

**CHILD SUPPORT, PENSIONS AND
SOCIAL SECURITY ACT 2000**

**REPORT BY THE GOVERNMENT ACTUARY
ON THE COST OF UPDATING THE BASIC RETIREMENT PENSION IN
LINE WITH
THE GENERAL LEVEL OF EARNINGS**

Cm4920

Cm 4920

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

Sir,

I attach a report on the likely effects on the National Insurance Fund of increasing annually the rate of basic retirement pension by the percentage increase in the general level of earnings.

The report considers projections of the balance in the National Insurance Fund if the basic retirement pension continues to be uprated in line with prices or, alternatively, is increased from now on in line with the general level of earnings.

The report further considers the effect on the National Insurance Fund of the higher rates of basic retirement pension which the government is proposing will take effect from April 2001 and April 2002 and examines the impact of either prices or earnings upratings thereafter.

This report is made in accordance with section 36 of the Child Support, Pensions and Social Security Act 2000.

I am, Sir,
Your obedient Servant,

Christopher Daykin, CB FIA

Government Actuary
November 2000

Contents

	Page
1. Summary	5
2. Introduction	6
3. Methods and assumptions used for the projections	8
4. Projected balance in the National Insurance Fund on Assumption 1	11
5. Projected balance in the National Insurance Fund on Assumption 2	16
6. Effects on the longer-term finances of the National Insurance Fund	20
7. Effects of variations in assumptions	24
8. Comparison of estimates in this report with previous estimates	27

Appendices

A1. Details of methods used for the projections	30
A2. Details of economic assumptions used for the projections	35
A3. Projected contribution income, by class of contribution – Assumption 1	37
A4. Projected benefit expenditure, by benefit type – Assumption 1	39
A5. Projected contribution income, by class of contribution – Assumption 2	41
A6. Projected benefit expenditure, by benefit type – Assumption 2	43

List of tables and figures	Page
Table 1.1 – projected balance in the National Insurance Fund at the end of 2005-06, in cash terms and as a percentage of annual benefit expenditure	5
Table 4.1 – estimated income and expenditure, and projected balance, of the National Insurance Fund on Assumption 1 – price upratings	11
Table 4.2 – estimated income and expenditure, and projected balance, of the National Insurance Fund on Assumption 1 – earnings upratings	12
Figure 4.1 – excess balance at end of year, over minimum recommended level, as a percentage of benefit expenditure – 2000-01 to 2005-06 – Assumption 1	13
Table 5.1 – estimated income and expenditure, and projected balance, of the National Insurance Fund on Assumption 2 – price upratings	16
Table 5.2 – estimated income and expenditure, and projected balance, of the National Insurance Fund on Assumption 2 – earnings upratings	17
Figure 5.1 – excess balance at end of year, over minimum recommended level, as a percentage of benefit expenditure – 2000-01 to 2005-06 – Assumption 2	18
Figure 6.1 – excess balance at end of year, over minimum recommended level, as a percentage of benefit expenditure – 2000-01 to 2010-11 – Assumption 1	20
Figure 6.2 – excess balance at end of year, over minimum recommended level, as a percentage of benefit expenditure – 2000-01 to 2010-11 – Assumption 2	21
Figure 6.3 – estimated Class 1 contribution rates required to balance income and expenditure in the long-term	22
Table 7.1 – effect on projected balance in the National Insurance Fund at March 2006 of varying assumptions, as a percentage of annual benefit expenditure – price upratings	25
Table 7.2 – effect on projected balance in the National Insurance Fund at March 2006 of varying assumptions, as a percentage of annual benefit expenditure – earnings upratings	26
Table 8.1 – comparison of estimates for 2000-01 shown in Sections 4 and 5 with estimates shown in Cm 4587	27

Appendices – List of tables	Page
Table A2.1 – assumed future uprating factors and resulting rates of basic retirement pension – price and earnings uprating bases	35
Table A2.2 – assumed level of employment, number of self-employed, and annual growth in average earnings	35
Table A2.3 – assumed future JSA uprating factors and average number of unemployed	36
Table A3.1 – estimated National Insurance Fund contribution income, split by class of contribution – price upratings, Assumption 1	37
Table A3.2 – estimated National Insurance Fund contribution income, split by class of contribution – earnings upratings, Assumption 1	38
Table A4.1 – estimated National Insurance Fund benefit expenditure, split by benefit type – price upratings, Assumption 1	39
Table A4.2 – estimated National Insurance Fund benefit expenditure, split by benefit type – earnings upratings, Assumption 1	40
Table A5.1 – estimated National Insurance Fund contribution income, split by class of contribution – price upratings, Assumption 2	41
Table A5.2 – estimated National Insurance Fund contribution income, split by class of contribution – earnings upratings, Assumption 2	42
Table A6.1 – estimated National Insurance Fund benefit expenditure, split by benefit type – price upratings, Assumption 2	43
Table A6.2 – estimated National Insurance Fund benefit expenditure, split by benefit type – earnings upratings, Assumption 2	44

1. Summary

- 1.1 This report contains projections of the balance in the Great Britain National Insurance Fund in each year up to and including 2005-06, with the rate of basic retirement pension being uprated annually either in line with price inflation, or in line with earnings growth. Projections are shown both with and without allowance for the proposal to increase the rate of basic retirement pension to £72.50 per week and £75.50 per week from April 2001 and April 2002 respectively, as announced in the November 2000 Pre-Budget Report.
- 1.2 Table 1.1 below shows the projected balance in the Fund at the end of 2005-06, both in absolute terms and as a percentage of annual benefit expenditure. These figures are taken from the results shown in Sections 4 and 5 of the report.

Table 1.1 – projected balance in the National Insurance Fund at the end of 2005-06, in cash terms and as a percentage of annual benefit expenditure

Great Britain	Cash terms £ billion	%
Based on current rate of basic pension		
Price upratings from April 2001	29.9	52%
Earnings upratings from April 2001	23.6	39%
With allowance for the Pre-Budget Report proposal		
Price upratings from April 2003	20.2	34%
Earnings upratings from April 2003	16.7	27%

- 1.3 For the projections allowing for the Pre-Budget Report proposal, although the balance in the Fund at March 2006 is above the minimum recommended level of 17% of benefit expenditure, the balance in the Fund is falling by this point. It would be expected that the balance would continue to fall after March 2006, and that either contribution rates would need to be increased, or a Treasury Grant paid into the Fund, before the end of the decade on both the price and earnings uprating bases. This would need to occur earlier with earnings upratings than with price upratings. This is considered in Section 6.
- 1.4 Section 6 also shows the National Insurance contribution rates which would be required in order to balance income to and outgo from the National Insurance Fund in the longer-term under both price and earnings upratings. The required contribution rate in 2030-31 is 8% higher with earnings upratings than with price upratings, and by 2060-61 this difference has increased to 12%.
- 1.5 The estimates are dependent on many assumptions. Due to the sensitivity of the results to variations in the assumptions, it is important to consider the possible effects on the finances of the Fund of actual experience deviating from the assumptions which have been used for the projections. This is considered in Section 7 of the report.

2. Introduction

- 2.1 Section 150 of the Social Security Administration Act 1992 requires the Secretary of State for Social Security to review the rates of National Insurance benefits in each tax year. If the general level of prices has risen over the period under review, the Secretary of State must lay a draft order before parliament which increases the benefit rates by at least the increase in the general level of prices.
- 2.2 Between 1974 and 1980, the rates of flat-rate National Insurance benefits were increased by the greater of the increase in the general level of prices, and the increase in the general level of earnings. Before 1974, benefit rates had been increased on an ad hoc basis, although they remained broadly constant relative to earnings over long time periods. Since 1980, benefit rates have been increased in line with increases in the general level of prices, with an additional increase of 50 pence per week to the rate of basic retirement pension in April 1994, to compensate for the extension of VAT to fuel costs.
- 2.3 Section 36 of the Child Support, Pensions and Social Security Act 2000 requires the Government Actuary, or the Deputy Government Actuary, to report to the Secretary of State for Social Security “his opinion on the effect on the level of the National Insurance Fund, and the effect which might be expected on the rates of contributions, in each year up to and including 2005-06 of annual increases in the basic pension by the percentage increase in the general level of earnings...”
- 2.4 The government has stated its intention to increase the rate of basic retirement pension by £5 per week from April 2001, to £72.50 per week, and by a further £3 per week from April 2002, to £75.50 per week. This report also considers the effects of these proposals, with both price and earnings upratings from April 2003 onwards.
- 2.5 The Great Britain National Insurance Scheme is financed on the pay-as-you-go principle, with current rates of National Insurance contributions set to produce the income needed to meet current expenditure on benefits and the costs of administration, as well as maintaining a reasonable working balance in the Fund. My recommendation is that a level of one-sixth of benefit payments is the minimum level needed to ensure the maintenance of a reasonable working balance in the Fund.
- 2.6 Because the Fund’s income and expenditure is not known exactly until the end of each year, and in order to avoid frequent fluctuations in the rates of contribution, the balance in the Fund at the end of the year will usually exceed the minimum recommended level. If the balance in the Fund falls below the minimum recommended level, legislation provides for a limited Treasury Grant to be paid into the Fund. Any surplus in the Fund, above the minimum recommended level, could be retained in order to protect the Fund against future adverse experience, or to delay the need for any future increases in the rates of contribution. Alternatively, it may be considered appropriate to

increase the rates of benefit, or to reduce the rates of contributions, in order to reduce the surplus in the Fund.

2.7 The approach adopted for this report is to project the future balance in the National Insurance Fund for each year up to and including 2005-06, assuming that contribution rates remain at their current levels (but see paragraph 3.7). Projections have been calculated on the following assumptions:

(i) Assumption 1 is that the current rate of basic retirement pension of £67.50 per week is uprated either

- annually in line with increases in the general level of prices from the April 2001 uprating onwards, or
- annually in line with increases in the general level of earnings from the April 2001 uprating onwards.

(ii) Assumption 2 allows for the proposal to increase the rate of basic retirement pension to £72.50 per week and £75.50 per week from April 2001 and April 2002 respectively, as announced in the November 2000 Pre-Budget Report, with this increased rate being uprated either

- annually in line with increases in the general level of prices from the April 2003 uprating onwards, or
- annually in line with increases in the general level of earnings from the April 2003 uprating onwards.

