

The Affordability of the UK State Pension

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A brief history of the universal UK State Pension

- Old-Age Pension Act 1908
- Widows, Orphans and Old Age Contributory Pensions Act 1925
- Old Age and Widows Pensions Act 1940
- **National Insurance Act 1946**
- National Assistance Act 1948
- Social Security Act 1966
- Social Security Act 1986
- State Pension Credit Act 2002

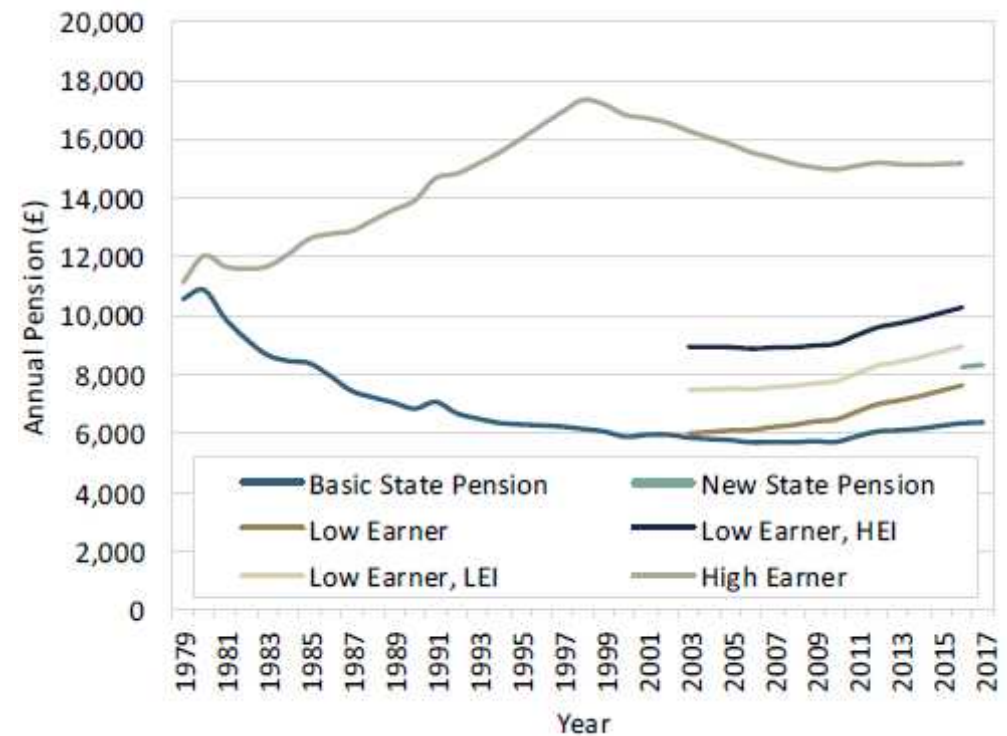
A brief history of additional UK State Pensions

- National Insurance Act 1959
- Social Security Pensions Act 1975
- Child Support, Pensions and Social Security Act 2000
- Social Security Act 1986
- Pensions Act 2007
- Pensions Act 2014

Broad impact of changes (1978 onwards)

- Pensions are less generous than they were
 - Impact of long absence of salary linking to the Basic State Pension
 - Increasingly redistributive nature of pensions...
 - ...reflecting fact that NI is increasingly a tax, not a premium

