



National Insurance Fund: 1975-2007

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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 over the last 30 years.

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. The note explains the background to this policy.

Further details are available in the annual National Insurance Fund Accounts. The latest are for 2007/9, House of Commons Paper 16 of 2008/9, available online:
<http://www.official-documents.gov.uk/document/hc0809/hc00/0016/0016.pdf>

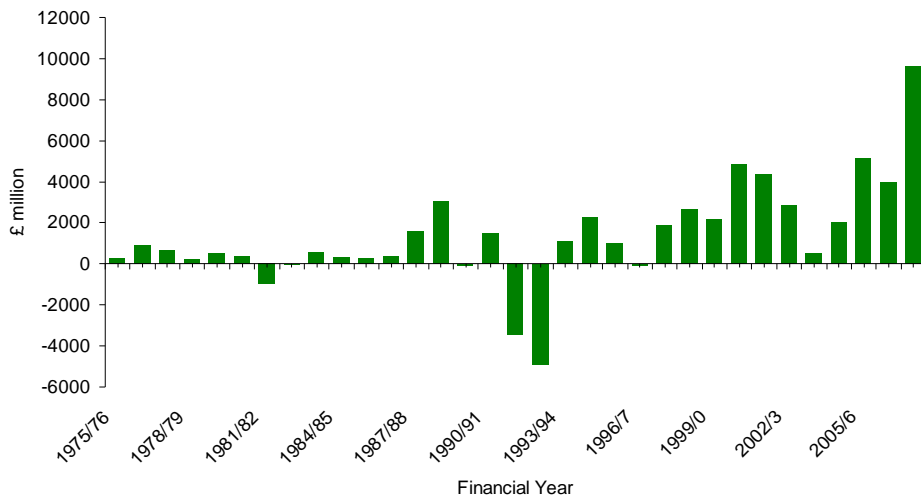
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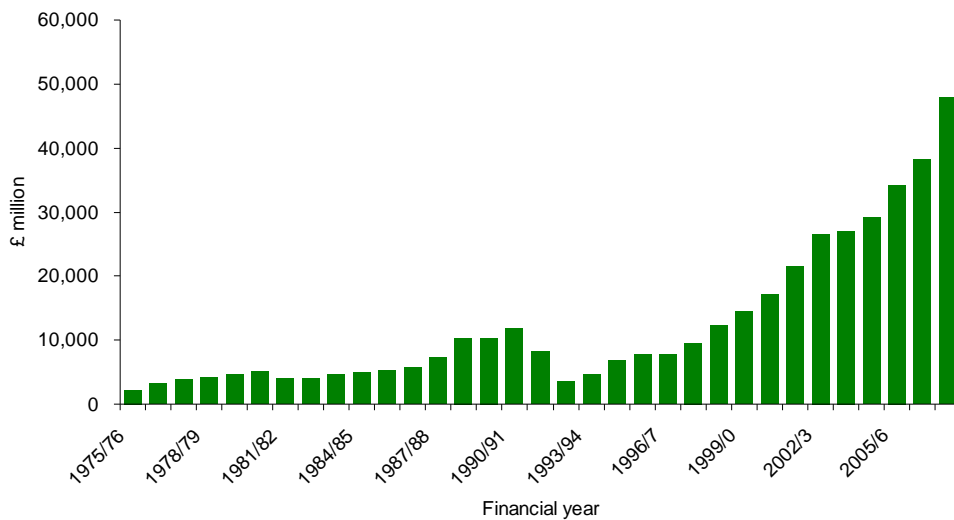
1 Summary accounts of the National Insurance Fund

In the last 10 years, contribution income of the Fund has exceeded payments and the Fund's balance has grown from around £10 billion to £48 billion. This is now equivalent to more than 70% of annual benefit spending. The Government Actuary recommends a minimum balance of one-sixth (17%) of benefit expenditure as necessary to ensure a working balance in the Fund. This would be equivalent to around £11 billion.

National Insurance Fund: Surplus/deficit 1975/6 to 2007/8



National Insurance Fund Balance: (end year) 1975/6 to 2007/8



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 2007/8 (£million)

Financial year	Receipts						Payments						Surplus/ (deficit)	Balance on Fund	
	Contributions	Treasury (a) 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		£ 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 (c)	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 (d)	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%

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 Pay Fund.

Sources: National Insurance Fund Account various years to 2007/8

2 Treasury Supplement/Grant

2.1 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.

2.2 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.

2.3 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.