2.8 The differences between the projected Fund balances on the two different bases indicate, for each assumption, the effect on the National Insurance Fund until 2005-06 of increasing the rate of basic retirement pension in line with the growth in average earnings rather than in line with price inflation. The results of these projections are shown in Sections 4 and 5 of this report. Section 6 considers the longer term effects of increasing the rate of basic retirement pension in line with the growth in average earnings. Section 7 considers the effect of variations in the assumptions which have been used for the projections. Section 8 compares the results shown in this report with previous estimates.

3. Methods and assumptions used for the projections

- 3.1 A description of the methods used to project the future income and expenditure of the National Insurance Fund, and hence the balance in the Fund, is given in Appendix A1. Further detail can be found in Appendix D of the latest Quinquennial Review, published as Cm 4406 in July 1999. All of the figures in this report are shown in cash terms, ie not in constant price terms as in the Quinquennial Review.
- 3.2 Details of the economic assumptions which have been used in the projections are given in Appendix A2. Comments on other assumptions, and on the details of the structure of National Insurance Contributions and Benefits which have been assumed to apply in the future are given in the following paragraphs.
- 3.3 For the projections on the price uprating basis, it has been assumed that the rate of basic retirement pension would be increased in line with increases in the Retail Price Index (RPI) from the April 2001 or April 2003 uprating onwards, for Assumptions 1 and 2 respectively. The percentage increase in the rate of benefit at each April is assumed to be calculated using the annual percentage increase in the RPI to the September of the preceding year.
- 3.4 For the projections on the earnings uprating basis, it has been assumed that the rate of basic retirement pension would be increased in line with the growth in average earnings from the April 2001 or April 2003 uprating onwards, for Assumptions 1 and 2 respectively. The percentage increase in the rate of benefit at each April is assumed to be calculated by using the average of the annual percentage increases in the average earnings index to the May, June and July of the preceding year. This is the basis which is normally used for increasing the Minimum Income Guarantee.
- 3.5 It has been assumed that if the rate of basic retirement pension were to be uprated in line with the growth in average earnings, this would apply not only to the personal rates of basic retirement pension but also to increases for adult dependants. For the projections on the earnings uprating basis, it has been assumed that the rates of widows' and bereavement benefits would also be uprated in line with earnings. The rates of widows' and bereavement benefits are linked to the rate of basic retirement pension in legislation. All other National Insurance Fund benefits, including SERPS, the State Second Pension and incapacity benefit are assumed to be uprated in line with current practice, which for most benefits is in line with price inflation.
- 3.6 For Assumption 2, allowance has been made for the fact that the increases to the rate of basic retirement pension at April 2001 and April 2002 will also apply to increases for adult dependants and to bereavement benefits, but not to long-term incapacity benefit.
- 3.7 It has been assumed that National Insurance contribution rates will remain at the rates which apply in 2000-01, with allowance for the reductions in the rate of secondary (employer) Class 1 contributions to 11.9% from April 2001 and

to 11.8% from April 2002. These changes were announced in the November 1999 Pre-Budget Report and the March 2000 Budget respectively. The rate of Class 3 contributions is assumed to be uprated annually in line with increases in the lower earnings limit.

- 3.8 For the projections on the price uprating basis, it has been assumed that contribution limits (such as the lower and upper earnings limits, the lower and upper profits limits, and the primary and secondary thresholds) will be increased annually in line with price inflation.
- 3.9 For the projections on the earnings uprating basis, it has been assumed that the lower earnings limit and the rate of Class 3 contributions will be increased annually in line with the growth in average earnings. The lower earnings limit is fixed relative to the rate of the basic retirement pension in legislation. However, it has been assumed that all other contribution limits would continue to be increased annually in line with price inflation. This is because the present government has stated its intention to align the primary and secondary thresholds, and the lower profits limit, to the level of the single person's tax allowance, which is assumed to increase in line with price inflation. The upper earnings limit is linked to the level of the primary threshold in legislation. These assumptions would result in the lower earnings limit eventually exceeding the primary and secondary thresholds on the earnings uprating basis, but this would not happen in the period covered by this report on the assumptions which have been used.
- 3.10 For Assumption 2, allowance has been made for the consequential increases to the lower earnings limit as a result of increasing the rate of basic retirement pension from April 2001 and April 2002.
- 3.11 The rates of contracted-out rebates to apply from April 2002 until April 2007 have yet to be finalised. I have issued a consultative note on the assumptions to be used in calculating these rebate rates. This consultative note also specifies the rebate rates which would apply from 2002-03 to 2006-07 if the proposed assumptions were to be adopted. For the purposes of this report, I have assumed that these rebate rates will apply. The effects on the projected Fund balance if other rebate rates were to be adopted are shown in Section 7.
- 3.12 The changes to widows' benefits and incapacity benefit and the introduction of Stakeholder Pensions resulting from the Welfare Reform and Pensions Act 1999 have been allowed for in the estimates. The assumed additional level of contracting out following the introduction of Stakeholder Pensions is 0.5 million people in 2001-02, increasing by 0.25 million each year until 2005-06, all of whom are assumed to be under age 50 in 2001-02, 51 in 2002-03, etc. These numbers are in addition to any people who are currently contracted out through an Appropriate Personal Pension but who may switch to being contracted out through a Stakeholder Pension after April 2001. The effects on the projected Fund balance of varying the assumed level of additional contracting out are shown in Section 7. It has been assumed that the State Second Pension (S2P), as introduced by the Child Support, Pensions and

Social Security Act 2000, will apply for accruals from 2002-03 onwards.

- 3.13 Section 39 of the Child Support, Pensions and Social Security Act 2000 specifies that, where a spouse dies on or before 5th October 2002, surviving widows or widowers will inherit 100% of their deceased spouse's SERPS. Where a spouse dies on or after 6th October 2002, surviving widows or widowers will inherit 50% of their deceased spouse's SERPS or S2P. However, a compensation scheme will be introduced in order to compensate couples who were wrongly advised of the reduction to inherited SERPS. For the purposes of this report, it has been assumed that in 30% of the cases where a spouse dies on or after 6th October 2002, surviving widows or widowers will be able to inherit 100% of the deceased spouse's SERPS, for SERPS accrued before April 2002, as a result of a successful compensation claim, and that these amounts will be paid from the National Insurance Fund.

4. Projected balance in the National Insurance Fund on Assumption 1

4.1 Tables 4.1 and 4.2 below show the projected income and expenditure of the National Insurance Fund in each year from 2000-01 to 2005-06, and the estimated balance in the Fund at the start and end of each year, on Assumption 1. Assumption 1 is that the current rate of the basic retirement pension, £67.50 per week, is uprated annually in line with either prices or earnings from April 2001 onwards. Table 4.1 assumes that the rate of basic retirement pension is increased annually in line with price inflation. Table 4.2 below shows the equivalent table, assuming that the rate of basic retirement pension is increased annually in line with the growth in average earnings. The projected excess balances in the Fund over the minimum recommended level, on both the price uprating and earnings uprating bases, are also shown in Figure 4.1. Appendices A3 and A4 contain further details of the projected contribution income and benefit expenditure respectively.

Table 4.1 – estimated income and expenditure, and projected balance, of the National Insurance Fund on Assumption 1 – price upratings

Great Britain, £ billion, Cash terms	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Contribution income (1)	53.5	55.3	56.6	59.1	61.9	64.7
Investment return	1.0	1.2	1.3	1.5	1.6	1.7
Other income	0.4	0.4	0.4	0.4	0.4	0.4
Total income	54.8	56.8	58.3	60.9	63.8	66.8
Benefit expenditure (2)	46.9	49.2	51.2	53.3	55.3	57.5
Age-related contracted-out rebates (1)	2.5	2.7	3.2	4.4	4.9	5.4
Administration costs	1.1	1.1	1.2	1.2	1.3	1.3
Other expenditure	0.4	0.4	0.4	0.4	0.4	0.4
Total expenditure	50.8	53.3	56.0	59.3	61.9	64.6
Balance at start of year (3)	14.4	18.4	21.9	24.2	25.8	27.7
Excess of income over expenditure	4.0	3.5	2.3	1.6	1.9	2.2
Balance at end of year	18.4	21.9	24.2	25.8	27.7	29.9
Balance at end of year as percentage of benefit expenditure (4)	39%	44%	47%	48%	50%	52%
Excess balance at end of year over minimum recommended level	10.5	13.6	15.6	16.9	18.5	20.3
Excess balance at end of year as percentage of benefit expenditure (4)	22%	28%	30%	32%	33%	35%

(1) As given in Table A3.1 of Appendix A3

(2) As given in Table A4.1 of Appendix A4

(3) The estimated balance at March 2000 has been provided by Inland Revenue

(4) Percentage of benefit expenditure including net redundancy payments

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

Table 4.2 – estimated income and expenditure, and projected balance, of the National Insurance Fund on Assumption 1 – earnings upratings

Great Britain, £ billion, Cash terms	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Contribution income (1)	53.5	55.3	56.6	59.1	61.9	64.8
Investment return	1.0	1.2	1.3	1.4	1.4	1.4
Other income	0.4	0.4	0.4	0.4	0.4	0.4
Total income	54.8	56.8	58.3	60.9	63.7	66.6
Benefit expenditure (2)	46.9	49.4	51.8	54.5	57.1	59.9
Age-related contracted-out rebates (1)	2.5	2.7	3.2	4.4	4.8	5.3
Administration costs	1.1	1.1	1.2	1.2	1.3	1.3
Other expenditure	0.4	0.4	0.4	0.4	0.4	0.4
Total expenditure	50.8	53.5	56.6	60.5	63.6	67.0
Balance at start of year (3)	14.4	18.4	21.7	23.5	23.9	24.0
Excess of income over expenditure	4.0	3.3	1.8	0.4	0.1	-0.4
Balance at end of year	18.4	21.7	23.5	23.9	24.0	23.6
Balance at end of year as percentage of benefit expenditure (4)	39%	44%	45%	44%	42%	39%
Excess balance at end of year over minimum recommended level	10.5	13.4	14.8	14.7	14.4	13.6
Excess balance at end of year as percentage of benefit expenditure (4)	22%	27%	28%	27%	25%	23%