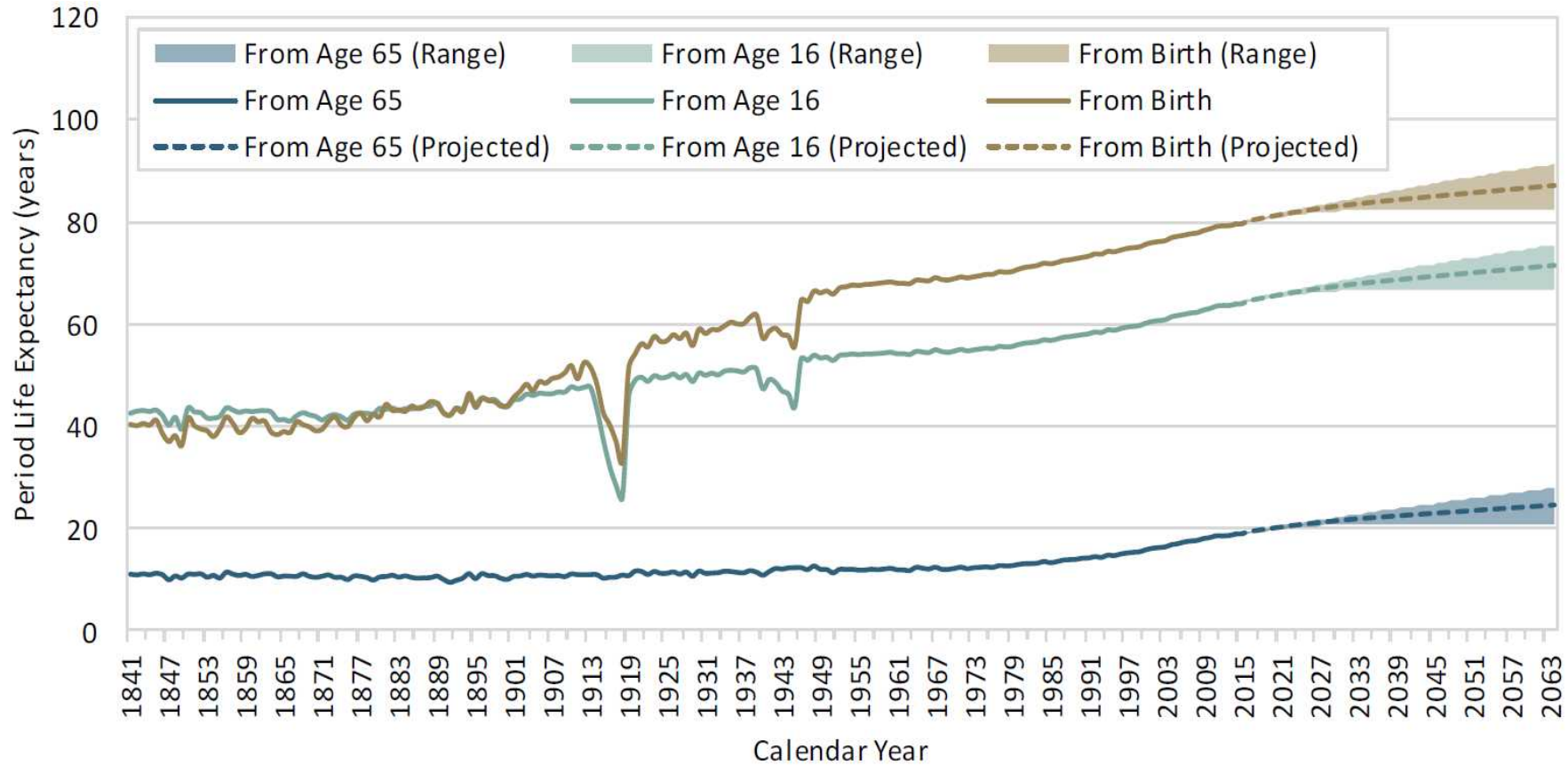
Maximum and Minimum Pensions in Earnings Adjusted Terms



Source: Rutherford (2013), Office for National Statistics; author's calculations

Life expectancy has been increasing...

