National Insurance Fund Accounts 1975-2014

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National Insurance contributions by employers, employees and the self-employed are held by the National Insurance Fund and used to pay contributory social security benefits such as state retirement pensions. The Fund had been in healthy surplus, but this has been declining sharply in recent years to the extent that without Treasury finance the balance on the Fund is projected to fall below the recommended minimum in 2014/15.

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1 Background

The National Insurance Scheme was established on 5 July 1948 to provide unemployment benefits, sickness benefit, retirement pensions and other benefits in cases where individuals meet the contribution and other qualifying conditions. Benefits due under the Scheme are paid out of the National Insurance Fund and the costs of these benefits are mainly met on a "pay-as-you-go" basis by the contributions paid by employees, employers and others.

The Government Actuary has confirmed that it was prudent to plan for a minimum balance on the Fund of one-sixth (16.7%) of annual benefit expenditure. For the last 20 years the balance on the Fund continued to grow to many times this requirement. By 2007/8 the balance peaked at 73% of total spending on National Insurance Benefits. Since then the ratio has declined sharply in the most recent years, as the amount paid out in benefits has grown faster than the revenue received in contributions. By 2013/14, the balance of the Fund is projected to be equivalent to 25% of annual benefit spending.

This note looks at the National Insurance Fund since 1975/6. It sets out payments into the Fund and expenditure from it as well as the surplus/deficit and balance in the Fund.

At its outset the Fund was envisaged as a tripartite scheme of contributions from individuals, employers and the Government. The Exchequer ended its contributions in 1989, although a grant was re-introduced between 1993/4 and 1997/8. A section at the end of this note explains the background to this policy.

Further details are available in the annual National Insurance Fund Account. The latest is for 2012/13, House of Commons Paper 893 of 2013-14, available online[1]: In addition the Government Actuary produces a report on the annual social security benefit Uprating Order which includes analysis of the effects on the National Insurance Fund. The latest, for the 2014 Order, is available online[2].

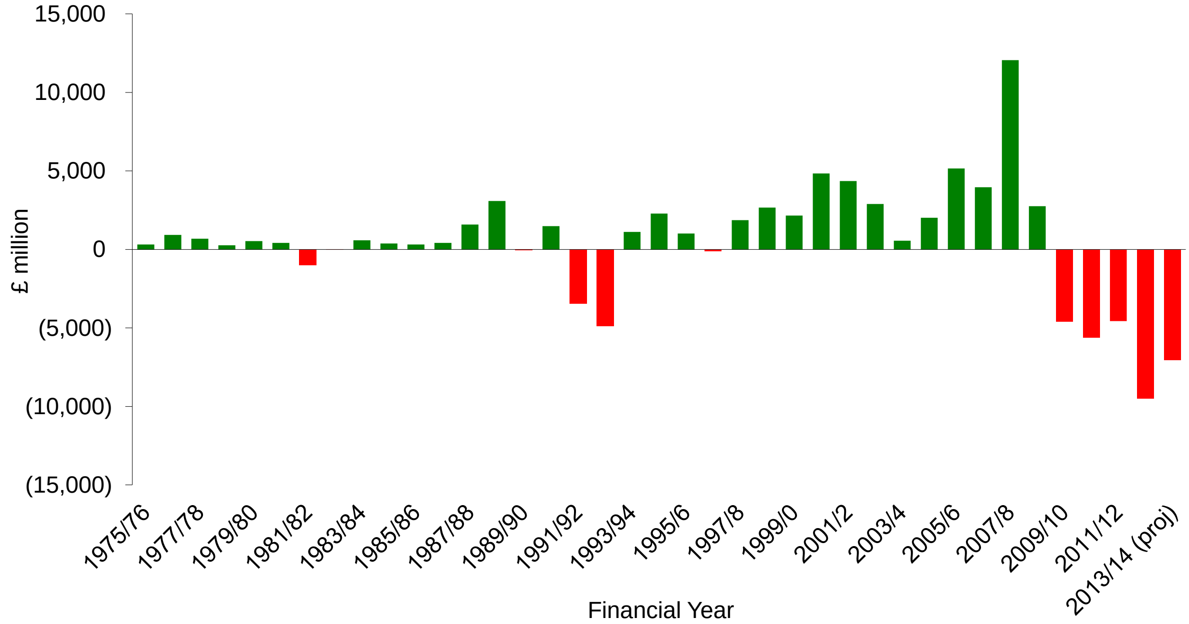
2 Summary accounts of the National Insurance Fund