(1) As given in Table A3.2 of Appendix A3

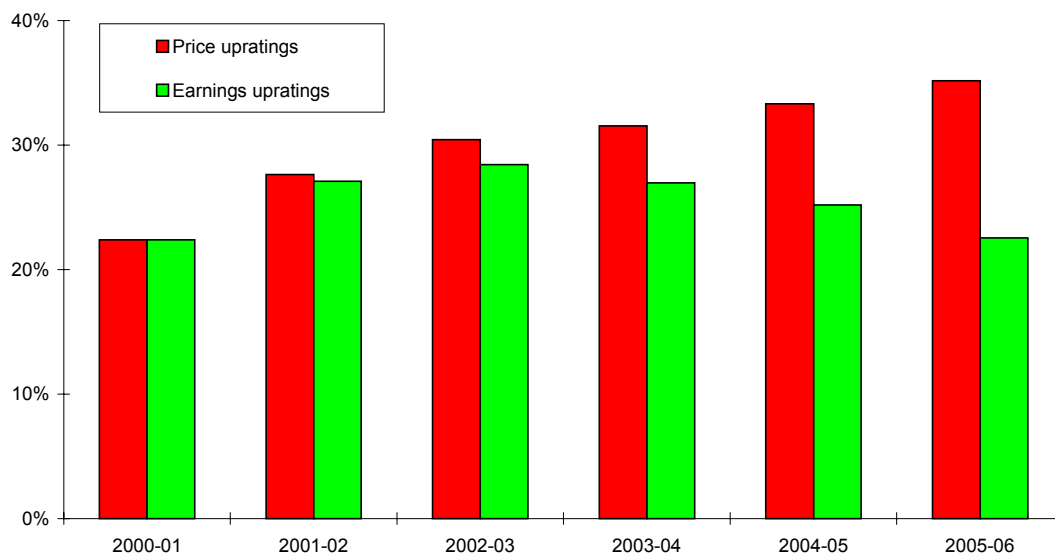
(2) As given in Table A4.2 of Appendix A4

(3) The estimated balance at March 2000 has been provided by Inland Revenue

(4) Percentage of benefit expenditure including net redundancy payments

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

**Figure 4.1 - excess balance at end of year, over minimum recommended level, as a percentage of benefit expenditure - 2000-01 to 2005-06
Assumption 1**



- 4.2 The results for 2000-01 are the same in both Tables 4.1 and 4.2, since the contribution limits and benefit rates have already been specified for this year. It has been assumed that if the rate of basic retirement pension were to be uprated in line with the growth in average earnings, this would apply from the April 2001 uprating onwards.
- 4.3 The results for 2000-01 can be compared with the projections shown in the report on the April 2000 up-rating and re-rating orders, published as Cm 4587 in January 2000. A comparison of the two sets of results is given in Section 8 of this report.
- 4.4 Table 4.1 shows that the estimated balance in the National Insurance Fund at the end of the current year, 2000-01, is £18.4 billion, or 39% of annual benefit expenditure. Between March 2001 and March 2006, this is projected to increase to £29.9 billion, or 52% of annual benefit expenditure, on the price uprating basis. The reasons for this projected increase in the balance of the Fund are:
- In 2000-01, income exceeds expenditure by £4.0 billion.
 - Between 2000-01 and 2005-06, contribution income increases broadly in line with the assumed growth in average earnings.
 - Between 2000-01 and 2005-06, benefit expenditure also increases broadly in line with the assumed growth in average earnings, at a greater rate than the assumed increases to the rate of basic retirement pension. The two main reasons for this are the maturing of SERPS, and the increase in the number of pensioners.
 - Expenditure on age-related rebates increases significantly over the period, due to the introduction of S2P, the assumed increase in contracting out

resulting from the introduction of Stakeholder Pensions in 2001-02, and the assumed increase in rebates rates applying from April 2002.

- Investment return increases over the period due to the increasing balance in the Fund.
- The combination of all of these factors means that the excess of income over expenditure in each year is projected to fall to £1.6 billion in 2003-04 before increasing again to £2.2 billion in 2005-06. Therefore, the projected balance in the Fund increases by between £1.6 billion and £4.0 billion each year.

4.5 Table 4.2 shows that the balance in the National Insurance Fund is projected to increase from £18.4 billion at March 2001 to £24.0 billion at March 2005, before falling to £23.6 billion at March 2006, on the earnings uprating basis. The balance as a percentage of annual benefit expenditure is projected to increase from 39% in March 2001 to 45% in March 2003, before falling to 39% in March 2006. The excess of income over expenditure falls from £4.0 billion in 2000-01 to £0.1 billion in 2004-05, before becoming negative in 2005-06. If the projections were extended beyond 2005-06, it is likely that the balance in the Fund as a percentage of annual benefit expenditure would continue to fall. This is considered further in Section 6.

4.6 The results from Tables 4.1 and 4.2 indicate that the projected balance in the Fund at the end of 2005-06 on Assumption 1, assuming that contribution rates remain at their current levels, is significantly greater than the minimum recommended level of one-sixth (17%) of annual benefit expenditure. This is the case whether the rate of basic retirement pension is uprated in line with either price inflation or earnings growth.

4.7 The assumed weekly rate of the basic retirement pension in 2005-06, as given in Table A2.1 of Appendix A2, is £77.30 on the price uprating basis, and £82.15 on the earnings uprating basis. Expenditure on income-related benefits, such as the Minimum Income Guarantee, would be lower with earnings upratings of the basic retirement pension than with price upratings. Since income-related benefits are not paid out of the National Insurance Fund, these consequential savings have not been considered in this report. Increased income tax revenues which would result from increasing the rate of basic retirement pension in line with average earnings growth have not been considered in this report either as they do not affect the finances of the National Insurance Fund.

4.8 The results shown in Tables 4.1 and 4.2 are dependent on many assumptions which have been made. The projected balance in the Fund is very sensitive to even small changes in these assumptions. The excess of income over expenditure in each year is the difference between two very large numbers: the Fund's income and the Fund's expenditure. A small percentage change in the projected income or expenditure in any year can result in a large percentage change in the excess of income over expenditure.

4.9 It is therefore important to consider the effects on the results of variations in

the assumptions in order to be aware of the potential consequences on the finances of the National Insurance Fund if actual experience does not follow the assumptions made for this report. The effects on the projections of varying the most important assumptions are shown in Section 7.

5. Projected balance in the National Insurance Fund on Assumption 2

5.1 Tables 5.1 and 5.2 below show the projected income and expenditure of the National Insurance Fund in each year from 2000-01 to 2005-06, and the estimated balance in the Fund at the start and end of each year, on Assumption 2. Assumption 2 allows for the proposed increases to the rate of the basic retirement pension to £72.50 per week and £75.50 per week in April 2001 and April 2002 respectively, with this increased rate being uprated annually in line with either prices or earnings from April 2003 onwards. Table 5.1 assumes that the rate of basic retirement pension is increased annually in line with price inflation. Table 5.2 below shows the equivalent table, assuming that the rate of basic retirement pension is increased annually in line with the growth in average earnings. The projected excess balances in the Fund over the minimum recommended level, on both the price uprating and earnings uprating bases, are also shown in Figure 5.1. Appendices A5 and A6 contain further details of the projected contribution income and benefit expenditure respectively.

Table 5.1 – estimated income and expenditure, and projected balance, of the National Insurance Fund on Assumption 2 – price upratings

Great Britain, £ billion, Cash terms	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Contribution income (1)	53.5	55.3	56.7	59.2	61.9	64.8
Investment return	1.0	1.1	1.2	1.2	1.2	1.2
Other income	0.4	0.4	0.4	0.4	0.4	0.4
Total income	54.8	56.8	58.3	60.8	63.5	66.4
Benefit expenditure (2)	46.9	50.5	53.1	55.3	57.3	59.5
Age-related contracted-out rebates (1)	2.5	2.7	3.2	4.3	4.8	5.3
Administration costs	1.1	1.1	1.2	1.2	1.3	1.3
Other expenditure	0.4	0.4	0.4	0.4	0.4	0.4
Total expenditure	50.8	54.6	57.8	61.2	63.8	66.5
Balance at start of year (3)	14.4	18.4	20.6	21.1	20.7	20.4
Excess of income over expenditure	4.0	2.2	0.5	-0.4	-0.2	-0.2
Balance at end of year	18.4	20.6	21.1	20.7	20.4	20.2
Balance at end of year as percentage of benefit expenditure (4)	39%	41%	40%	37%	36%	34%
Excess balance at end of year over minimum recommended level	10.5	12.1	12.2	11.4	10.8	10.3
Excess balance at end of year as percentage of benefit expenditure (4)	22%	24%	23%	21%	19%	17%

(1) As given in Table A5.1 of Appendix A5

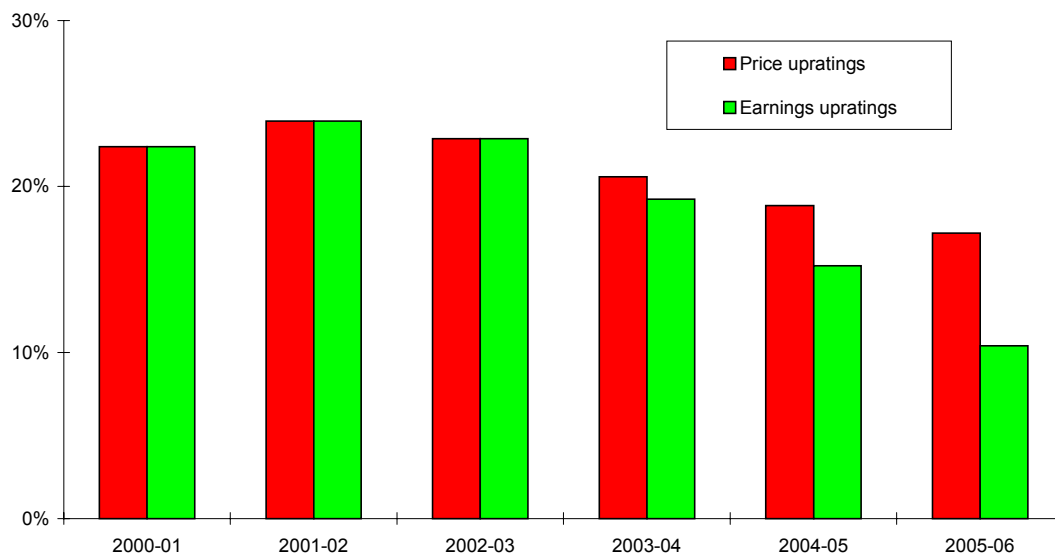
- (2) As given in Table A6.1 of Appendix A6
(3) The estimated balance at March 2000 has been provided by Inland Revenue
(4) Percentage of benefit expenditure including net redundancy payments
(5) Figures may not sum to totals shown due to rounding

