Department for Work & Pensions

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Dear Lord Sikka,

In the Report stage of the Social Security (Up-rating of Benefits) Bill, on 2nd November 2021, you raised a number of questions relating to the National Insurance Fund (NIF) and the Government's decision not to use the surplus to fund an increase in State Pensions for 2022/23 in line with the conventional measure for average earnings growth, which for the relevant period for the up-rating review is 8.3%.
National Insurance contributions (NICs) receipts are used for two specific purposes laid down in the Social Security Administration Act 1992: to help fund the NHS; and to pay current recipients of contributory benefits.

There are different classes of contributions depending on whether the NICs payer is an employer, employee or self-employed. Around one fifth of the NICs paid at the 12 per cent main rate, and half of the NICs paid at the two per cent upper rate, go directly to the NHS.

The majority of the receipts is then paid into the NIF, out of which the following are paid: contributory State Pensions; and contributory benefits such as Bereavement Support Payments; contributory Employment and Support Allowance; contribution-based Jobseeker's

Allowance. The contributory State Pension payments constitute the vast majority of this expenditure.

It is important that the working balance of the NIF remains positive as this ensures there are always enough funds to pay for these benefits, and allows the Government to deal with short-term fluctuations in spending or receipts.

In my letter dated 25 October 2021 I said that "[t]he NIF is currently forecast to have an annual deficit in 2022/23." For clarification, I meant by this an in-year deficit between income and expenditure for 2022/23 only, not an overall deficit in the Fund. The financial health of the NIF will be set out by the Government Actuary's Department as part of the standard yearly up-rating process. Last year's report can be found at [Up-rating report 2021 (publishing.service.gov.uk)]().

If the balance of the Fund is expected to fall below one sixth of forecast annual benefit expenditure, the Government will transfer a Treasury Grant (paid from general taxation) into the NIF. This ensures payments for the State Pension and other benefits can always be made as necessary.

The balance of the NIF is handled as part of the Government's overall management of public finances and reduces the need for it to borrow from elsewhere. Any additional spending from the NIF would represent an increase in overall Government spending and, without cuts in other areas of spending or additional taxes, this would lead to an increase in Government borrowing. There is therefore no surplus in the Fund that can simply be drawn upon.

I hope this helps clarify the position ahead of Third Reading later today.

A copy of this letter will be placed in the House Library.

Yours Sincerely

Debbie Stedman Scott.

BARONESS STEDMAN-SCOTT
MINISTER FOR WORK AND PENSIONS (LORDS)