4.5% over the year to 2001-02, and the numbers unemployed and claiming benefit in GB are assumed to be 1.02 million on average in 2000-01 and 1.01 million in 2001-02. Details of the methods used to estimate contribution income and benefit expenditure are given in Appendix 3.

Estimates of receipts and payments and balance in the fund

16. The estimates of receipts and payments for 2001-02 (with the estimates for 2000-01 shown for comparison) are given in Table 2.

Table 2 - Estimated receipts and payments and statement of balances of the National Insurance Fund

Great Britain, £ million		**2000-01**		**2001-02**	
Receipts					
	Contributions (as given in Appendix 6)	53,479		55,492	
	Less recoveries of SSP	29		30	
	Less recoveries of SMP and SMP abatement	621		657	
	Less reduction in respect of NIC holidays	0		0	
Net contribution receipts			52,829		54,805
Treasury grant			0		0
Compensation from Consolidated Fund for SSP and SMP recoveries			646		683
Compensation from Consolidated Fund for recoveries in respect of NIC holidays			0		0
Income from investments			927		1,112
State scheme premiums			146		137
Other receipts (4)			255		205
Total receipts			**54,803**		**56,942**
Payments					
Benefits	At present rates (as Given in App 4)		46,906		47,539
	Increase due to Proposed changes				2,965
Personal pensions contracted- out rebates (as given in App 6)			2,340		2,518
Stakeholder pensions contracted-out rebates (as given in App 6)			0		0
Age-related rebates for Contracted-out money Purchase schemes (as given in App 6)			111		115
Administration costs (4)			1,089		36
Redundancy fund payments (net)			155		156
Transfer to Northern Ireland (4)			200		110
Other payments			20		20
Total payments			**50,822**		**54,558**
Statement of balances					
Balance at beginning of year		(1)	14,439		18,420
Excess of receipts over Payments			3,981		2,384
Balance at end of year			18,420		20,804
Balance in fund as percentage of benefit payments (2)			39.1		41.1

(1) The balance in the National Insurance Fund at 31st March 2000 has been taken from unaudited

accounts of the fund for the year 1999-2000.

(2) Percentages of benefit payments including net redundancy payments.

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

(4) Provisional figures

Estimates for 2000-01

17. The estimates shown above for 2000-01 may be compared with the estimates made one year ago, and published in the report by the Government Actuary in January 2000 (Cm 4587). The estimated surplus of £3,981 million for 2000-01 shown above differs from the surplus of £2,873 million estimated in that report. The main reason for the increase is that contribution income is significantly higher. This results from data on actual receipts showing greater income than expected. Additionally, rebates to appropriate personal pensions have been lower than expected. Data on this has been scarcer than normal because of the problems with NIRS2.

Estimates for 2001-02

18. The extra benefit payments in 2001-02 as a result of the proposed increases in benefit rates from April 2001 are estimated to be £2,965 million. Particulars of the extra cost and of the payments for individual benefits are given in Appendix 4.

19. The financial effects on contribution receipts and contracted-out rebates of the proposed changes set out in paragraphs 9 to 15 are given in Appendix 5. The total effect of the changes is estimated to be a loss in revenue to the National Insurance Fund of £1,633 million. Other changes in contribution receipts from 2000-01 to 2001-2002 arise largely as a result of forecast increases in earnings between the two years.

20. Table 2 shows that the amount of Treasury grant estimated to be needed in 2001-02 is again nil. At this stage, the estimate of the balance in the National Insurance Fund at 31st March 2002 substantially exceeds one-sixth of estimated benefit payments in 2001-02. My recommendation is that the level of one-sixth of benefit payments is the minimum level needed to ensure the maintenance of a reasonable working balance in the fund.

Analysis of benefit payments and contribution receipts

21. Appendix 4 shows that retirement pension accounts for the major part of benefit payments. Short-term projections indicate that the costs of retirement pension (including additional pension) as a proportion of benefit payments will increase slightly since the amount of additional pension is still growing rapidly, although it only accounts for about 12% of total retirement pension payments.

22. Appendix 6 shows an analysis of the contribution receipts to the National Insurance Fund. The changes to National Insurance contributions described in paragraph 9 to 13 above do not greatly affect the overall expected pattern of contribution receipts.