In every year since 2009-10, payments from the National Insurance Fund have been greater than contributions made. As a result, over the last five years the Fund's balance has shrunk from a £50 billion peak in 2009, to around £22 billion today. The latest figure is equivalent to 25% of annual benefit spending, which is more than half the 70% peak ratio 5 or 6 years earlier. The Government Actuary recommends a minimum balance of one-sixth (17%) of benefit expenditure as necessary to ensure a working balance in the Fund.

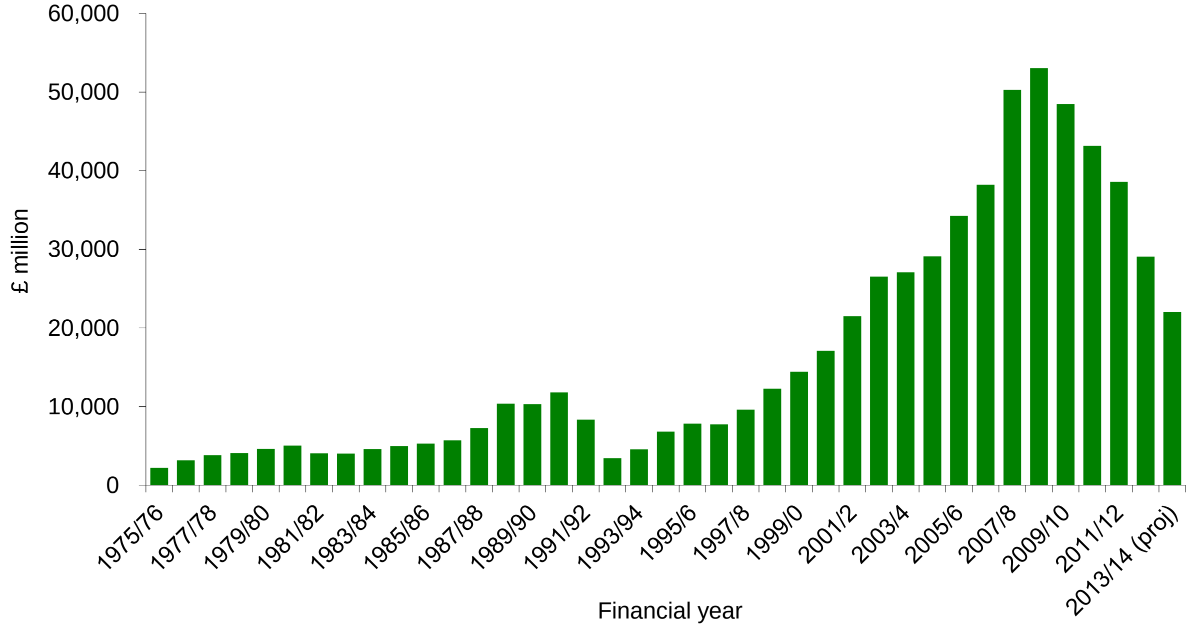
[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/269301/National_Insurance_Fund_Account_2012-13_Great_Britain.pdf

[2] Report by the Government Actuary on: The draft Social Security Benefits Up-rating Order 2014; The Welfare Benefits Up-rating Order 2014; and The draft Social Security (Contributions) (Re-rating and National Insurance Fund Payments) Order 2014 - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/275294/36532_GAD_Report_Web_Accessible.pdf

National Insurance Fund: annual receipts less payments 1975/6 to 2013/14



National Insurance Fund Balance: (end year) 1975/6 to 2013/14



The table overleaf shows the underlying data to these graphs and sets out the Fund’s main items of income and expenditure each year since 1975/6

