

Quinquennial Review 2020

Focus on the National Insurance Fund

The Government Actuary has published his [Quinquennial Review \(QR\) on the National Insurance Fund](#) (NIF) for Great Britain.

This is carried out every 5 years by the Government Actuary's Department (GAD). It looks at the long-term relationship between benefit payments (mainly state pensions) and contribution income (mainly national insurance contributions) and projects these for each year to 2086.

Projected fund balance

The QR, which provides information to MPs, shows the current balance in the NIF is projected to grow until peaking at a little over £100 billion in 2032. The NIF is then projected to run down to exhaustion by 2044.

If these projections materialise, HM Treasury grants to the NIF will be needed from 2040. The QR also projects that by 2058 the grants needed will be larger than the current maximum permitted under legislation.

Breakeven contribution rate

The breakeven contribution rate is a measure of the level of national insurance contributions needed each year such that benefit payments match contribution income.

The current national insurance contributions system provides contributions of around 22% of pay which is close to the current breakeven contribution rate. By 2086 the breakeven contribution rate is projected to be 33.6%.

Demographic change and other drivers

The main reason for this rising breakeven contribution rate and the projection of Fund exhaustion is the projected rise in the ratio of pensioners to working age people. Currently this is around 27% but is projected to rise to around 43% by 2086 causing benefit costs to increase relative to contribution income.

The projections assume Triple Lock applies indefinitely and increases to State Pension age are in line with the 2017 State Pension age review.

The Triple Lock contributes to benefit costs increasing relative to contribution income and is the next most significant factor after demographic change. Increases in State Pension age have a modest effect in reducing benefit expenditure relative to contribution income.

GAD's processes

This QR has been produced using a project management framework that incorporates both our annual [Up-rating report](#) and this QR as a single project.

This has led to delivery of this QR in our contemporary and accessible reporting style both efficiently and quickly.

Senior Consulting Actuary Chris Morley commented: "GAD's annual Up-rating reports are a key part of the annual Up-rating process but necessarily focus on the short term. This review complements that analysis to give readers a more complete picture."