Table 5.2 – estimated income and expenditure, and projected balance, of the National Insurance Fund on Assumption 2 – earnings upratings

Great Britain, £ billion, Cash terms	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Contribution income (1)	53.5	55.3	56.7	59.2	62.0	64.9
Investment return	1.0	1.1	1.2	1.2	1.1	1.0
Other income	0.4	0.4	0.4	0.4	0.4	0.4
Total income	54.8	56.8	58.3	60.8	63.5	66.3
Benefit expenditure (2)	46.9	50.5	53.1	55.8	58.5	61.4
Age-related contracted-out rebates (1)	2.5	2.7	3.2	4.3	4.8	5.2
Administration costs	1.1	1.1	1.2	1.2	1.3	1.3
Other expenditure	0.4	0.4	0.4	0.4	0.4	0.4
Total expenditure	50.8	54.6	57.8	61.7	64.9	68.3
Balance at start of year (3)	14.4	18.4	20.6	21.1	20.1	18.7
Excess of income over expenditure	4.0	2.2	0.5	-0.9	-1.4	-2.0
Balance at end of year	18.4	20.6	21.1	20.1	18.7	16.7
Balance at end of year as percentage of benefit expenditure (4)	39%	41%	40%	36%	32%	27%
Excess balance at end of year over minimum recommended level	10.5	12.1	12.2	10.8	8.9	6.4
Excess balance at end of year as percentage of benefit expenditure (4)	22%	24%	23%	19%	15%	10%

- (1) As given in Table A5.2 of Appendix A5
(2) As given in Table A6.2 of Appendix A6
(3) The estimated balance at March 2000 has been provided by Inland Revenue
(4) Percentage of benefit expenditure including net redundancy payments
(5) Figures may not sum to totals shown due to rounding

**Figure 5.1 - excess balance at end of year, over minimum recommended level, as a percentage of benefit expenditure - 2000-01 to 2005-06
Assumption 2**



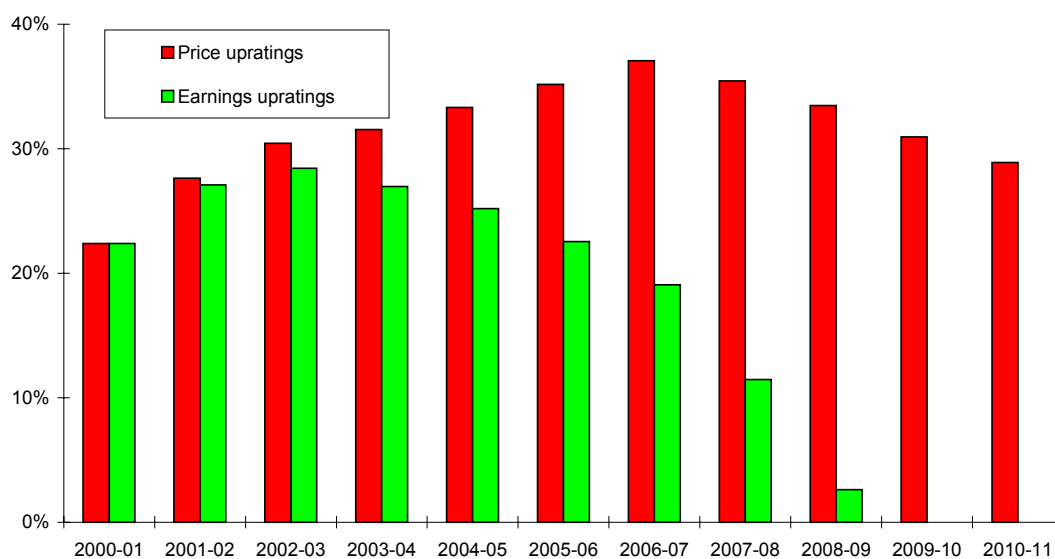
- 5.2 The results for 2000-01 to 2002-03 are the same in both Tables 5.1 and 5.2, since the contribution limits and benefit rates have already been specified or proposed for these years. It has been assumed that if the rate of basic retirement pension were to be uprated in line with the growth in average earnings, this would apply from the April 2003 uprating onwards.
- 5.3 Table 5.1 shows that the estimated balance in the National Insurance Fund at the end of the current year, 2000-01, is £18.4 billion. This is projected to increase to £21.1 billion by March 2003 before falling to £20.2 billion by March 2006. As a percentage of annual benefit expenditure, the estimated balance in the Fund is projected to increase from 39% at the end of the current year to 41% at the end of next year, 2001-02, before falling to 34% by March 2006.
- 5.4 Comparing these results with those shown for Assumption 1 in Table 4.1, benefit expenditure is between £1.3 billion and £2.0 billion higher in Table 5.1 than in Table 4.1, as a result of the proposed extra increases to the rate of basic retirement pension from April 2001 and April 2002. Contribution income is also slightly higher on Assumption 2, as the higher rate of basic retirement pension means that the lower earnings limit for contributions is also higher. This reduces contracted out rebates without reducing the main contribution income, leading to a small increase in net contribution income.
- 5.5 Table 5.2 shows that the balance in the National Insurance Fund is projected to increase from £18.4 billion at March 2001 to £21.1 billion at March 2003, before falling to £16.7 billion at March 2006, on the earnings uprating basis. The balance as a percentage of annual benefit expenditure is projected to increase from 39% in March 2001 to 41% in March 2002, before falling to 27% in March 2006.

- 5.6 Comparing these results with those shown for Assumption 1 in Table 4.2, benefit expenditure is between £1.1 billion and £1.5 billion higher in Table 5.2 than in Table 4.2, as a result of the proposed extra increases to the rate of basic retirement pension from April 2001 and April 2002. Contribution income is also slightly higher on Assumption 2, for the same reasons as those given in paragraph 5.4.
- 5.7 For Assumption 2, on both the price and earnings upratings bases, if the projections were extended beyond 2005-06, it is likely that the balance in the Fund, both in absolute terms and as a percentage of annual benefit expenditure, would continue to fall. This is considered further in Section 6.
- 5.8 The results from Tables 5.1 and 5.2 indicate that the projected balance in the Fund at the end of 2005-06 on Assumption 2, assuming that contribution rates remain at their current levels, is significantly greater than the minimum recommended level of one-sixth (17%) of annual benefit expenditure. This is the case whether the rate of basic retirement pension is uprated in line with either price inflation or earnings growth.
- 5.9 The assumed weekly rate of the basic retirement pension in 2005-06, as given in Table A2.1 of Appendix A2, is £81.35 on the price uprating basis, and £85.00 on the earnings uprating basis.
- 5.10 The comments made in paragraphs 4.7 to 4.9 above on Assumption 1 apply equally to Assumption 2.

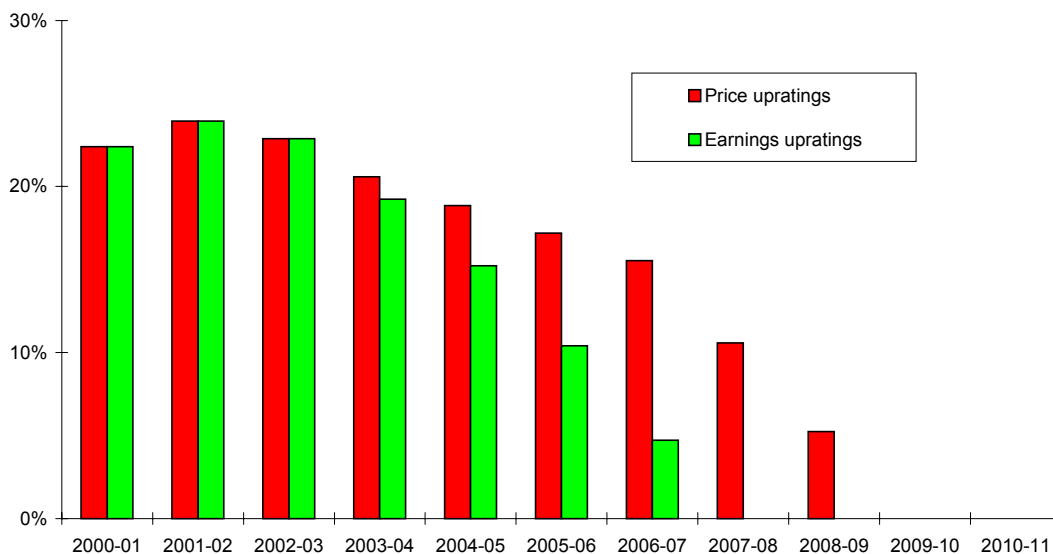
6. Effects on the longer-term finances of the National Insurance Fund

- 6.1 If the rate of basic retirement pension were to be uprated every year in line with the growth in average earnings rather than in line with price inflation, there would be consequential effects on the longer-term financial position of the National Insurance Fund. This would occur whether or not the higher rates of basic retirement pension proposed by the government to take effect in April 2001 and April 2002 were to be implemented.
- 6.2 Figures 6.1 and 6.2 below show the projected excess balance in the National Insurance Fund, over the minimum recommended level, at the end of each year from 2000-01 to 2010-11 for Assumptions 1 and 2 respectively, based on current contribution rates. Figure 6.1 is an extension of Figure 4.1, assuming that the current rate of basic retirement pension is uprated in line with either prices or earnings from the April 2001 uprating onwards, and Figure 6.2 is an extension of Figure 5.1, allowing for the proposal to increase the rate of basic retirement pension to £72.50 from April 2001 and to £75.50 from April 2002, with either price or earnings upratings from April 2003 onwards.