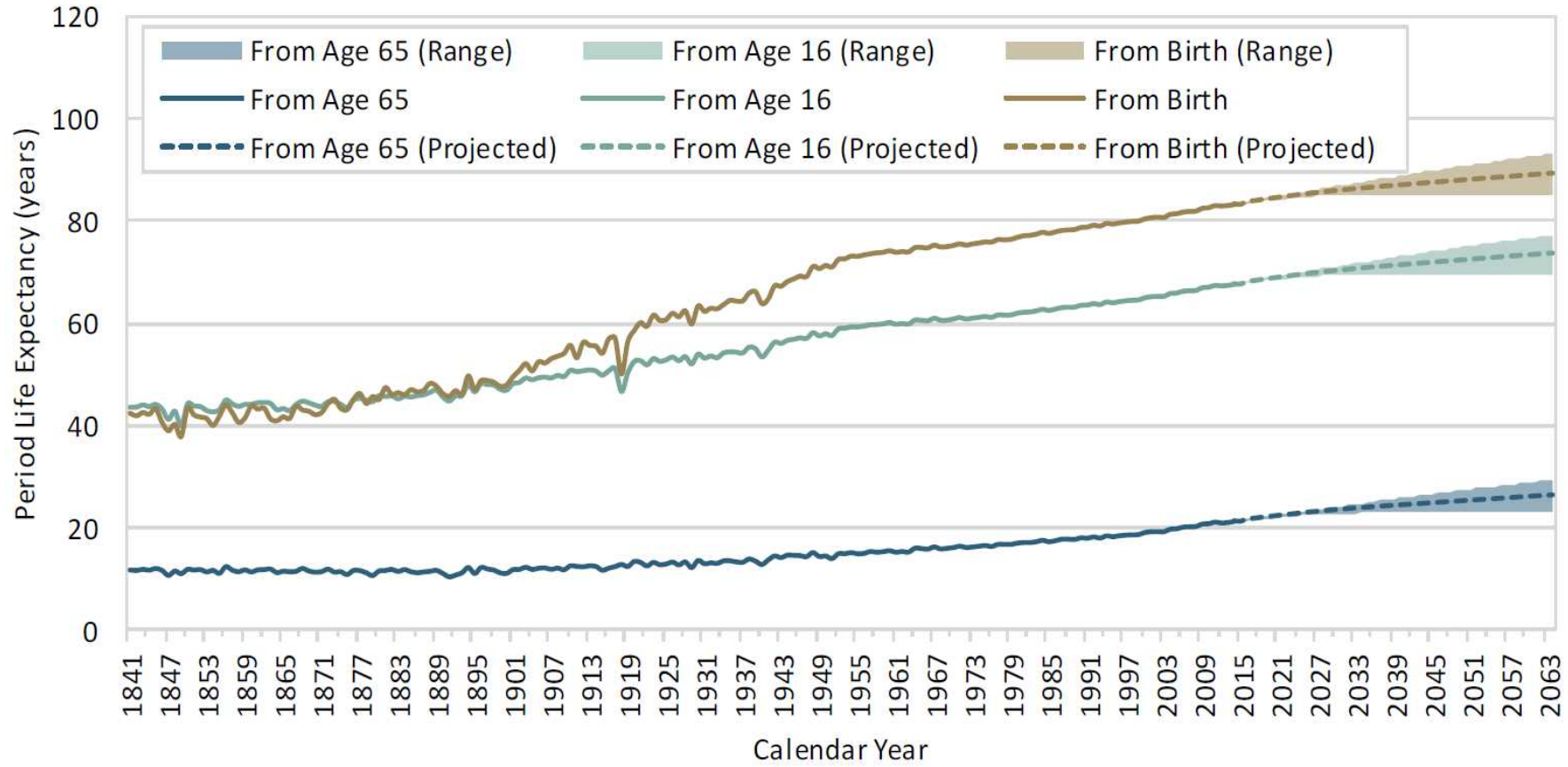
UK Period Life Expectancy for Men with Confidence Intervals, 1841 to 2064



Source: Human Mortality Database, Office for National Statistics

Life expectancy has been increasing...

