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SOCIAL SECURITY

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## THE NATIONAL INSURANCE FUND

Every year, GAD prepares a report on the National Insurance Fund (NI Fund). Publication of this report is an annual event in the GAD calendar. The 2009 report was laid before Parliament on January 2009, alongside the orders which increase National Insurance (NI) benefits and National Insurance contributions.

### Why is the report prepared?

The NI Fund was set up in 1948. It receives NI contributions, and pays out NI benefits. NI benefits are financed on a pay-as-you-go basis. Any excess of the contributions received over and above the benefits paid is retained by the NI Fund. For the last 15 years, the Government Actuary has recommended that this balance is maintained at a level of at least one-sixth of the annual benefit expenditure, to ensure that there is always a reasonable working balance in the fund.

One of the requirements of the report is to confirm that the balance will be above the recommended minimum. If not, Parliament needs to vote a Treasury grant to the NI Fund.

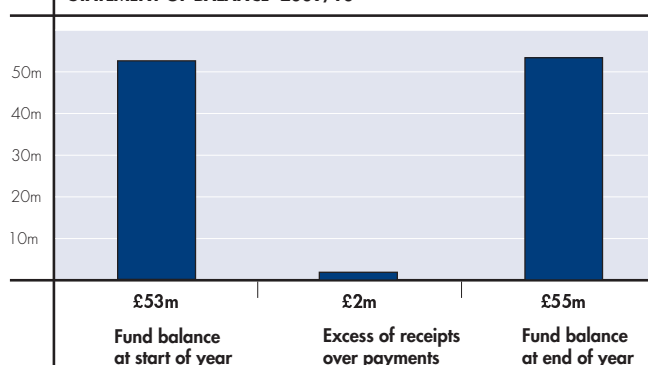
### What are the findings of this year's report?

GAD's latest report takes account of the increases in benefits and contributions (the "up-rating") effective in April 2009. It shows that, even with the less favourable economic conditions expected in 2009-10, the income of the NI Fund is expected to exceed the expenditure by about £2 billion pounds. This is projected to increase the size of the NI Fund to almost £55 billion pounds by the end of 2009-10 (as shown in the table opposite).

MAIN BENEFITS RATES 2008/09

BENEFITS	WEEKLY RATE
Retirement Pension – person claiming on their own or their deceased spouse's NI contributions – standard rate	£90.70
Retirement Pension – person claiming on their spouse's NI contributions – standard rate	£54.35
Contribution-based jobseeker's allowance single person over 25	£60.50
Incapacity benefit long-term main rate	£84.50
Employment and support allowance, personal allowance age 25 or over, plus work-related activity component	£84.50

STATEMENT OF BALANCE 2009/10



### What are the fundamentals?

We project the cash flow into and out of the NI Fund for the next year, using estimates for employment and unemployment levels and the rate of increases in earnings. The report gives details of the:

- > **BASIC FACTS:**
  - the new benefit and contribution rates and earnings limits, which are known at the time of preparing the report.
- > **FINANCIAL PROJECTIONS:**
  - showing how the new rates are expected to change the income and expenditure of the NI Fund.
- > **FINDINGS FOR 2009/10:**
  - the new benefit rates are expected to increase expenditure by about £3.75 billion. Most of this increase will be paid to retirement pensioners, who are the main beneficiaries of the NI Fund.
  - the changes to the contribution rates and the earnings limits are expected to reduce the income of the NI Fund by about £0.11 billion.

It may well come as a surprise that increasing the earnings limits reduces the amount of contributions received. This is because:

- > only a small percentage of people pay more contributions when the upper earnings limit goes up, and
- > everybody pays less when the lower threshold is increased.

### Particular issues with this year's report – assumed unemployment

For this year's report, the current economic conditions have merited special attention. The baseline assumptions for economic factors are linked to those underlying the pre-Budget report by Her Majesty's Treasury on 24 November 2008. However, we also examine the sensitivity of the projected income and expenditure to alternative employment scenarios. Here is a summary of the impact:

EFFECTS OF VARIATIONS IN ASSUMPTIONS	Effects on receipts in 2009-10 (£81,649m)	Effects on payments in 2009-10 (£79,537m)
<b>£m</b>		
GB number of employees in employment lower by 200,000 in 2009-10	-500	
GB number of employees in employment higher by 200,000 in 2009-10	+500	
Earnings increases 1% lower over the year to 2008-09 and 2% lower over the year to 2009-10	-2,480	
GB unemployed and claiming benefits higher by 200,000 in 2009-10		+120
GB unemployed and claiming benefits lower by 200,000 in 2009-10		-120

For a more complete set of results please see the full report at [www.gad.gov.uk](http://www.gad.gov.uk)

The report also shows the results for a scenario of even higher unemployment and lower earnings inflation. If:

- > the number of unemployed and claiming benefits were 500,000 higher, and the number employed were 500,000 lower than assumed; and
- > the increases in earnings were 1% lower in 2008-09, and 2% lower in 2009-10, then;
- > projected net receipts would be about £4 billion lower.

Under this scenario, the amount in the NI Fund would be almost £51 billion at the end of 2009/10. However, this is still more than the recommended reasonable working balance of one-sixth of annual expenditure.

### The future of the NI Fund

As well as looking just one year ahead, the report also looks at the projected position of the NI Fund over the next five years. Estimates indicate that the NI Fund could exceed £100 billion in 2013/14, well above the recommended minimum level. However, a Quinquennial Review will be carried out in 2009 and that will give a much better idea of the long term outlook.

The report by the Government Actuary on the drafts of the Social Security Benefits Up-Rating Order 2009 and the Social Security (Contributions) (Re-rating) Order 2009 was published on 28 January with reference Cm 7312. It is available from the GAD website [www.gad.gov.uk](http://www.gad.gov.uk) and that of The Stationery Office as well as from The Stationery Office as a hard copy price £14.35.