Effect of different assumptions about unemployment, earnings and contracting-out

23. Different assumptions about unemployment would affect the estimates of benefit payments. Different assumed levels of employment would change the estimates of contributions. The estimates of contributions are also critically dependent on assumptions about the level of earnings increases. Thus it is appropriate to consider the effect on National Insurance Fund receipts and payments of different values for these economic assumptions. It is also appropriate to consider the effects of different assumptions for the numbers contracted out by different methods after April 2001 in view of the uncertainty regarding the current number of people who are contracted-out (see paragraph 26).

24. The effect of different assumed numbers of employees does not depend greatly on the assumptions used for earnings increases, nor does the effect of different earnings increase assumptions depend greatly on the number of employees assumed. Hence these factors have been considered separately, and the two effects can be treated as additive. The results of varying the economic assumptions are given in Table 3 below.

Table 3 - Effect on receipts and payments of the National Insurance Fund in 2001-02 of variations in economic assumptions

Great Britain, £ million

Variation compared to assumptions given in Appendix 3 paragraph 24	Effect on receipts in 2001-02	Effect on payments in 2001-02
GB number of employees-in-employment lower by 200,000 in 2001-02	-390	
GB number of employees-in-employment higher by 200,000 in 2001-02	+390	
Earnings increases 1% lower over the year to 2000-01 and 2% lower over the year to 2001-02	-1,740	
Earnings increases 1% higher over the year to 2000-01 and 2% higher over the year to 2001-02	+1,750	
GB unemployment higher by 200,000 in 2001-02		+100
GB unemployment lower by 200,000 in 2001-02		-100

25. Using the figures in Table 3 it is possible to estimate the likely contribution receipts, benefit payments and, most importantly, fund balance, under different sets of assumptions. For example, if earnings increases were 1% lower over the year to 2000-01 and 2% lower over the year to 2001-02 and the number of employees were 200,000 lower and the number unemployed 200,000 higher, then the total effect on the receipts net of payments of the National Insurance Fund in 2001-02 would be a loss of around £2.2 billion, which would still not necessitate a Treasury grant in 2001-02.

26. Different levels or patterns of contracting out could have a material effect on the cash flows of the National Insurance Fund. Problems with the introduction of NIRS2 have meant that there is a lack of data showing current numbers contracted out through different routes and consequently there is, at present, uncertainty about the numbers of people contracting-out. The introduction of a new route for contracting out (stakeholder pensions) increases the uncertainty. Amounts of APP rebates for 2001-02 and COMPS rebates for 2001-02 above those deducted from contributions received in 2001-02 will generally be paid by the National Insurance Contributions Office after the end of the financial year direct to personal pension providers or the pension scheme. It has been assumed that the majority of stakeholder pensions will be treated in the same way. Therefore, although rebates for stakeholder pensions will be paid in respect of earnings in 2001-02, they will not be paid until 2002-03 and so will have no effect on the actual receipts in 2001-02.

Conclusion

27. Table 2 of the report shows that the balance in the National Insurance Fund at 31st March 2001 is likely to be substantially above the recommended minimum level of one-sixth (16.7%) of benefit payments. The level is likely to be higher than estimated in the report on the changes in January 2000 (Cm 4587).

28. It is estimated that no Treasury grant is needed in 2001-02 for the balance in the fund at 31st March 2002 to be at least one sixth of estimated benefit payments in 2001-02. The balances in the National Insurance Fund over the period March 2000 to March 2002 are estimated to be as follows:

Table 4 - Balance in National Insurance Fund at the end of successive financial years

Balance at 31st March	**2000**	**2001**	**2002**
Percentage of benefit payments in previous financial year	(1) 31.1	39.1	41.1

(1) Using latest estimated figures for 1999-2000

29. If economic conditions differ from the assumptions given in paragraph 24 of Appendix 3, then the balance in the Fund at 31st March 2002 will be different from that given above. However, even quite substantial alterations in economic conditions should not cause the balance in the fund to fall significantly below its current level.

