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10th May, 1950.

CABINET**INCREASE IN RATES OF NATIONAL INSURANCE CONTRIBUTIONS****MEMORANDUM BY THE MINISTER OF NATIONAL INSURANCE**

1. Under the National Insurance Act, 1946, the current rates of contributions payable by insured persons and employers are due to be increased as from Monday, 1st October, 1951.

2. The increase is 4d. for men and women over age 18, and 2d. for boys and girls below that age. Generally, employed persons (Class 1) will pay half the increase and their employers will pay the other half. The self-employed and non-employed (Classes 2 and 3) will, of course, have to pay the whole increase themselves. The principal rates of contributions now in force and those which will come into force on 1st October, 1951, are set out in Appendix I to this memorandum.

3. The object of providing for the increased rates of contributions is to relieve the Exchequer of some part of the heavy increase in expenditure on national insurance benefits in future years, due almost entirely to the growth in the cost of retirement pensions. Details of the growth in the number of pensioners and in the cost over the next 30 years are given in Appendix II. It is noteworthy that although the special increases in contributions would bring in increased income for a time, the Government Actuary estimates that the contribution income by 1978 will be no more than it was at the beginning of the scheme, mainly as a result of the rising proportion of pensioners in the population.

4. The rates of contribution in force at any time are printed on all national insurance cards, and it will accordingly be necessary to show the increased rates on all cards which will be current on or after 1st October, 1951. The earliest series of cards affected will be those which will cover the period from December 1950 to December 1951. In view of the large supplies involved the printing order for this series of cards will have to be issued in May 1950, and the distribution of the cards to the public will start in the second half of November 1950.

5. It is probable that most insured persons have forgotten that increased rates of contributions are due to come into force in October 1951, and that there may be a good deal of opposition to increases in rates of contributions which are not accompanied by increases in rates of benefits. On the other hand, the future commitments of the national insurance scheme are formidable. It is estimated that the total annual Exchequer liability to the Insurance Fund will rise to about £420 million in 1978 as compared with £140 million provided in current estimates. The increases in contributions now under consideration come into force automatically under existing legislation.

6. In all the circumstances I propose, subject to the approval of the Cabinet, (i) to proceed with the arrangements necessary for bringing the increased rates of contributions into force on 1st October, 1951, and (ii) to take steps to explain to the public in November 1950, and subsequently, the reasons for the increases.

7. These proposals were discussed on 5th May by the Lord President's Committee, who approved them (L.P. (50) 5th Meeting, Minute 2), but agreed that, in view of the possibility of political embarrassment, the Lord President should mention them to the Prime Minister. The Prime Minister has asked that I should bring the matter before the Cabinet.

E. S.

Ministry of National Insurance, S.W. 1,
10th May, 1950.

APPENDIX I

A.—PRESENT RATES OF CONTRIBUTIONS

	Class 1*						Class 2		Class 3	
	Employer		Employee		Total		s.	d.	s.	d.
Men	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.
Women	4	2	4	11	9	1	6	2	4	8
Boys†	3	3	3	10	7	1	5	1	3	8
Girls†	2	5½	2	10½	5	4	3	7	2	9
	1	11	2	4	4	3	3	1	2	3

B.—NEW RATES OF CONTRIBUTIONS ON AND FROM 1ST OCTOBER, 1951

	Class 1*						Class 2		Class 3	
	Employer		Employee		Total		s.	d.	s.	d.
Men	s.	d.	s.	d.	s.	d.	s.	d.	s.	d.
Women	4	4	5	1	9	5	6	6	5	0
Boys†	3	5	4	0	7	5	5	5	4	0
Girls†	2	6½	2	11½	5	6	3	9	2	11
	2	0	2	5	4	5	3	3	2	5

* Industrial Injuries Insurance contributions are included.

† Under the age of 18.

APPENDIX II

NOTE ON THE GROWING COST OF RETIREMENT PENSIONS AND WIDOWS' BENEFITS

In his Report on the Financial Provisions of the National Insurance Bill, 1946 (Cmd. 6730), the Government Actuary estimated the expenditure on retirement pensions and widows' benefits at ten-yearly intervals during the first thirty years of the scheme, as follows:—

	Retirement Pensions £ million	Widows' Benefits £ million
1948*	238	22
1958	301	35
1968	421	42
1978	501	40

* The estimates assumed that the scheme would have been in operation throughout 1948.

The main reason why the cost of retirement pensions and widows' benefits is more than doubled in 30 years is that the number of beneficiaries increases from over 4 million in 1948 to over 7½ million in 1978. This increase in the pensioned population is partly due to the growth in the total population of pensionable age, which is expected to be one-third greater in 1978 than in 1948, but a further main factor is the inclusion in the pensioner population, after the scheme has been in operation for ten years, of classes of persons who were not insured prior to the inception of the universal scheme and are not represented in the pensioner population at the outset. A contributory factor in the increase of cost is the grant of increments of pensions by virtue of contributions paid after the attainment of pensionable age; this factor will not be fully operative in the initial stages of the scheme.

The increase of contributions which will take effect in October 1951, is estimated to produce an additional £16 million at 8½ per cent. of unemployment (which is the level adopted by the Government Actuary on Government instructions as the basis of the finance of the National Insurance Scheme) or £17½ million at the current level of under 2 per cent. of unemployment. The Government Actuary estimates, however, that although this will for a time result in an increase in the income from contributions, that income will by 1978 be no more than it was at the beginning of the scheme.