**Figure 6.1 - excess balance at end of year, over minimum recommended level, as a percentage of benefit expenditure - 2000-01 to 2010-11
Assumption 1**



**Figure 6.2 - excess balance at end of year, over minimum recommended level, as a percentage of benefit expenditure - 2000-01 to 2010-11
Assumption 2**

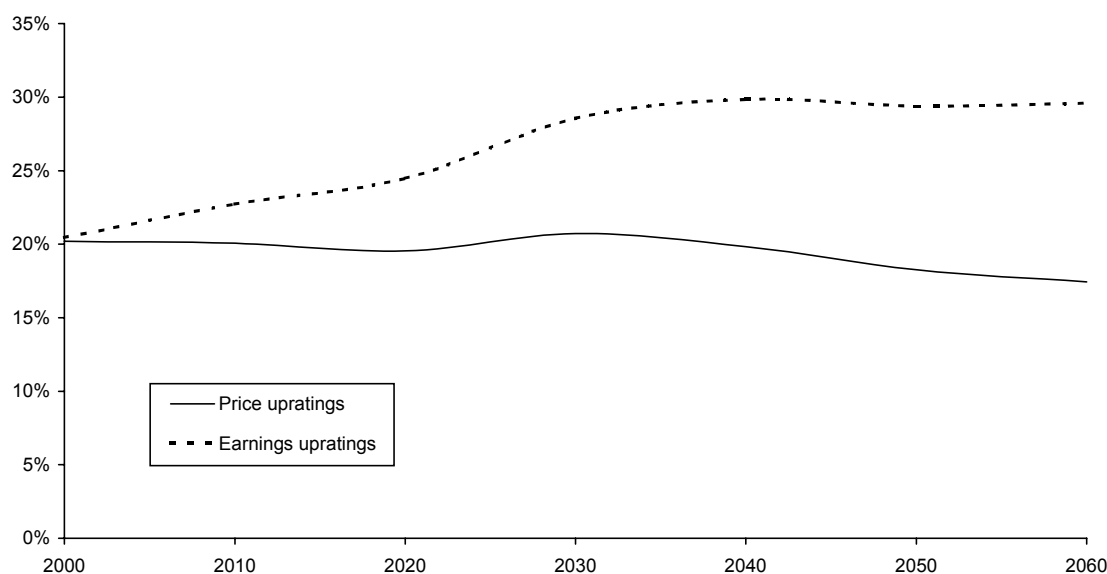


- 6.3 Considering first the projections on the price uprating basis, Figure 6.1 shows that if the projections on Assumption 1, as shown in Table 4.1, were to be extended beyond 2005-06 on the same assumptions, it is likely that the projected balance in the Fund as a percentage of annual benefit expenditure would start to fall before the end of the decade. The projected balance at March 2011 would be significantly above the minimum recommended level. Figure 6.2 shows that if the projections on Assumption 2, as shown in Table 5.1, were to be extended beyond 2005-06 on the same assumptions, it is likely that the projected balance in the Fund as a percentage of annual benefit expenditure would continue to fall. It is likely that contribution rates would need to be increased, or a Treasury Grant paid into the Fund, from around 2009-10, in order to prevent the balance in the Fund from falling below the minimum recommended level.
- 6.4 If the projections on the earnings uprating basis, as shown in Tables 4.2 and 5.2, were to be extended beyond 2005-06 on the same assumptions, the projected balance in the Fund, both in absolute terms and as a percentage of annual benefit expenditure, would be likely to continue to decrease, on both Assumptions 1 and 2. It would be expected that National Insurance contribution rates would need to be increased, or a Treasury Grant paid into the Fund, in every year from some future year, in order to prevent the balance in the Fund from falling below the minimum recommended level. On Assumption 1 the first year in which an increase would be likely is 2009-10, and on Assumption 2 it is 2007-08.
- 6.5 The precise point at which contribution rates would need to be increased, and the amount by which they would have to rise, are subject to considerable uncertainty. Projections of the finances of the National Insurance Fund become more uncertain the further into the future they go. In addition, the finances of

the Fund in the second half of this decade will depend heavily on the date at which the State Second Pension moves to a flat-rate structure under Stage 2, and on the rates of contracted-out rebates which will apply from April 2007 onwards.

- 6.6 Long-term financial estimates of the National Insurance Fund which were published in the latest Quinquennial Review, published as Cm 4406 in July 1999, and in my report on the Child Support, Pensions and Social Security Bill 1999, published as Cm 4573 in January 2000, can be used in order to consider the long-term effects on the finances of the National Insurance Fund of annually uprating flat-rate benefits in line with earnings.
- 6.7 Figure 6.3 below shows the estimated joint employee and employer Class 1 contribution rates which would be required in the future in order to balance income and expenditure of the National Insurance Fund, under both price and earnings upratings. These contribution rates are before any deductions for contracting out, and exclude the part of contributions which is allocated to the National Health Service. They can be compared with a current contribution rate in 2000-01 of 20.25%, comprising 10% total primary (employee) contribution rate, plus 12.2% total secondary (employer) contribution rate, less 1.95% of contributions allocated to the National Health Service.

Figure 6.3 - estimated Class 1 contribution rates required to balance income and expenditure in the long-term



Note: The rates exclude the part of contributions which is allocated to the NHS

- 6.8 The contribution rates which are shown for price upratings in Figure 6.3 are taken from the last column of Table 3.3 in the Report on the Child Support, Pensions and Social Security Bill 1999. The latest Quinquennial Review contains estimates of contribution rates required in the future on both price uprating and earnings uprating bases. However, the estimates in that report do not allow for the effects of the Welfare Reform and Pensions Act 1999 or the

Child Support, Pensions and Social Security Act 2000. The contribution rates which are shown for earnings upratings in Figure 6.3 have been calculated by adjusting the results in the Quinquennial Review to allow for these legislative changes, to be consistent with the price upratings figures.

- 6.9 The projections shown in Figure 6.3 assume that the State Second Pension moves to a flat-rate Stage 2 structure in 2006-07, at which point all employees earning above the low earnings threshold, who would not otherwise be contracted out, will contract out into Stakeholder Pensions. Further details on the other assumptions and methods used for these projections are given in the Quinquennial Review and the Report on the Child Support, Pensions and Social Security Bill 1999.
- 6.10 The results shown in Figure 6.3 were calculated on different assumptions to those underlying the results in Sections 4 and 5, and are therefore not directly comparable. However, this does not affect the broad conclusions which can be drawn from Figure 6.3.
- 6.11 On the price uprating basis, the estimated required joint employee and employer contribution rates remain at around their current levels until 2040-41, before falling to 17.4% by 2060-61. This occurs despite a projected 35% increase in the projected number of pensioners per contributor over this period. If flat-rate benefit rates were to be uprated in every future year in line with the growth in average earnings, the estimated required joint employee and employer contribution rates increase to 22.7% by 2010-11, and to 29.6% by 2060-61. These increases should be viewed in light of the expected increases in the standard of living over the next 60 years which would result from real earnings growth of 1.5% per annum. Even with higher contribution rates, real net income would still be significantly higher in 2060 than it is now.
- 6.12 The contribution rates in Figure 6.3 reflect Assumption 1. For Assumption 2, in the longer term, the contribution rates would be approximately 0.5% higher for price uprating and 0.75% higher for earnings uprating.
- 6.13 The rate of the basic retirement pension in 2060-61, if flat-rate benefit rates were to be uprated in line with price inflation, is estimated to be approximately £28 per week in current earnings terms. This compares with the current rate of £67.50 per week.
- 6.14 When considering these long-term estimates, it is important to consider the uncertainties involved, and the sensitivities of the results to changes in the assumptions. A detailed sensitivity analysis is given in Section 8 of the Quinquennial Review, although this does not allow for the effects of the Welfare Reform and Pensions Act 1999 or the Child Support, Pensions and Social Security Act 2000. As a broad indication, the effect on the estimated required contribution rates in 2060-61 of using a population projection with lower mortality and lower fertility assumptions would be an increase of around 3.5% on the price uprating basis, or an increase of around 6.0% on the earnings uprating basis.

7. Effects of variations in assumptions

- 7.1 The projections of the balance in the National Insurance Fund which are shown in Sections 4 and 5 depend on many assumptions. The assumptions used are detailed in Section 3 and Appendix A2, and include:
- Economic assumptions, including the rates of price inflation and average earnings growth, the levels of employment and unemployment, and the rate of investment return.
 - Demographic assumptions, including mortality and disability rates, the age structure of the working population, and the number of pensioners.
 - Legislative assumptions, such as rates of contracted-out rebates to apply from April 2002, and the earnings limits for National Insurance Contributions which would apply if benefit rates were to be uprated in line with the growth in average earnings.
 - Behavioural assumptions, such as the rate of successful claims under the inherited SERPS compensation scheme, and the level of contracting out, especially any increase in the number of people contracting out after April 2001 which may result from the introduction of Stakeholder Pensions.
- 7.2 As noted in paragraph 4.8, the projected balance in the Fund is very sensitive to even small changes in the assumptions. A small percentage change in the projected income or expenditure in any year can result in a large percentage change in the excess of income over expenditure, and hence in the projected balance in the Fund.
- 7.3 The results shown in Sections 4 and 5 should not be considered to be a certain prediction of the future balances in the Fund. Instead, they should be regarded as an indication of the likely future balances in the Fund, if experience were to follow the assumptions made. When studying the results shown in this report, it is important to consider the potential effects on the finances of the Fund if actual experience differs from the assumptions which have been made for the projections.
- 7.4 Table 7.1 below shows the approximate effects of varying the principal assumptions on the projected balance in the Fund at March 2006 as a percentage of benefit expenditure, assuming that the rate of basic retirement pension is uprated in line with price inflation. The results shown in Table 7.1 can be used to adjust the results of the main projections on the price uprating basis which are shown in Tables 4.1 and 5.1 to illustrate the effect of different assumptions. These results have been calculated on the basis of Assumption 1, although it may be expected that the effects on the projections on Assumption 2 of varying the assumptions would be broadly similar.

