



cc B.G.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

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From the Secretary of State for Social Services

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NATIONAL INSURANCE CONTRIBUTIONS RERATING 1988/9

I have now received the Government Actuary's projections on which I have to decide what changes to make to national insurance contributions (NICs) for 1988/9.

The Government Actuary's projections show that the Fund is accumulating a considerable surplus. I would like to consider with you in the longer term how this can be tackled strategically. However, in the interim, I do not propose to alter any of the rates of NIC for 1988/9. The main changes which have to be made are to the earnings limits for Class 1, and the earnings brackets for lower earners paying the reduced rate of NIC; the small earnings exception for the flat-rate self-employed Class 2 contribution; and the profits limits for Class 4. My proposals are accordingly as follows:

- * a 2 per cent reduction in the Treasury Supplement, from 7 per cent of gross contribution income to 5 per cent. This is the maximum reduction possible within subordinate legislation and will help shift more of the balance of contributory benefit spending from general taxation to contributions.
- * a zero employment protection allocation. This takes up the point in Norman Fowler's letter to me of 30 June and avoids adding to the surplus in the Redundancy Fund.

E R.

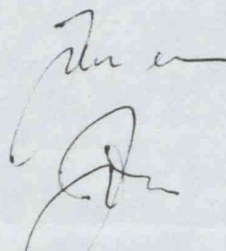
* a lower earnings limit of £41 and an upper earnings limit of £305 a week for Class 1 NICs. These limits are tied by statute to the rate of the basic pension, and the increase is therefore virtually automatic (the present lower and upper limits are £39.00 and £295 respectively).

* a £5 increase in the ceiling of each earnings bracket where reduced rate NICs are payable. These ceilings should rise with the earnings limits, and to put them up by less than £5 would complicate employers' tasks unnecessarily.

* for self-employed people, increase the small earnings exception for Class 2 to £2,250 a year and raise the lower and upper profits limits for Class 4 NICs to £4,750 and £15,860 a year respectively. The upper profits limit movement is automatic, as it equals the annual upper earnings limit for Class 1 NICs. The other two figures follow it.

I hope that you will agree to these minimal changes, which will on the Government Actuary's assumptions give us a surplus in the NI Fund of £2.4 billion for 1988/9. If you are content, I suggest that we follow the practice of the last few years, with you announcing the main changes in your Autumn Statement and me filling in the details in reply to an inspired Question the same day. If the timing is right, it will probably make sense to debate the rerating and the benefit uprating Orders together, as we did last year. A number of minor consequential changes following from these main decisions will need to be finalised, most of them affecting the special classes of contributors. I suggest that we leave the details to be agreed between our officials, with Michael Portillo keeping an eye on them here.

I am sending copies of this letter to Prime Minister, Norman Fowler and Tom King, and to Sir Robert Armstrong.



JOHN MOORE