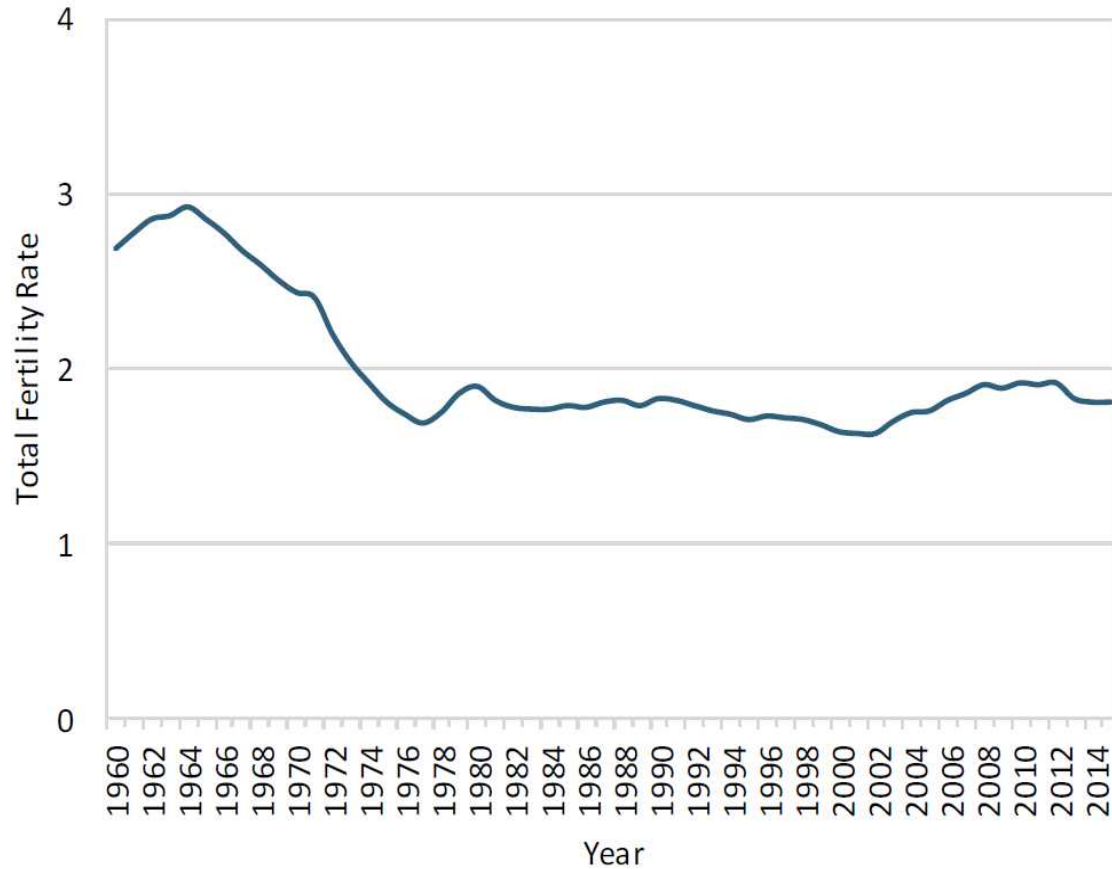
UK Period Life Expectancy for Women with Confidence Intervals, 1841 to 2064