Table 7.1 – effect on projected balance in the National Insurance Fund at March 2006 of varying assumptions, as a percentage of annual benefit expenditure – price upratings

Great Britain	March 2006
Increase or decrease in projected balance arising from:	
Real earnings growth + 0.5% from April 2002	+8%
Price inflation + 0.5% pa from the April 2002 uprating onwards, with 1.5% pa real earnings growth	+2%
Price inflation – 0.5% pa from the April 2002 uprating onwards, with 1.5% pa real earnings growth	-1%
Employment 0.25m higher in 2001-02 and 0.5m higher from 2002-03 onwards	+10%
Employment 0.25m lower in 2001-02 and 0.5m lower from 2002-03 onwards	-10%
Contracted-out rebate rates 5% higher from April 2002 onwards	-4%
Contracted-out rebate rates 5% lower from April 2002 onwards	+4%
Assumed additional contracting out following the introduction of Stakeholder Pensions being 3 million each year	-17%
No assumed additional contracting out following the introduction of Stakeholder Pensions	+7%
Investment return 1% higher from 2001-02 onwards	+2%
Investment return 1% lower from 2001-02 onwards	-2%

7.5 Table 7.2 below shows the approximate effects of varying the principal assumptions on the projected balance in the Fund at March 2006 as a percentage of benefit expenditure, assuming that the rate of basic retirement pension is uprated in line with earnings inflation. The results shown in Table 7.2 can be used to adjust the results of the main projections on the earnings uprating basis which are shown in Tables 4.2 and 5.2 to illustrate the effect of different assumptions. These results have been calculated on the basis of Assumption 1, although it may be expected that the effects on the projections on Assumption 2 of varying the assumptions would be broadly similar.

Table 7.2 – effect on projected balance in the National Insurance Fund at March 2006 of varying assumptions, as a percentage of annual benefit expenditure – earnings upratings

Great Britain	March 2006
Increase or decrease in projected balance arising from:	
Real earnings growth + 0.5% from April 2002	+4%
Price inflation + 0.5% pa from the April 2002 uprating onwards, with 1.5% pa real earnings growth	+2%
Price inflation – 0.5% pa from the April 2002 uprating onwards, with 1.5% pa real earnings growth	-1%
Employment 0.25m higher in 2001-02 and 0.5m higher from 2002-03 onwards	+9%
Employment 0.25m lower in 2001-02 and 0.5m lower from 2002-03 onwards	-9%
Contracted-out rebate rates 5% higher from April 2002 onwards	-4%
Contracted-out rebate rates 5% lower from April 2002 onwards	+4%
Assumed additional contracting out following the introduction of Stakeholder Pensions being 3 million each year	-16%
No assumed additional contracting out following the introduction of Stakeholder Pensions	+7%
Investment return 1% higher from 2001-02 onwards	+2%
Investment return 1% lower from 2001-02 onwards	-2%

7.6 The effects shown in Tables 7.1 and 7.2 are considered in isolation, varying one assumption at a time. Combinations of changes in assumptions would lead to results which are even higher or lower than those which are shown in the two tables. As a first approximation, the effects of a combination of changes to different assumptions could be considered to be broadly additive. The assumptions which have been considered are those to which the results are expected to be most sensitive. However, the variations which are illustrated, and the effects which they have on the results, cannot be considered to be minimum or maximum limits. More extreme results are possible.

8. Comparison of estimates in this report with previous estimates

8.1 The projected income and expenditure of the National Insurance Fund in 2000-01, and the estimated balance in the Fund at March 2001, which are shown in this report, can be compared with the estimates which were shown in the report on the April 2000 up-rating and re-rating orders, published as Cm 4587 in January 2000. Table 8.1 below shows a comparison of these two sets of results.

Table 8.1 – comparison of estimates for 2000-01 shown in Sections 4 and 5 with estimates shown in Cm 4587

Great Britain, £ billion, Cash terms	2000-01 estimates in this report (1)	2000-01 estimates in Cm 4587
Contribution income (2)	53.5	52.8
Investment return	1.0	0.9
Other income	0.4	0.4
Total income	54.8	54.0
Benefit expenditure	46.9	47.0
Age-related contracted-out rebates	2.5	2.7
Administration costs	1.1	1.1
Other expenditure	0.4	0.4
Total expenditure	50.8	51.2
Balance at start of year	14.4	13.8
Excess of income over expenditure	4.0	2.9
Balance at end of year	18.4	16.7

(1) As given in Table 4.1

(2) In Cm 4587, this figure is the sum of net contribution receipts and compensation from the Consolidated Fund for SSP, SMP and NIC holidays

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

8.2 The current estimate of contribution income is £0.7 billion higher than that shown in the report on the April 2000 up-rating and re-rating orders. Almost all of this increase arises from an increase in the estimate of Class 1 contributions. This is partly due to data on Class 1 receipts during 1999-2000 showing higher receipts than had previously been estimated, with estimates for future years being adjusted to take account of this. The remainder of the difference arises due to changes in the economic assumptions used, with an increased number of employees now being assumed.

8.3 Estimates of other classes of contribution are similar to those shown in Cm 4587. Class 1A receipts are now estimated to be slightly lower than previous estimates, due to revised estimates having been received from the Inland Revenue regarding the taxable value of benefits in kind. Estimates of Class 4 contributions have been reduced slightly in order to take account of more recent data that has been received regarding collections of Class 4 contributions.

- 8.4 Estimates of investment return and other receipts to the National Insurance Fund are little changed from those shown in Cm 4587.
- 8.5 The current estimate of benefit expenditure is £0.1 billion lower than the estimate shown in Cm 4587. This is mainly due to a reduction in estimated expenditure on basic incapacity benefit, since recent data shows lower awards of benefit than were previously being assumed. Estimated expenditure on contribution-based jobseeker's allowance has also been reduced slightly, due to a reduction in the assumed level of unemployment.
- 8.6 Payments of minimum contributions to appropriate personal pension providers in 2000-01 are now estimated to be £0.2 billion lower than the previous estimates. Data on payments of rebates, and in particular on the delay to payments in 1998-99, has been scarcer than would usually be the case, due to the introduction of NIRS2. However, the data which has recently been received suggests that payments have been lower than previously estimated.
- 8.7 Estimates of administration costs and other expenditure are little changed from those shown in Cm 4587.
- 8.8 The provisional balance in the Fund at March 2000, as provided by Inland Revenue for the current estimates, is £0.6 billion higher than the estimated balance from the report on the April 2000 up-rating and re-rating orders. As noted in paragraph A1.19 of Appendix A1, the figure for the balance in the Fund at March 2000 is provisional, and may be revised before the National Insurance Fund accounts for 1999-2000 are published.
- 8.9 The projected finances of the National Insurance Fund in this report can also be compared with the long-term financial estimates which were published in the latest Quinquennial Review and in my report on the Child Support, Pensions and Social Security Bill 1999. The long-term estimates show that a joint employee and employer Class 1 contribution rate of 20.2%, excluding the part of contributions which is allocated to the National Health Service, is required in 2000-01 in order for contribution income to meet benefit expenditure and administration costs.
- 8.10 The projections which are shown for 2000-01 in this report indicate that with the current joint employee and employer Class 1 contribution rate of 20.25%, income will exceed expenditure by £4.0 billion in 2000-01. This surplus is larger than would be expected from a 0.05% difference in the contribution rate. There are two principal reasons for this.
- 8.11 Firstly, the economic assumptions which have been used differ between the two sets of estimates. In the long-term estimates, it was assumed that the rate of real earnings growth, being the excess of earnings growth over price inflation, would be 1.5% between 1999-2000 and 2000-01 and for all future years. This assumption is critical for the projections in that it affects the rate at which contribution income would broadly be expected to increase relative to

flat-rate benefit expenditure, when benefits are uprated in line with price inflation. Flat-rate benefit rates were increased by 1.1% at April 2000, whereas the growth in average earnings over the year to 2000-01 is expected to be 4.0%, as shown in Table A2.2 of Appendix 2. This results in real earnings growth of 2.9% between 1999-2000 and 2000-01 being used for the current estimates.

- 8.12 Secondly, the methodology used differs between the two sets of estimates. In the results for the year 2000-01 in this report, the investment return of £1.0 billion comprises around 25% of the excess of income over expenditure in 2000-01. However, the calculated contribution rate in the long-term estimates is that which would be required solely for contribution income in the year to equal benefit expenditure and administration costs in the same year. Investment return is assumed only to cover the increase in the minimum recommended balance in the Fund from year to year, and the level of the opening balance in the Fund does not affect the calculated required contribution rate.

APPENDICES

A1.Details of methods used for the projections

Contribution income

- A1.1 Contributions are estimated separately for each class. Actual known receipts in recent years are used to adjust modelled estimates for future years.
- A1.2 Estimates of Class 1 contributions are made separately for gross contributions and amounts of contracted-out rebates. Estimates of gross contributions are made using an earnings distribution based on the New Earnings Survey, projected in line with the earnings increases shown in Table A2.2 of Appendix A2. The gross contribution results are scaled in line with the assumed number of workforce jobs which are also given in Table A2.2. The estimates of amounts of contracted-out rebates for COSRS, COMPS and APPs 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. The assumed level of additional contracting out from 2001-02 onwards resulting from the introduction of Stakeholder Pensions is given in paragraph 3.12. These people are all assumed to earn above the low earnings threshold in the particular year, and are assumed to have the same earnings distribution as all employees who would be contracted-in were it not for the introduction of Stakeholder Pensions.
- A1.3 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 (as shown in Table A2.2 of Appendix A2), 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.
- A1.4 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.

Investment return

A1.5 The investment return on the National Insurance Fund is estimated by applying an assumed rate of return, as specified in paragraph A2.4 of Appendix A2, to the average balance in the Fund during the year.

Other income

A1.6 Other income comprises mainly State Scheme Premiums and recoveries of damages in tort from benefit paid. Because of the relatively small amounts involved, this item was estimated by taking the latest available amounts, adjusted in line with assumed future price inflation.

Benefit expenditure

A1.7 Benefits are estimated separately for each of the contributory benefits, and separately for the basic (flat-rate) elements and for additional pensions (SERPS and S2P).

A1.8 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.

A1.9 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.

A1.10 Estimates of graduated retirement pension are based on the numbers of graduated units earned between 1961 and April 1975. An estimated adjustment was made to allow for units of deceased men inherited by their widows who were under pension age at April 1975 and which would not come into payment until the widow reached pension age. The units at April 1975 are survived using population mortality rates. Allowance is made for inheritance of graduated units by widows and, from 1979, by widowers. Units in respect of people under pension age are assumed to be put into payment on reaching

pension age. The appropriate graduated rate is applied to the survived units over pension age.