Government Actuary CHRISTOPHER DAYKIN

November 2000 Fellow of the Institute of Actuaries

APPENDIX 1

MAIN RATES OF BENEFIT

		Weekly rate in 2000-01	Weekly rate proposed from 9th April 2001
		£	**£**
Retirement and widows' pensions / bereavement allowance (1) and widowed parent's's allowance			
	Personal benefit (basic pension)	67.50	72.50
	Wife or other adult dependant	40.40	43.40
Graduated retirement benefit (unit)		0.0877	0.0906
Widow's / bereavement payment (1) & (2)		1,000	2,000
Incapacity benefit long-term rate			
	Personal benefit	67.50	69.75
	Transitional invalidity allowance higher rate	14.20	14.65
	Transitional invalidity allowance middle rate	9.00	9.30
	Transitional invalidity allowance lower rate	4.50	4.65
	Wife or other adult dependant	40.40	41.75
	Age increase higher rate	14.20	14.65
	Age increase lower rate	7.10	7.35
Incapacity benefit short-term			
	Personal benefit higher rate	60.20	62.20
	Personal benefit lower rate	50.90	52.60
	Wife or other adult dependant	31.50	32.55
Statutory sick pay		60.20	62.20
Jobseeker's allowance (contribution-based)			
	Personal benefit for those aged 18 to 24	41.35	42.00
	Personal benefit for those aged 25 and over	52.20	53.05
Maternity allowance (3)			
	Higher rate	60.20	62.20
	Lower rate	52.25	53.95
Statutory maternity pay			
	Lower rate	60.20	62.20
Increases for the children of widows, retirement pensioners and those on long-term rate and higher short-term rate of incapacity benefit and recipients of incapacity benefit over pension age; guardian's allowance and child's special allowance			

	First child	9.85	9.70
	Other children	11.35	11.35
Christmas bonus to pensioners (2)		10.00	10.00

(1) Bereavement benefits will replace widows' benefits for deaths from 9 April 2001

(2) Lump sum benefit(3) From April 2000 a new rate of Maternity Allowance has been payable to pregnant women earning between the maternity threshold and the LEL. The rate payable is related to earnings. Self-employed women who hold a certificate of Small Earnings Exception will receive 90% of the maternity threshold.

APPENDIX 2

MAIN FEATURES OF THE CONTRIBUTION SYSTEM

		Rate in 2000-01	**Rate proposed from April 2001**
Class 1			
Lower earnings limit (LEL)		£67 a week	£72 a week
Upper earnings limit (UEL)		£535 a week	£575 a week
Primary threshold		£76 a week or £329 a month	£87 a week or £378 a month
Secondary threshold		£84 a week or £365 a month	£87 a week or £378 a month
Contribution rates (NI Fund and NHS combined)			
Primary (employee)	On earnings between the primary threshold and UEL	(1) 10.0%	(1) 10.0%
	Reduced rate for married women and widow optants, on earnings between the primary threshold and UEL	(2) 3.85%	(2) 3.85%
	NHS allocation included in above (percentage of earnings between the primary threshold and UEL)	1.05%	1.05%
Secondary (employer)	On all earnings above the secondary threshold	(3) 12.2%	(3) 11.9%
	NHS allocation included in above (percentage of all earnings foremployees earning above the primary threshold)	0.9%	0.9%
Class 1A			
Contribution rate		12.2%	11.9%
NHS allocation included in above		0.9%	0.9%
Class 2			
Flat rate contribution		£2.00 a week	£2.00 a week
Small earnings exception		£3,825 a year	£3,955 a year
NHS allocation included in above (percentage of contribution)		15.5%	15.5%
Class 3			
Flat rate contribution		£6.55 a week	£6.75 a week
NHS allocation included in above (percentage of contribution)		15.5%	15.5%
Class 4			
Lower profits limit		£4,385 a year	£4,535 a year
Upper profits limit		£27,820 a year	£29,900 a year
Contribution rate		7.0%	7.0%
NHS allocation included in above (percentage of profits between lower and upper profits limit)		1.15%	1.15%

(1) The contracted-out rebate for primary contributions in 2000-01 and 2001-02 is 1.6% of earnings between the LEL and UEL for all forms of contracting out - contracted-out salary-related schemes

(COSRS), contracted-out money purchase schemes (COMPS), appropriate personal pensions (APPs) and stakeholder pensions.