Source: Human Mortality Database, Office for National Statistics

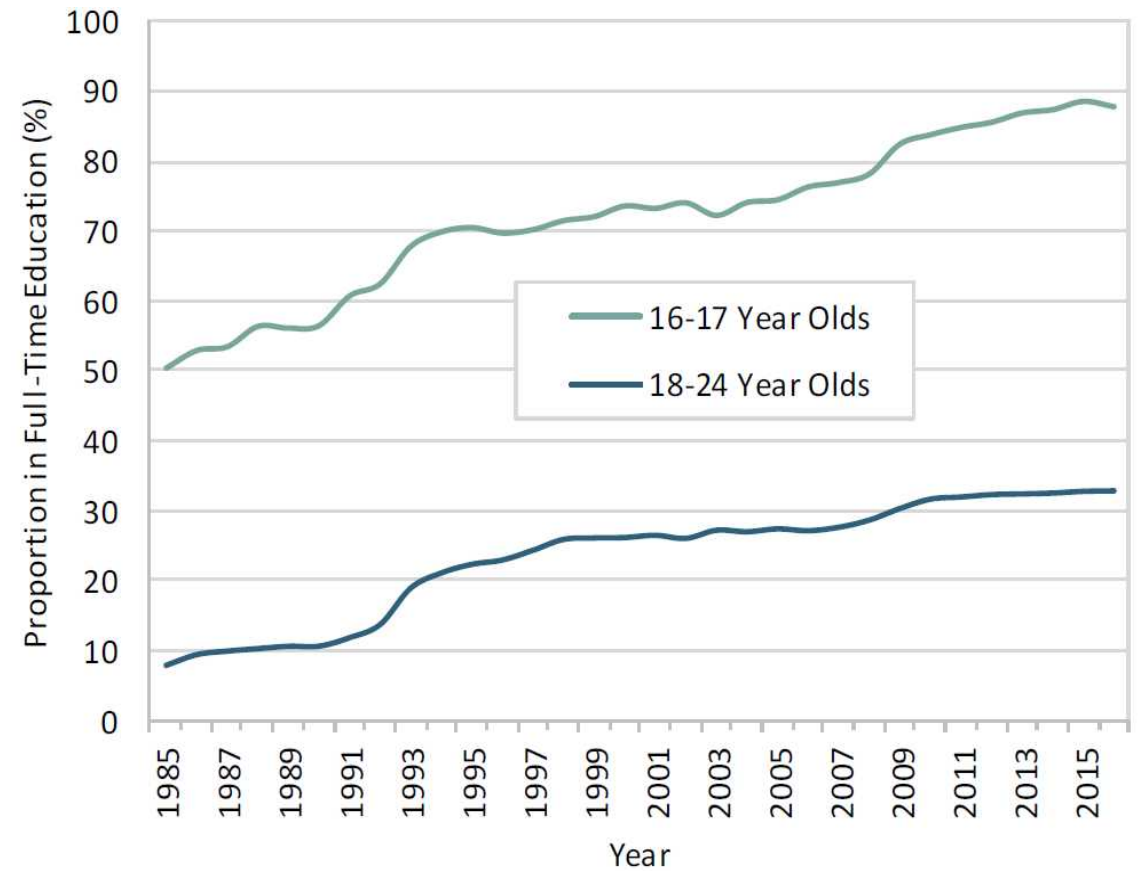
...but the working population is not growing quickly enough

UK Total Fertility Rate, 1960 to 2015



Source: World Bank

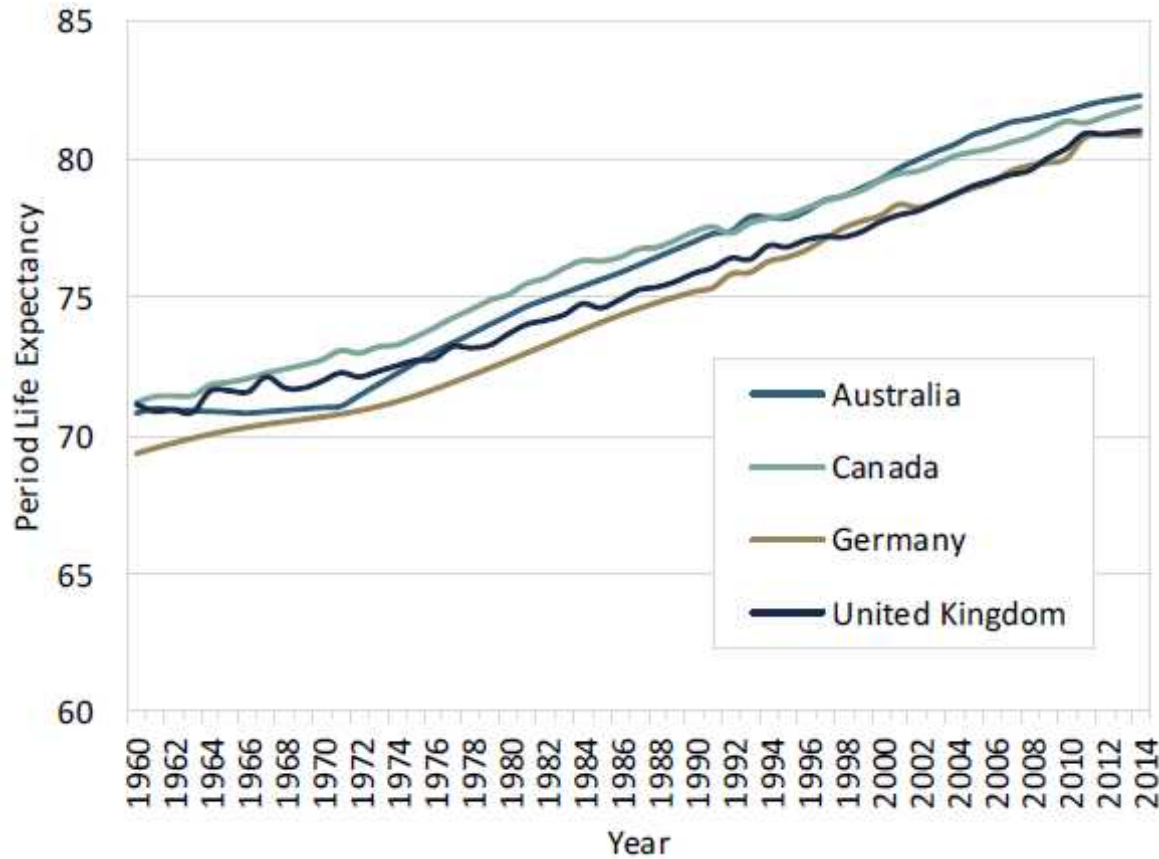
Proportion of Children and Young Adults in Education, 1985 to 2016