- A1.11 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, for the introduction of different accrual rates on different bands of earnings in the State Second Pension (S2P), and for demographic and economic activity rate changes under pension age. Allowance is also made for accruals of S2P credits from 2002-03 onwards. Accrued earnings are survived to pension age using adjusted 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). Paragraph 3.13 contains details of the assumptions which have been made regarding the amount of SERPS pensions which are inherited by widows and widowers. 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.
- A1.12 Estimates of widows' benefits and bereavement benefits 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, projecting a build-up and run-off of widows widowed between 1988 and 2001, and projecting a build up of widows and widowers post 2001 who are subject to the rules for widows' benefits and bereavement benefits introduced by the Welfare Reform and Pensions Act 1999. Allowance is made for widowers with children who were widowed before April 2001 and who will receive bereavement benefits from April 2001. Awards are based on recent data and are projected using numbers of new widows and widowers from the latest marital conditions projection (mid-1998 based); termination and transfer rates by single age and type of benefit are derived from recent data. For widowers, in the absence of any actual data, assumptions are based on those for widows, with adjustments to allow approximately for age differentials and entitlement.
- A1.13 Estimates of the amount of additional pension paid with widows' benefits and bereavement benefits are derived from the retirement pension additional pension model. Accrued additional pension to people dying under pension age, and actual additional pension in payment to those dying over pension age are converted to give amounts of widows' and widowers' additional pension using assumptions on marital status and age of surviving spouse. Paragraph 3.13 contains details of the assumptions which have been made regarding the amount of SERPS pensions which are inherited by widows and widowers. The amount is split by type of benefit and survived using the main basic widows' benefit model. Allowance is made for the changes which will apply from April 2001, under which additional pension will only be paid to widows and widowers under pension age who receive widowed parents allowance. Amounts of survived additional pension are transferred back to the main retirement pension model in respect of widows and widowers who reach

pension age, including amounts which are not actually paid under pension age. A similar method is used for contracted-out deductions.

A1.14 Trends in awards and survival for incapacity benefit take account of experience since the introduction of the medical test for both post-1995 cases and those awarded invalidity benefit pre-1995. The estimates take account of incapacity benefit ceasing at pension age and those on benefit converting to retirement pension; the existing cases over pension age in 1995 will have entirely transferred to retirement pension by April 2000. All the main changes to incapacity benefit that took place in 1995 are fully incorporated into the estimates. The estimates also allow for the changes that will be introduced from April 2001 under the Welfare Reform and Pensions Act 1999. Additional pension with incapacity benefit ceased for new awards from April 1995, although pre-1995 cases still retain the benefit at the existing rate. Short term lower rate incapacity benefit is modelled in a simpler way, based on recent data with adjustments for numbers economically active and unemployment, and with allowance for the Welfare Reform Act changes from April 2001.

A1.15 The estimate of the cost of contribution-based jobseeker's allowance is based on the assumptions for the number of unemployed shown in Table A2.3 of Appendix A2. 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 age and 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 age and 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.

A1.16 The underlying Government Actuary's Department estimates of payments for all benefits are aligned to recent data on encashments for 1999-2000 to ensure that account is taken of more recent changes in factors affecting benefit payments than are incorporated in data on numbers of beneficiaries.

Administration costs

A1.17 The estimates of administration costs for the current year are provided by the Inland Revenue. Administration costs are assumed to increase in line with the growth in average earnings in the future.

Other expenditure

A1.18 Other expenditure comprises mainly redundancy payments, net of redundancy receipts, and transfers from the Great Britain National Insurance Fund to the Northern Ireland and Isle of Man Funds. Because of the relatively small amounts involved, this item was estimated by taking the latest available amounts, adjusted in line with assumed future price inflation.

Balance in the Fund

A1.19 The estimated opening balance in the Fund at March 2000 has been provided by Inland Revenue. This figure is currently provisional, pending the finalisation of the National Insurance Fund accounts for 1999-2000, and may be revised.

A2.Details of economic assumptions used for the projections

A2.1 The rates of price inflation and average earnings growth which have been assumed for future benefit upratings and the resulting weekly rates of the basic retirement pension for a single person, on each of the assumptions, are shown in Table A2.1 below.

Table A2.1 – assumed future uprating factors and resulting rates of basic retirement pension – price and earnings uprating bases

	April 2001	April 2002	April 2003	April 2004	April 2005
Price uprating basis					
Assumed uprating factor	3.3%	2.9%	2.5%	2.5%	2.5%
Rate of the basic retirement pension, £ pw					
Based on current rate of 67.50 – Assumption 1	69.75	71.75	73.55	75.40	77.30
Based on April 2001 rate of 72.50 and April 2002 rate of 75.50 – Assumption 2	72.50	75.50	77.40	79.35	81.35
Earnings uprating basis					
Assumed uprating factor	3.9%	4.0%	4.0%	4.0%	4.0%
Rate of the basic retirement pension, £ pw					
Based on current rate of 67.50 – Assumption 1	70.15	72.95	75.90	78.95	82.15
Based on April 2001 rate of 72.50 and April 2002 rate of 75.50 – Assumption 2	72.50	75.50	78.55	81.70	85.00

Note: The rate of the basic retirement pension in 2000-01 is £67.50 per week

A2.2 The assumed level of employment, the number of self-employed, and the annual growth in average earnings of contributors are shown in Table A2.2 below. The assumed level of employment was obtained from applying current economic activity rates to projections of the future working age population, using the latest (mid-1998 based) population projections.

Table A2.2 – assumed level of employment, number of self-employed, and annual growth in average earnings

Great Britain	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Number of workforce jobs, excluding self-employed, million	24.0	24.1	24.2	24.3	24.3	24.4
Number of self-employed, million	3.5	3.5	3.5	3.5	3.5	3.5
Increase in average earnings on one year earlier	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

A2.3 The rates of increase in the ROSSI index which have been assumed for future upratings of contribution-based jobseeker's allowance (JSA), and the assumed average number of unemployed, are shown in Table A2.3 below.

Table A2.3 – assumed future JSA uprating factors and average number of unemployed

Great Britain	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Uprating factors (ROSSI) used to calculate rate of JSA in the given year	- (1)	1.6%	2.1%	2.5%	2.5%	2.5%
Average number of unemployed, million	1.02	1.00	1.00	1.00	1.00	1.00

(1) The rate of jobseeker's allowance has already been specified for 2000-01

A2.4 The assumed rate of future investment return on the investments of the National Insurance Fund is 6% per annum in each future year. This return includes both interest income, and capital gains and losses.

A3. Projected contribution income, by class of contribution – Assumption 1
Table A3.1 – estimated National Insurance Fund contribution income, split by class of contribution - price upratings, Assumption 1

Great Britain, £ billion, Cash terms	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Class 1 – gross of SSP, SMP						
Primary						
Gross	23.62	24.18	25.16	26.21	27.32	28.46
Contracted-out rebates (1)	2.18	2.30	2.66	2.79	2.89	2.99
Net	21.45	21.88	22.50	23.43	24.43	25.46
Secondary						
Gross	34.03	34.73	36.00	37.68	39.50	41.36
Contracted-out rebates (1)	3.97	4.20	4.77	4.98	5.17	5.34
Net	30.06	30.53	31.24	32.70	34.34	36.02
Total						
Gross	57.66	58.91	61.16	63.89	66.83	69.81
Contracted-out rebates (1)	6.15	6.50	7.43	7.77	8.06	8.34
Net	51.51	52.41	53.73	56.12	58.77	61.48
Less recoveries of SSP, SMP and SMP abatement	0.61	0.64	0.66	0.68	0.70	0.73
Compensation from Consolidated Fund for SSP and SMP recoveries	0.61	0.64	0.66	0.68	0.70	0.73
Class 1 net	51.51	52.41	53.73	56.12	58.77	61.48
Class 1A	0.81	1.04	1.05	1.10	1.14	1.19
Class 1B	0.01	0.01	0.01	0.01	0.01	0.01
Class 2	0.29	0.23	0.20	0.20	0.20	0.20
Class 3	0.05	0.06	0.06	0.06	0.06	0.06
Class 4	0.81	1.53	1.56	1.61	1.67	1.74
Total NIF contribution income (2)	53.48	55.28	56.61	59.10	61.85	64.69
Personal pension rebates (3)	2.36	2.54	2.70	3.48	3.68	3.84
Stakeholder pension rebates	0.00	0.00	0.40	0.79	1.09	1.42
Age-related rebates for members of contracted-out money-purchase schemes	0.11	0.11	0.12	0.12	0.12	0.12
Total age-related contracted- out rebates (2)	2.48	2.66	3.22	4.39	4.89	5.38

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

(2) These figures are shown in Table 4.1

(3) Including rebates in respect of people who are currently contracted out through an APP but who may switch to being contracted out through a Stakeholder Pension

(4) Contribution income which is allocated to the National Health Service is excluded

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

Table A3.2 – estimated National Insurance Fund contribution income, split by class of contribution - earnings upratings, Assumption 1

Great Britain, £ billion, Cash terms	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Class 1 – gross of SSP, SMP						
Primary						
Gross	23.62	24.18	25.16	26.21	27.32	28.46
Contracted-out rebates (1)	2.18	2.29	2.66	2.77	2.87	2.96
Net	21.45	21.88	22.50	23.44	24.45	25.50
Secondary						
Gross	34.03	34.73	36.00	37.68	39.50	41.36
Contracted-out rebates (1)	3.97	4.19	4.75	4.95	5.13	5.27
Net	30.06	30.55	31.25	32.72	34.38	36.08
Total						
Gross	57.66	58.91	61.16	63.89	66.83	69.81
Contracted-out rebates (1)	6.15	6.48	7.41	7.73	8.00	8.23
Net	51.51	52.43	53.75	56.16	58.83	61.58
Less recoveries of SSP, SMP and SMP abatement	0.61	0.64	0.66	0.68	0.70	0.72
Compensation from Consolidated Fund for SSP and SMP recoveries	0.61	0.64	0.66	0.68	0.70	0.72
Class 1 net	51.51	52.43	53.75	56.16	58.83	61.58
Class 1A	0.81	1.04	1.05	1.10	1.14	1.19
Class 1B	0.01	0.01	0.01	0.01	0.01	0.01
Class 2	0.29	0.23	0.20	0.20	0.20	0.20
Class 3	0.05	0.06	0.06	0.06	0.06	0.07
Class 4	0.81	1.53	1.56	1.61	1.67	1.74
Total NIF contribution income (2)	53.48	55.30	56.63	59.14	61.92	64.79
Personal pension rebates (3)	2.36	2.54	2.69	3.46	3.64	3.78
Stakeholder pension rebates	0.00	0.00	0.40	0.79	1.08	1.40
Age-related rebates for members of contracted-out money-purchase schemes	0.11	0.11	0.12	0.12	0.12	0.12
Total age-related contracted- out rebates (2)	2.48	2.66	3.20	4.37	4.84	5.30