Table 1: Accounts of the National Insurance Fund 1975/6 to 20013/14 (£million)

Financial year	Receipts						Payments						Surplus/	Balance on Fund (y/e)	
	Contributions (a)	Treasury supplement/ grant	Compensation for SSP, SMP & IIB payments	Investment income (net)	Other	Total	Benefits (b)	Transfer to Northern Ireland	Incentives to personal pensions, etc	Administration	Other	Total	(deficit)	£ million	Percent of benefits
1975/76	6,184	1,133	-	193	0	7,510	6,812	38	-	335	6	7,191	319	2,219	33%
1976/77	7,729	1,387	-	281	0	9,398	8,066	56	-	344	5	8,470	928	3,147	39%
1977/78	8,559	1,537	-	387	0	10,484	9,385	59	-	355	7	9,805	678	3,825	41%
1978/79	8,991	1,976	-	443	0	11,410	10,682	62	-	395	6	11,144	265	4,090	38%
1979/80	10,413	2,343	-	542	0	13,297	12,243	72	-	442	4	12,762	535	4,626	38%
1980/81	12,553	2,848	-	607	0	16,009	14,893	99	-	601	5	15,597	412	5,037	34%
1981/82	14,035	2,433	-	588	0	17,056	17,243	96	-	707	0	18,047	(991)	4,046	23%
1982/83	16,303	2,591	-	496	3	19,393	18,611	85	-	720	0	19,416	(23)	4,023	22%
1983/84	17,777	2,807	-	490	16	21,090	19,716	77	-	716	0	20,509	580	4,604	23%
1984/85	19,000	2,597	-	520	1	22,119	20,831	95	-	808	11	21,745	374	4,978	24%
1985/86	20,790	2,163	-	541	2	23,496	22,309	60	-	810	2	23,180	316	5,293	24%
1986/87	22,316	2,412	-	610	2	25,340	24,005	175	-	738	8	24,926	414	5,707	24%
1987/88	24,564	2,135	-	596	40	27,336	24,793	155	-	802	5	25,755	1,581	7,288	29%
1988/89	27,394	1,653	-	778	1	29,825	25,397	185	289	866	8	26,744	3,081	10,369	41%
1989/90	29,405	-	-	1,040	1	30,447	27,000	210	2,434	857	7	30,508	(62)	10,307	38%
1990/91	30,864	-	1,705	996	926	34,490	29,723	225	2,069	980	8	33,005	1,485	11,792	40%
1991/92	32,474	-	1,055	1,109	37	34,675	34,346	125	2,452	1,202	10	38,135	(3,460)	8,332	24%
1992/93	33,597	-	1,089	925	49	35,660	36,520	40	2,654	1,332	11	40,557	(4,897)	3,436	9%
1993/94	35,090	7,589	1,122	470	65	44,335	38,733	40	2,860	1,555	35	43,223	1,112	4,549	12%
1994/95	37,863	6,280	541	364	82	45,130	39,461	145	1,957	1,280	9	42,851	2,279	6,828	17%
1995/6	40,008	3,575	458	444	97	44,583	40,294	125	1,961	1,180	14	43,574	1,008	7,836	19%
1996/7	41,875	1,902	524	474	108	44,882	41,852	75	1,998	1,038	17	44,981	(98)	7,737	18%
1997/8	45,735	941	581	466	119	47,842	42,709	150	2,052	1,041	19	45,971	1,871	9,608	22%
1998/9	48,934	3	558	651	109	50,255	44,576	315	1,656	1,021	18	47,586	2,669	12,277	28%
1999/0	50,719	2	607	715	144	52,187	46,386	230	2,574	817	19	50,026	2,161	14,438	31%
2000/1	54,471	0	664	851	132	56,118	47,118	200	2,772	1,165	21	51,277	4,841	19,279	41%
2001/2	56,836	0	687	1,113	85	58,721	50,627	110	2,764	839	29	54,370	4,351	23,630	47%
2002/3	58,612	0	755	1,422	102	60,891	53,097	350	3,276	1,241	27	57,992	2,899	26,530	50%
2003/4	58,731	0	1,313	1,257	105	61,406	55,035	260	3,771	1,754	34	60,854	552	27,082	49%
2004/5	61,683	0	1,433	1,255	103	64,473	57,230	270	3,441	1,480	30	62,452	2,021	29,103	51%
2005/6	66,517	0	1,352	1,364	101	69,333	60,022	185	2,515	1,424	32	64,177	5,156	34,259	57%
2006/7	68,286	0	1,160	1,846	92	71,384	62,300	630	3,020	1,433	40	67,423	3,961	38,220	61%
2007/8	75,627	0	1,866	2,379	89	79,961	65,896	452	2,508	1,391	61	70,308	9,653	47,873	73%
2008/9	74,520	0	1,665	1,957	89	78,231	70,915	505	2,629	1,326	97	75,473	2,758	50,631	71%
2009/10	73,869	0	1,702	237	89	75,897	75,941	395	2,623	1,401	126	80,487	(4,590)	46,041	61%
2010/11	74,229	0	2,101	204	96	76,630	78,245	125	2,314	1,420	149	82,253	(5,623)	43,164	55%
2011/12	78,461	0	3,009	189	96	81,754	82,764	145	2,139	1,125	150	86,324	(4,570)	38,594	47%
2012/13	79,151	0	2,560	162	74	81,947	87,918	334	2,125	917	164	91,458	(9,511)	29,083	33%
2013/14 (proj)						83,906						90,957	(7,051)	22,033	25%

