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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

NATIONAL INSURANCE CONTRIBUTION

We need to make our annual decision about the increases needed to the National Insurance Contribution (NIC). I have been considering this with the Secretary of State for Social Services and this minute contains our joint proposals.

2. Our starting-point is the Government Actuary's forthcoming report on the National Insurance Fund. This will show a deficit for the Fund next year unless the NIC is increased substantially. At the same time an increase in the allocation to the Redundancy Fund (RF) will be necessary if the RF is not to exceed its statutory borrowing limit during 1982-83. Action to increase the NIC is therefore required by the state of the Funds. It will also help with the general financial prospects for next year.

3. I have already decided that I cannot now announce a reduction in National Insurance Surcharge (NIS) from next April. Private sector employers are likely to have to pay an extra £550 million next year compared with this year in NIC and NIS simply because of the rise in earnings. As much as possible of the additional fund income should therefore come from employees rather than employers.

4. We therefore propose:



- (i) A rise in the employees' rate by 1 per cent, from 7.75 per cent to 8.75 per cent with no rise in the employers' rate. This will increase the NIC for the worker on average earnings in 1982-83 by £1.60 a week.

 - (ii) A rise in the Upper Earnings Limit (UEL) from £200 to £220 a week, the maximum allowed under current legislation. The NIC is a flat rate percentage between the Lower Earnings Limit (which will rise to £29.50 in line with the basic pension) and the UEL. Raising the UEL will mean, with the 1 per cent increase in rates, that the contribution paid by the man earning £220 a week or more will rise by £3.75 a week. It will mean additional costs for private sector employers, through NIC and NIS, of £120 million.
5. These proposals will:-
- (i) Enable an increase of 0.35 per cent in the allocation to the RF, so ensuring that it keeps within its borrowing limit.

 - (ii) Allow an increase in the allocation to the National Health Service (NHS) of 0.1 per cent, as proposed by the Secretary of State for Social Services.

 - (iii) Provide a surplus of £250 million for the National Insurance Fund in 1982-83. We must aim at a surplus of £170 million to keep for the PSBR the savings from taking 1 per cent off the uprating of benefits this November to recover the overshoot last year. The surplus can however be removed by a deduction, from 14.5 per cent to 13 per cent, in the supplement which the Treasury pay into the Fund.



6. Legislation is required for an increase in either the employees' or the employer's contribution of more than 0.25 per cent, and is therefore unavoidable. It needs to be passed by the end of January, which means, subject to the views of the business managers, that the Bill should be introduced as soon as possible and no later than next week. The announcement should preferably be linked with the intended announcement about public expenditure programmes for 1982-83.

8. To sum up, I recommend:

- (i) An increase in the employees' NIC rate by 1 per cent.
- (ii) An increase in the UEL from £200 to £220.
- (iii) A reduction in the Treasury Supplement by 1½ per cent.

A Bill should be introduced accordingly. It could also provide for the extra payments into the RF to be made by the employees; at present all payments into this Fund come from the employers.

9. Copies of this minute go to our Cabinet colleagues, and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.'.

G.H.

25 November 1981