(2) Married women opting to pay contributions at the reduced rate earn no entitlement to contributory National Insurance benefits as a result of these contributions. No women have been allowed to exercise this option since 1977, but around 200,000 women who have been continually married or widowed and in the labour market since that time have retained their right to pay the reduced rate.

(3) The contracted-out rebate for secondary contributions is 3.0% of earnings between the LEL and UEL for contracted-out salary-related schemes. For contracted-out money purchase schemes, the employers' contracted-out rebate varies according to the age of the employee: however, only a rebate of 0.6% will be deducted from contributions at the time they are paid, the remainder should be paid by the National Insurance Contributions Office in the following financial year after the submission by employers of end-of-year returns. For appropriate personal pensions, the total rebate (primary and secondary combined) applicable to earnings is, like the rebate for COMPS, related to the age of the employee. The rebate will be paid by the National Insurance Contributions Office to the personal pension provider after the submission by employers of end-of-year returns, with the employee and employer paying the not contracted-out rate of contributions during the year. It is expected that stakeholder pensions will be treated in the same way as personal pensions.

APPENDIX 3

DETAILED METHODS AND ASSUMPTIONS USED

Contributions

1. Contributions are estimated separately for each class. Actual known receipts in recent years are used to adjust modelled estimates for future years.

2. Estimates of Class 1 contributions are made separately for gross contributions and amounts of contracted-out rebates. Estimates of gross contributions and rebates are made using an earnings distribution based on the New Earnings Survey, projected in line with the earnings increases shown in paragraph 24 below. The gross contribution results are scaled in line with the assumed number of employees which are also given in paragraph 24. The estimates of amounts of contracted-out rebates are made in a similar way, using an assumption of the numbers contracted out which allows for the continuation of the trend in the proportions of employees contracted out into occupational schemes observed in recent years. At the moment there is more uncertainty than normal about the level of contracting out through different routes, due to a lack of recent data on the numbers contracting out. Therefore the estimates of contracted-out rebates are more uncertain than would usually be the case.

3. Other classes of contributions are estimated using simpler models. Class 1A contributions are estimated using data provided by the Inland Revenue and information on Class 1A contributions paid in previous years. Class 1B contributions are estimated using data provided by the Inland Revenue. Estimates of Class 2 and Class 4 contributions are estimated using data on the earnings of the self-employed received from the Inland Revenue, adjusted for earnings increases. This data is combined with information on contributions received in the past, the assumed numbers of self-employed in the future, and the rates of Class 2 and Class 4 in order to estimate the contributions paid. Class 3 contributions are estimated by adjusting the contributions paid in earlier years for the changes in the contribution rate.

4. Statutory sick pay (SSP) and statutory maternity pay (SMP) recovered by employers are estimated by adjusting amounts recovered in the latest year for which data are available broadly in line with changes in numbers of employees, rates of benefit, and, for earnings-related statutory maternity pay, the average earnings of women. The additional amount in excess of 100% of SMP paid which can be reclaimed by small employers (SMP abatement) is estimated in a similar way. A lack of data on actual amounts of SSP and SMP reclaimed by employers in recent years means that the estimates are more uncertain than would usually be the case. The amount of the payment from the Consolidated Fund is estimated as the amounts of SSP and SMP recovered, with adjustments in the current year arising from revisions to estimates of amounts recovered in prior years.

5. The amount of the National Insurance contribution holiday for employers taking on those previously long-term unemployed was calculated using assumptions for the take-up of the scheme and the earnings of those involved provided by the Department of Social Security. Data on the actual take-up of the scheme have been used to revise estimates. This scheme has been stopped for new cases from April 1999, and so the amounts involved are estimated to have reduced to zero by the end of 2000-01.

Other receipts

6. The estimates given for receipts from state scheme premiums are based on data from the National Insurance Contributions Office on the receipts of these amounts in the recent past. The option for pension schemes to pay state scheme premiums (except for contributions equivalent premiums) was ended from April 1997, although some payments appear to have been made subsequent to this. It was assumed that the level of contributions paid since April 1998 is the ultimate level and will not change greatly in the future.

7. The investments of the National Insurance Fund are largely in government securities, which pay interest twice a year. The interest income from investments is estimated by considering the income from existing investments, and adjusting this for the interest income from investments which will be bought or sold each year, depending on whether the fund is growing or diminishing. In the current year an allowance for realised capital gains or losses is made.