Notes: (a) Net of employers' recoveries in respect of SSP from 1983/84 and SMP from 1987/88. Includes state scheme premiums. Net of contracted-out rebates for occupational pensions but gross of rebates and incentives for personal pensions.

(b) Includes redundancy benefits from 1990/91.

(c) Reflects transfer of balance of the Maternity Pay Fund.

(d) Reflects transfer of balance of the Redundancy Fund.

(e) includes £2.4billion prior period adjustment to contribution receipts; see NIF Accounts 2009/10 Note 13; & Fund balance restatement for 2010/11 see NIF Accounts 2011/12

Sources: National Insurance Fund Account various years to 2012/13; GAD Report on the Social Security Uprating Order 2014

3 Future funding

The latest published annual accounts of the National Insurance Fund show that at 31 March 2013 the closing balance of the NI Fund was **£29.1 billion**.

This figure has been declining in recent years. A year earlier, at the end of March 2012, the balance on the Fund was **£38.6 billion**. The Foreword to the Fund's 2012/13 Accounts states that this decline is due to increases in benefit payments and historically low interest rates (which affect the Fund's investment income):

> The balance on the Fund at 31 March 2013 has decreased by £9,511 million to £29,083 million (31 March 2012, £38,594 million); the balance represents 33 per cent of annual benefit expenditure (31 March 2012, 47 per cent). This decrease results from the increase in benefit payments (£5,107 million) together with the effect of historically low interest rates on the NIF working balance.[3]

The Government Actuary (GAD) expects the Fund Balance to continue to decline as income continues to grow more slowly than benefit payments in the next few years: The following table shows how the balance on the Fund is expected to fall below the minimum 17% of benefit spending in 2014/15. Without additional funding, the projected balance continues to fall until 2017-18 when the Fund's income is projected to again exceed its payments.[4]

Central Assumptions – Fund value from 2013-2019

Great Britain, £ million	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Income	81,947	83,906	85,648	89,074	98,242	103,812	109,171
Payments	91,458	90,957	93,613	97,101	100,093	103,543	106,830
Excess of receipts over payments	-9,511	-7,050	-7,965	-8,028	-1,852	270	2,342
Balance in fund at end of year(1)	29,083	22,033	14,068	6,040	4,189	4,458	6,800
Balance at end of year as a percentage of benefit payments	33.1%	24.6%	15.3%	6.3%	4.3%	4.4%	6.5%
Payment required to maintain a Fund value greater than 0 at the end of the year	0	0	0	0	0	0	0
Payment required to maintain Fund at 1/6th of benefit payments	0	0	1,290	8,597	2,244	35	0

(1) Ignoring the effect of any Treasury Grant.