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

(2) These figures are shown in Table 4.2

(3) Including rebates in respect of people who are currently contracted out through an APP but who may switch to being contracted out through a Stakeholder Pension

(4) Contribution income which is allocated to the National Health Service is excluded

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

A4. Projected benefit expenditure, by benefit type – Assumption 1

Table A4.1 – estimated National Insurance Fund benefit expenditure, split by benefit type - price upratings, Assumption 1

Great Britain, £ billion, Cash terms	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Retirement pension – basic	32.59	33.82	34.96	36.25	37.43	38.72
Retirement pension – graduated pension	1.17	1.23	1.29	1.35	1.40	1.45
Retirement pension – additional pension	4.82	5.49	6.16	6.83	7.49	8.18
Widows' and bereavement benefits – basic	0.72	0.87	0.86	0.81	0.76	0.71
Widows' and bereavement benefits – additional pension	0.25	0.27	0.25	0.23	0.20	0.18
Incapacity benefit – basic	6.04	6.26	6.52	6.74	6.95	7.20
Incapacity benefit – additional pension	0.67	0.58	0.51	0.44	0.38	0.33
Contribution-based jobseeker's allowance	0.46	0.48	0.49	0.51	0.52	0.53
Christmas bonus	0.12	0.12	0.12	0.12	0.12	0.12
Other benefits	0.05	0.06	0.06	0.06	0.06	0.06
Total benefit expenditure (1)	46.88	49.18	51.22	53.34	55.31	57.49

(1) These figures are shown in Table 4.1

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

Table A4.2 – estimated National Insurance Fund benefit expenditure, split by benefit type - earnings upratings, Assumption 1

Great Britain, £ million, Cash terms	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Retirement pension – basic	32.59	34.00	35.53	37.40	39.17	41.12
Retirement pension – graduated pension	1.17	1.23	1.29	1.35	1.40	1.45
Retirement pension – additional pension	4.82	5.49	6.16	6.83	7.49	8.18
Widows’ and bereavement benefits – basic	0.72	0.87	0.87	0.83	0.78	0.74
Widows’ and bereavement benefits – additional pension	0.25	0.27	0.25	0.23	0.20	0.18
Incapacity benefit – basic	6.04	6.26	6.52	6.74	6.95	7.20
Incapacity benefit – additional pension	0.67	0.58	0.51	0.44	0.38	0.33
Contribution-based jobseeker’s allowance	0.46	0.48	0.49	0.51	0.52	0.53
Christmas bonus	0.12	0.12	0.12	0.12	0.12	0.12
Other benefits	0.05	0.06	0.06	0.06	0.06	0.06
Total benefit expenditure (1)	46.88	49.38	51.80	54.51	57.09	59.93

(1) These figures are shown in Table 4.2

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

A5. Projected contribution income, by class of contribution – Assumption 2
Table A5.1 – estimated National Insurance Fund contribution income, split by class of contribution - price upratings, Assumption 2

Great Britain, £ billion, Cash terms	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Class 1 – gross of SSP, SMP						
Primary						
Gross	23.62	24.18	25.16	26.21	27.32	28.46
Contracted-out rebates (1)	2.18	2.28	2.63	2.76	2.86	2.96
Net	21.45	21.90	22.53	23.46	24.46	25.49
Secondary						
Gross	34.03	34.73	36.00	37.68	39.50	41.36
Contracted-out rebates (1)	3.97	4.16	4.71	4.92	5.11	5.29
Net	30.06	30.57	31.29	32.75	34.39	36.07
Total						
Gross	57.66	58.91	61.16	63.89	66.83	69.81
Contracted-out rebates (1)	6.15	6.44	7.35	7.68	7.97	8.25
Net	51.51	52.47	53.82	56.21	58.85	61.57
Less recoveries of SSP, SMP and SMP abatement	0.61	0.64	0.66	0.68	0.70	0.72
Compensation from Consolidated Fund for SSP and SMP recoveries	0.61	0.64	0.66	0.68	0.70	0.72
Class 1 net	51.51	52.47	53.82	56.21	58.85	61.57
Class 1A	0.81	1.04	1.05	1.10	1.14	1.19
Class 1B	0.01	0.01	0.01	0.01	0.01	0.01
Class 2	0.29	0.23	0.20	0.20	0.20	0.20
Class 3	0.05	0.06	0.06	0.06	0.06	0.07
Class 4	0.81	1.53	1.56	1.61	1.67	1.74
Total NIF contribution income (2)	53.48	55.33	56.70	59.19	61.94	64.77
Personal pension rebates (3)	2.36	2.54	2.67	3.41	3.60	3.76
Stakeholder pension rebates	0.00	0.00	0.40	0.77	1.07	1.39
Age-related rebates for members of contracted-out money-purchase schemes	0.11	0.11	0.12	0.12	0.12	0.12
Total age-related contracted- out rebates (2)	2.48	2.66	3.18	4.30	4.80	5.28

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

(2) These figures are shown in Table 5.1

(3) Including rebates in respect of people who are currently contracted out through an APP but who may switch to being contracted out through a Stakeholder Pension

(4) Contribution income which is allocated to the National Health Service is excluded

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

Table A5.2 – estimated National Insurance Fund contribution income, split by class of contribution - earnings upratings, Assumption 2

Great Britain, £ billion, Cash terms	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Class 1 – gross of SSP, SMP						
Primary						
Gross	23.62	24.18	25.16	26.21	27.32	28.46
Contracted-out rebates (1)	2.18	2.28	2.63	2.75	2.85	2.93
Net	21.45	21.90	22.53	23.47	24.47	25.52
Secondary						
Gross	34.03	34.73	36.00	37.68	39.50	41.36
Contracted-out rebates (1)	3.97	4.16	4.71	4.91	5.08	5.23
Net	30.06	30.57	31.29	32.77	34.42	36.13
Total						
Gross	57.66	58.91	61.16	63.89	66.83	69.81
Contracted-out rebates (1)	6.15	6.44	7.35	7.66	7.93	8.16
Net	51.51	52.47	53.82	56.23	58.90	61.65
Less recoveries of SSP, SMP and SMP abatement	0.61	0.64	0.66	0.68	0.70	0.72
Compensation from Consolidated Fund for SSP and SMP recoveries	0.61	0.64	0.66	0.68	0.70	0.72
Class 1 net	51.51	52.47	53.82	56.23	58.90	61.65
Class 1A	0.81	1.04	1.05	1.10	1.14	1.19
Class 1B	0.01	0.01	0.01	0.01	0.01	0.01
Class 2	0.29	0.23	0.20	0.20	0.20	0.20
Class 3	0.05	0.06	0.06	0.06	0.06	0.07
Class 4	0.81	1.53	1.56	1.61	1.67	1.74
Total NIF contribution income (2)	53.48	55.33	56.70	59.21	61.98	64.86
Personal pension rebates (3)	2.36	2.54	2.67	3.41	3.58	3.73
Stakeholder pension rebates	0.00	0.00	0.40	0.77	1.07	1.38
Age-related rebates for members of contracted-out money-purchase schemes	0.11	0.11	0.12	0.12	0.12	0.12
Total age-related contracted- out rebates (2)	2.48	2.66	3.18	4.30	4.77	5.23

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

(2) These figures are shown in Table 5.2

(3) Including rebates in respect of people who are currently contracted out through an APP but who may switch to being contracted out through a Stakeholder Pension

(4) Contribution income which is allocated to the National Health Service is excluded

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

A6. Projected benefit expenditure, by benefit type – Assumption 2

Table A6.1 – estimated National Insurance Fund benefit expenditure, split by benefit type - price upratings, Assumption 2

Great Britain, £ billion, Cash terms	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006
Retirement pension – basic	32.59	35.09	36.76	38.15	39.39	40.74
Retirement pension – graduated pension	1.17	1.23	1.29	1.35	1.40	1.45
Retirement pension – additional pension	4.82	5.49	6.16	6.83	7.49	8.18
Widows' and bereavement benefits – basic	0.72	0.90	0.90	0.84	0.79	0.74
Widows' and bereavement benefits – additional pension	0.25	0.27	0.25	0.23	0.20	0.18
Incapacity benefit – basic	6.04	6.26	6.52	6.75	6.95	7.20
Incapacity benefit – additional pension	0.67	0.58	0.51	0.44	0.38	0.33
Contribution-based jobseeker's allowance	0.46	0.48	0.49	0.51	0.52	0.53
Christmas bonus	0.12	0.12	0.12	0.12	0.12	0.12
Other benefits	0.05	0.06	0.06	0.06	0.06	0.06
Total benefit expenditure (1)	46.88	50.49	53.06	55.28	57.31	59.55

(1) These figures are shown in Table 5.1

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

Table A6.2 – estimated National Insurance Fund benefit expenditure, split by benefit type - earnings upratings, Assumption 2

Great Britain, £ million, cash terms	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Retirement pension – basic	32.59	35.09	36.76	38.69	40.53	42.54
Retirement pension – graduated pension	1.17	1.23	1.29	1.35	1.40	1.45
Retirement pension – additional pension	4.82	5.49	6.16	6.83	7.49	8.18
Widows’ and bereavement benefits – basic	0.72	0.90	0.90	0.85	0.81	0.76
Widows’ and bereavement benefits – additional pension	0.25	0.27	0.25	0.23	0.20	0.18
Incapacity benefit – basic	6.04	6.26	6.52	6.75	6.95	7.20
Incapacity benefit – additional pension	0.67	0.58	0.51	0.44	0.38	0.33
Contribution-based jobseeker’s allowance	0.46	0.48	0.49	0.51	0.52	0.53
Christmas bonus	0.12	0.12	0.12	0.12	0.12	0.12
Other benefits	0.05	0.06	0.06	0.06	0.06	0.06
Total benefit expenditure (1)	46.88	50.49	53.06	55.83	58.47	61.37

(1) These figures are shown in Table 5.2

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