8. The amount of the Treasury grant for 2001-02 is estimated as that amount needed to ensure that the estimate of the fund balance at 31st March 2002 is at least one-sixth of benefit payments (including redundancy fund payments) in 2001-02.

9. Estimates for the item called "Other receipts" in the accounts of the National Insurance Fund (mainly recoveries of damages in tort from benefit paid) are provided by Analytical Services Division of the Department of Social Security.

Benefits

10. Benefits are estimated separately for each of the contributory benefits, and separately for the basic, flat-rate elements and for additional pensions (SERPS).

11. In general, for flat-rate benefits, numbers are estimated by taking the most recent data on beneficiaries and projecting these with allowance for awards and cessations in future years based on past experience and taking into account demographic factors. The average rate of benefit is calculated, making allowance for dependency and average amounts of benefit, based on past data and observed trends.

12. Estimates of basic retirement pension, by far the largest benefit, use the latest population projections (mid-1998 based) as a basis for the numbers over pension age. They allow for gradual changes in the proportion of that population receiving basic retirement pension, as well as for an increasing trend in the numbers of overseas residents receiving pension. Allowance is also made for trends in the average amounts of benefit and the changing mix in categories of retirement pension for women arising from the increasing trend for women to have entitlement on their own contributions.

13. Estimates of amounts of additional pension paid with retirement pension are derived from age-specific data on past earnings. For future years, earnings factors are derived by adjusting these for earnings increases and for demographic and economic activity rate changes under pension age. Accrued earnings are survived to pension age using population mortality rates. At pension age the accrued survived earnings are converted to amounts of additional pension awarded, and survived using the latest population mortality rates (mid-1998 based). A similar method is used for guaranteed minimum pensions and contracted-out deductions, with adjustment to the mortality rates to allow for generally lighter mortality for those contracted-out. As described in paragraph 7 of the report, it has been assumed that a widow or widower who is awarded additional pension based on the contribution record of his or her deceased spouse will continue to receive 100% of his or her deceased spouse's additional pension after 6th April 2000.

14. Estimates of widows' benefit are based on an awards and survivorship model. This model is split between projecting the remaining pre-1988 widows who have full transitional protection and are subject to the pre-1988 rules for widows' benefit, and projecting a build-up of post-1988 widows subject to the post-1988 rules. Awards are based on recent data and, are projected using numbers of new widows from the latest marital conditions projection (mid-1996 based); survival rates and transfer rates by single age and type of widows benefit are derived from DSS administrative data. Bereavement benefits have been allowed for.

15. Estimates of the amount of additional pension paid with widows' benefits are derived from the retirement pension additional pension model. Accrued additional pension to men dying under pension age, and actual additional pension in payment to those dying over pension age are converted to give amounts of widows' additional pension using assumptions on marital status and age of surviving widow. The amount is split by type of widows' benefit and survived using the main basic widows benefit model. Amounts of survived widows' additional pension are transferred back to the main retirement pension model in respect of widows who reach pension age. A similar method is used for contracted-out deductions. Again it has been assumed that widows who are awarded additional pension based on the contribution record of their deceased spouse will continue to receive 100% of their deceased spouse's additional pension after 6th April 2000.

16. Trends in awards and survival for incapacity benefit take account of assumptions of the effect that the medical test is expected to have both on new cases and on those awarded invalidity benefit pre-1995. The estimates also take account of incapacity benefit ceasing at pension age and those on benefit converting to retirement pension at that age. Additional pension with incapacity benefit ceased for new awards from April 1995, although pre-1995 cases still retain the benefit at the existing rate. The estimates also allow for the changes that will be introduced from April 2001 under the Welfare Reform and Pensions Act 1999.

17. The estimate of the cost of contribution-based jobseeker's allowance is based on the assumptions for the number of unemployed set out in paragraph 24 of this appendix. It takes account of the estimated proportion of those unemployed who are entitled to the contributory element of jobseeker's allowance. The proportion entitled is derived from recent data on contributory jobseeker's allowance analysed by duration of unemployment. The data suggests that there has been little

change in the proportion entitled since the introduction of jobseeker's allowance, although there have been significant changes at longer durations. The model takes recent data on duration-specific proportions entitled and applies these to a durational split of the numbers unemployed based on durational profiles supplied by the Department for Education and Employment.