3 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/269301/National_Insurance_Fund_Account_2012-13_Great_Britain.pdf#page=3

4 Report by the Government Actuary on: The draft Social Security Benefits Up-rating Order 2014; The Welfare Benefits Up-rating Order 2014; and The draft Social Security (Contributions) (Re-rating and National Insurance Fund Payments) Order 2014

The Fund is required to keep a working balance equivalent to 16.7% benefit spending. While the balance of the Fund is expected to remain positive, the Government Actuary expects the balance to fall below the required ratio in 2014/15, in the absence of any supplement from the Treasury. The National Insurance Fund has no borrowing powers. When necessary, additional funding in the form of a Treasury Grant from the Consolidated Fund can be made available to the Fund. The maximum Treasury Grant in any one tax year is set by primate legislation at 17% of the National Insurance Fund's annual benefit expenditure. [See Section 4 for details about when such Grant has been made available to the Fund]

The main area of benefit spending from the National Insurance Fund is pensions; 91% of the Fund's benefit spending in 2012/13 is on the state pension and the amount spent on pensions increased by around £6 billion between 2011/12 and 2012/13.

In future, however, the Fund's income from contributions is expected to grow as the economy recovers. Also the growth of pension benefit spending will be tempered by increases in state pension age for women to 2018 and women and men thereafter.

4 Treasury Supplement/Grant

4.1 History – 1948 to 1989

In each year from 1948 to 1989, the National Insurance Fund received a grant from the Treasury, known as the Treasury (or Consolidated Fund) Supplement. The origins of the Supplement lay in the Beveridge Report, which envisaged a tripartite scheme of contributions to the Fund, whereby the Treasury would pay one third of the cost of unemployment benefits and one sixth of the cost of pensions and other benefits. In practice, the level of the Supplement tended to be around 18% of contribution income, a level at which it was fixed by the Social Security Act 1973.

4.2 Abolition in 1989

From 1980, the value of the Supplement began to decline, reflecting partly the growing level of contribution income and partly the constraining of spending on benefits by the abolition of earnings linking of the pension and other long-term benefits and earnings-related supplements to unemployment benefit. By 1988 the Fund's contribution income exceeded its benefit expenditure, leading to a steady growth in the balance of the Fund (from £5.3bn in April 1986 to £10.4bn in April 1989). In this context, the then Secretary of State for Social Security, John Moore, stated in 1989 that:

> "The tripartite principle is already effectively a dead letter. The rationale behind it has gone, and the Supplement has been shrinking steadily as a proportion of the Fund's income from about one-third in 1948. It now stands at only 5%. We consider that there is now no need for it all. The £26bn of expenditure from the Fund is fully covered by contributory income and the abolition of the Supplement will have absolutely no effect on that expenditure"

The Supplement was abolished by the Social Security Act 1989.

4.3 Re-introduction of Treasury finance in 1993

By 1993, however, the balance of the Fund had begun to decline, as contributory benefit expenditure rose by over 50% between 1988/89 and 1993/94. The balance fell from a peak of £11.8bn in April 1991 to just £3.4bn in April 1993. In response, a Treasury Grant was introduced by the Social Security Act 1993.

There are a number of differences between the Treasury Grant and the Treasury Supplement. First, the levels of Treasury Grant are set by reference to benefit expenditure rather than to contribution income. Second, and more significantly, whereas the Treasury Supplement was paid annually, irrespective of whether it was actually needed to finance a particular year's expenditure, the Treasury Grant is paid at the discretion of the Secretary of State. The amount of Grant paid to the Fund was limited to a maximum of 20% of forecast benefit expenditure in 1993-94, and to a maximum of 17% of forecast benefit expenditure in subsequent years.

The Grant was set at a level sufficient to deliver a balance in the Fund equivalent to one-sixth of benefit expenditure, which the Government Actuary recommends is the minimum level necessary to ensure a reasonable working balance in the Fund. Since 1998/9 the balance on the fund has been estimated in excess of this. No Treasury Grant has therefore been necessary.