



Department for  
Work and Pensions

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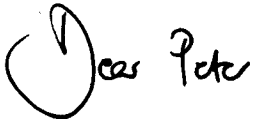
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Cllr. Peter Morris  
Member for Disraeli Ward  
Wycombe District Council  
45 Cock Lane  
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Bucks HP13 7DY

12 February 2007

 Dear Peter

**National Insurance Fund – cost of unfreezing pensions**

Dear Cllr. Morris,

Thank you for your email dated 26 January 2007 in which you provide details of how the cost of unfreezing the pensions of overseas residents could be met. As you rightly point out state pensions are paid out of the National Insurance Fund (NIF) rather than general taxation. You propose we use the current 'surplus' in the NIF to meet the cost of uprating the state pensions of all recipients living overseas. Further you state that the resulting reduction in the NIF although significant will still leave a 'substantial' surplus and that any loss would be felt by NI contributors rather than tax-payers. However, it should be noted that taxpayers tend to be NI contributors.

The contributions paid by those in work are used to fund contributory benefit expenditure. The main benefits paid out of the NIF include State Pension, Bereavement Benefits, Incapacity Benefit and contribution- based Jobseeker's Allowance. Part of the contributions collected are used to fund the National Health Service directly and are not paid into the NIF.

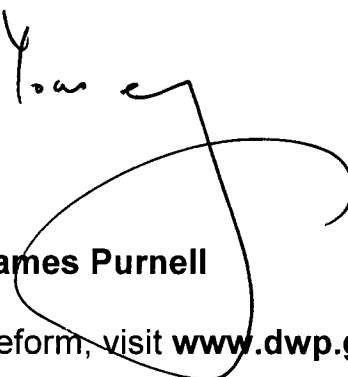
The management of the NIF is a matter for HM Revenue and Customs and I understand that you have corresponded with them on using the surplus to fund indexation of frozen pensions.

Any surplus between receipts and payments into the NIF are invested in gilts. The Government issues gilts to invest in public services such as schools and hospitals. If any of the surplus were used for any other purpose, the Government would need to raise the equivalent through other means such as raising taxes or National Insurance. The essential point is that the NIF cannot be looked at in isolation. It is taken into account by the Government in determining how it would raise income to meet its expenditure. The requirement is for the NIF to have sufficient funds together with a working balance to meet benefits expenditure.

As I explained at our meeting on 17 January our priority, within the limited resources, available is to ensure that pensioners resident in the UK continue to see an increase in their living standards commensurate with the growth of the economy as a whole.

I also made it absolutely clear at the meeting that funding frozen pensions would require the Government to raise additional income which would need to come from UK taxpayers. I am not convinced that this would be the right thing to do.

I appreciate your concerns on this issue and hope you understand that the surplus in the NIF is not the answer.



**James Purnell**

For more information on pensions reform, visit [www.dwp.gov.uk/pensionsreform](http://www.dwp.gov.uk/pensionsreform)