18. The underlying Government Actuary's Department estimates of payments for all benefits are aligned to recent data on payments for 2000-01 to ensure that account is taken of more recent changes in factors affecting benefit payments than are incorporated in data on numbers of beneficiaries.

Other payments

19. Redundancy payments estimates (net of redundancy receipts) are provided by the Department of Trade and Industry, and are based on the same economic assumptions as the other estimates.

20. Estimates of payments to providers of appropriate personal pensions (APPs) are made using the method for calculating contracted-out rebates which was described in paragraph 2 of this appendix. Virtually all the rebates in respect of contributions paid in one financial year are paid in the following financial year. As noted in paragraph 2 of this appendix, there is currently a great deal of uncertainty regarding the number of people contracting-out through personal pensions, due to a lack of recent data

21. Transfers from the Great Britain National Insurance Fund to the Northern Ireland National Insurance Fund are made in order to keep the balance in the Northern Ireland National Insurance Fund at 2.66% of the combined balance in the two funds. Estimates of transfers to Northern Ireland are made on this basis.

22. The figures for administration costs are provided by the Inland Revenue.

23. The figures for "Other payments" are based on an extrapolation of amounts shown in the accounts of the National Insurance Fund for this item in previous years.

Economic assumptions

24. The estimates for contribution receipts are sensitive to the assumptions used about the numbers of employees and the numbers of self-employed workers, and to the assumptions used for earnings increases. The estimates of benefit payments depend, among other things, on assumptions about the numbers unemployed. In accordance with normal practice, working assumptions have been given by the Government in regard to these factors. The economic assumptions which have been used are those which underlie the estimates of the contributory social security benefits as given in the Pre-Budget Report. These are given below:

Assumptions used for estimates

	2000-01	**2001-02**
Number of employment jobs (UK), million (including HMF, excluding self-employed)	24.6	24.7
Increase in average earnings on one year earlier, %	3.90	4.50
Average number of unemployed (GB), million	1.02	1.01

The assumptions for 2000-01 differ from those used in making last year's report.

25. The effects of variations in these assumptions are given in paragraphs 24 and 25 of the main report.

APPENDIX 4

ESTIMATED PAYMENTS FROM THE NATIONAL INSURANCE FUND FOR BENEFITS, AND EFFECT OF BENEFIT UP-RATING ON PAYMENTS IN 2001-02

Great Britain £ million	**Estimated total payments in 2000-01**	**Estimated total payments in 2001-02**	**Extra payments in 2001-02 as a result of up-rating**
Retirement pensions - basic	33,781	36,349	2,384
Retirement pensions - additional pensions	4,818	5,490	269
Widows' / bereavement benefit - basic	716	898	101
Widows' / bereavement benefit - additional pensions	253	269	10
Incapacity benefit - basic	6,038	6,248	191
Incapacity benefit - additional pensions	666	583	0
Contribution-based jobseeker's allowance	464	486	7
Maternity allowance	46	57	2
Guardian's allowance and child's special allowance	2	2	0
Christmas bonus	120	121	0
Total (1)	**46,906**	**50,504**	**2,965**
Redundancy payments (net) (1)	155	156	0

(1) Figures from these lines appear in Table 2 in the text.

APPENDIX 5

ANALYSIS OF THE CHANGES IN CONTRIBUTION RECEIPTS FOR 2001-02 AS A RESULT OF THE CONTRIBUTION RE-RATING ORDER AND OTHER MEASURES

