CABINET

INCREASES IN NATIONAL INSURANCE CONTRIBUTIONS

Note by the Secretary of State for Social Services

The attached memorandum, circulated today to the Ministerial Committee on Social Services, is relevant to the Cabinet's discussion of the up-rating of social security benefits on Thursday, 22nd May.

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Department of Health and Social Security, S. E. 1.

19th May, 1969
INCREASES IN NATIONAL INSURANCE CONTRIBUTIONS

In summing up the discussion in Cabinet last week, the Prime Minister said more time was needed to study the details of the proposals about contributions, particularly the burden on the lower-paid.

2. It was proposed in C(69)50 that the employed man's flat-rate contribution should go up by 1s. 6d. and the graduated contribution on earnings between £18 and £30 per week from 3/6d. to 2/10d. The paper explained that the yield of these increased contributions was the minimum needed for the safety of the Fund.

The flat-rate contribution

3. At the last two upratings, in 1965 and 1967, the man's own flat-rate contribution went up by 2s. at times when earnings were lower than they are today. The increase was kept down to this level by charging the employer more than the employee (3s. 3d. in 1965 and 2s. 3d. in 1967), but this course has been ruled out on the present occasion. Because of emerging deficits a further 6d. had to be added to the man's national insurance contribution in May 1968 and a further 6d. was added to the health service contribution.

4. The proposed increase of 1s. 6d. is an increase of 11% on the present flat-rate contribution for national insurance and industrial injuries. This is the same proportionate increase as in benefits at a time when a good deal more than the extra cost of the higher benefits needs to be found. Taking the employee's share of the total stamp (including N.H.S.), the increase is 9%. It is true that, if we include the 1s. increase in the employee's contribution last May, his share of the stamp will have gone up by about 16% since October 1967 whilst average earnings, on the latest Treasury forecast, will have risen about 13%, but I think this is perhaps of less significance than the proportionate increase next November. For a man earning £15 a week the increase will then by 1½% of his gross pay, and it is estimated that only about one million men working full-time are earning less than that.
5. In view of the formidable sum to be raised, I do not think an increase of 1s. 6d. is unreasonable. And there is something in the point that, so long as we have a flat-rate scheme, the real impact of the rising cost should be brought home by an appreciable increase in the contribution which everybody pays. I nevertheless go on to consider alternative ways in which the money might be raised so as to lighten the burden on the lower paid.

6. Possible ways of reducing the flat-rate contribution. Given the amount we must raise in contributions, and that the burden is to be equally shared by employer and employee, we can only get less from the lower paid by raising still more from the higher earner.

The following table compares the effect of three possible variants on the proposals put forward in C(69)50. Each of the variants would produce about the same contribution income in 1970/71 and 1971/72 (within £1 million or so) as the proposals in C(69)50 and might yield a little more if earnings rise by more than the 3 per cent assumed. Because of the time-lag in collecting graduated contributions, the deficit in 1969/70 would be increased by up to about £6m. It is assumed that no reduction in the self-employed and non-employed contribution would be justified merely because more of the employed contributions were earnings-related.

### Contributions of male employees not contracted out

**| Earnings | Present contribution | Increase in contributions |
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<tr>
<td>£10</td>
<td>17  10</td>
<td>1  6</td>
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<tr>
<td>£15</td>
<td>22  7</td>
<td>1  6</td>
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<tr>
<td>£20</td>
<td>25  4</td>
<td>2  9</td>
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<tr>
<td>£25</td>
<td>26  0</td>
<td>4 10</td>
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<td>£30</td>
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**A** (as in C(69)50)
- Add 1s. 6d. to flat-rate contribution
- Add 2½ per cent to contribution on earnings of £18-30

**B** 1s. 3d. on flat rate
- 2½ per cent on £18-30 (making 3 per cent).

**C** 1s. on flat rate
- 2½ per cent on £18-30 (making 3½ per cent)

**D** 1d. on flat rate
- ¼ per cent on £9-18 and 2½ per cent on £18-30 (making 5 per cent on £9-18 and 3 per cent on £18-30).
7. The alternatives considered all bring the increase for the man earning £30 a week to well over 7s. Because of this and the considerations set out in paragraphs 3 and 4, I do not think any of the variants is to be preferred to our original proposals, though variant B would perhaps be tolerable. This would add about £3 million to the deficit on the Fund this year, which at an estimated £93 million is already uncomfortably large.

8. Postponement of part of the increase. One question which has been raised is whether there would be any advantage in postponing part of the increase until next year.

9. During the debate on 15th May, the Secretary of State told the House that we had decided not to leave part of the increase over to next April and this announcement met with some approval and no complaint. There would be obvious difficulties in having a separate, large increase next year, without any increase in benefits. Purely at the mechanical level, frequent changes in contributions would mean trouble for employers and others, especially if the graduated increase had to be divided.

10. Nor do I think we could wait so long for any worthwhile part of the money. By last December the National Insurance Fund was down to the danger level of just over £100 million. We had to go to the House, for the first time ever, to get authority to transfer £200 million from the Reserve Fund merely to keep the National Insurance Fund at a safe working level. Nevertheless, by the end of March the Fund was down to £240 million and, even if we take the full contributions increase in November, it would be down to about £150 million by next March. This is without allowing for the chance that experience will once more prove worse than the estimate. If we postponed, say, one quarter of the increase until next April, the Fund would be depleted by a further £30 million - £40 million this year and there would be a serious risk of having to go back to the Commons for authority to make a further withdrawal from the Reserve Fund.

11. Apart from all this, the Chancellor has made his Budget calculations on the understanding that the full increase in contributions would be secured this year.

12. For all these reasons, I am sure it is right to take the full amount at once in November.

Department of Health and Social Security, 19th May 1969