Great Britain, £ million **National Insurance Fund effects**	**Contributions for 2001-02**		**Contributions received in 2001-02 (1)**	
Social Security (Contributions) (Re-rating and National Insurance Funds Payments) Order 2001				
Decrease in secondary Class 1 contribution rate	-983		-854	
Increase in Class 2 small earnings exception - indexation effect	-2		-1	
Increase in Class 3 rate	+2		+0	
Increase in Class 4 profit limits - indexation effect (2)	+8		0	
Increase in Class 4 profit limits - other effects (2)	+26		0	
Total		**-949**		**-855**
Proposed Social Security (Contributions) (Amendments) Regulations 2001				
Increase in Class 1 primary and secondary thresholds and lower and upper earnings limits - indexation effect				
Effect on contribution receipts from gross contributions	-329		-297	
Effect on contribution receipts from contracted-out rebates	-80		-54	
Additional effect of raising the LEL above the rate of increase in the RPI	+95		+54	
Additional effect of raising the primary threshold above the rate of increase in the RPI	-756		-676	
Additional effect of raising the UEL above the rate of increase in the RPI				
Effect on contribution receipts from Gross contributions	+312		+277	
Effect on contribution receipts from Contracted-out rebates	-122		-81	
Total		**-879**		**-777**
Total, all measures		**-1,828**		**-1,633**

(1) The balance of contributions for 2001-02 will not be received until after 31st March 2002.

(2) Because of self-assessment, changes in the rates and limits in 2001-02 do not have an effect on contributions received until 2002-03.

(3) The measures given above also have a small effect on contributions allocated to the National Health Service.

APPENDIX 6

ANALYSIS OF CONTRIBUTION RECEIPTS BY FUND AND CLASS OF CONTRIBUTOR, AND ANALYSIS OF OCCUPATIONAL PENSION SCHEME CONTRACTED-OUT REBATES

Great Britain, £ million			**2000-01**	**2001-02**
National Insurance Fund				
Class 1 (1)(4)	Primary	Gross	23,683	24,323
		Contracted-out rebate (2)	2,143	2,255
		Net	21,539	22,069
	Secondary	Gross	33,918	34,809
		Contracted-out rebate (2)	3,914	4,115
		Net	30,004	30,694
	Total	Gross	57,601	59,132
		Contracted-out rebate (2)	6,058	6,369
		Net	51,543	52,763
Class 1A			774	943
Class 1B			11	11
Class 2			291	228
Class 3			49	51
Class 4			811	1,496
Total National Insurance Fund Contributions (3)			**53,479**	**55,492**
National Health Service				
Class 1(4)	Primary		2,785	2,859
	Secondary		3,580	3,742
	Total		6,365	6,602
Class 1A			62	75
Class 1B			1	1
Class 2			53	42
Class 3			9	9
Class 4			192	290
Total National Health Service Contributions			6,682	7,019
All contributions				
Class 1 (1)(4)	Primary	Gross	26,468	27,182
		Contracted-out rebate (2)	2,143	2,255
		Net	24,324	24,928
	Secondary	Gross	37,498	38,551
		Contracted-out rebate (2)	3,914	4,115
		Net	33,584	34,437
	Total	Gross	63,966	65,734

	Contracted-out rebate (2)	6,058	6,369
	Net	57,908	59,364
Class 1A		836	1,018
Class 1B		12	12
Class 2		345	270
Class 3		58	61
Class 4		1,003	1,786
Total contributions		**60,161**	**62,511**

(1) All figures are gross of recoveries by employers of statutory sick pay, statutory maternity pay and the National Insurance contribution holiday for employment of those persons previously long-term unemployed.

(2) Contracted-out rebates in respect of contracted-out occupational pension schemes deducted from contributions paid in year only.

(3) These figures appear in Table 2 in the text.

(4) These figures take into account the expected increase in NIC revenue from the Service Provision legislation which will come into effect from April 2000.

(5) Figures may not sum to totals shown due to rounding

ANALYSIS OF PAYMENTS IN RESPECT OF APPROPRIATE PERSONAL PENSIONS AND AGE-RELATED REBATES IN RESPECT OF CONTRACTED-OUT MONEY PURCHASE SCHEMES MADE BY THE INLAND REVENUE

Great Britain, £ million		**2000-01**	**2001-02**
Personal pension rebates			
	Primary contracted-out rebates	682	731
	Secondary contracted-out rebates	1,658	1,787
	Total (1)	2,340	2,518
Age-related rebates for members of contracted- out money-purchase schemes (1)		111	115
Stakeholder pension rebates (1)		0	0
All payments in respect of personal pensions and age-related rebates to contracted-out Money purchase schemes		2,451	2,632

(1) The figures from these lines appear in Table 2 in the text.

(2) Figures may not sum to totals shown due to rounding