Source: Office for National Statistics; author's calculations

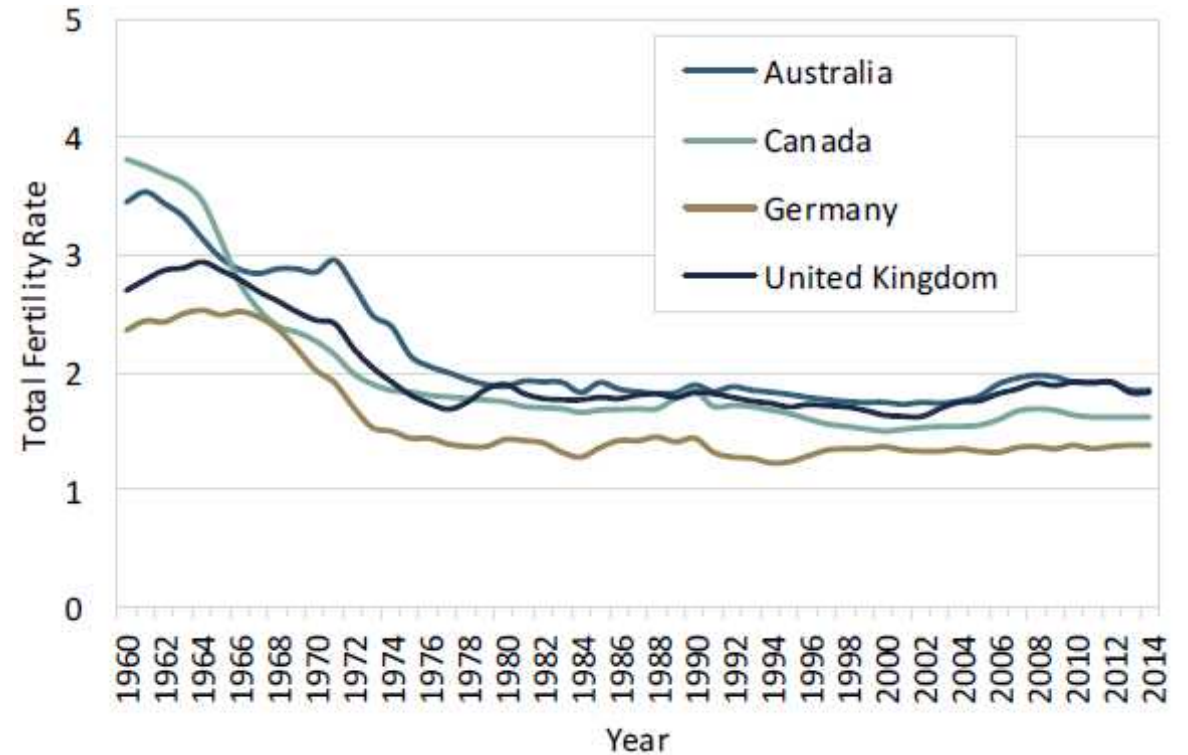
The UK is not alone with these challenges

Period Life Expectancy, 1960 to 2014



Source: World Bank

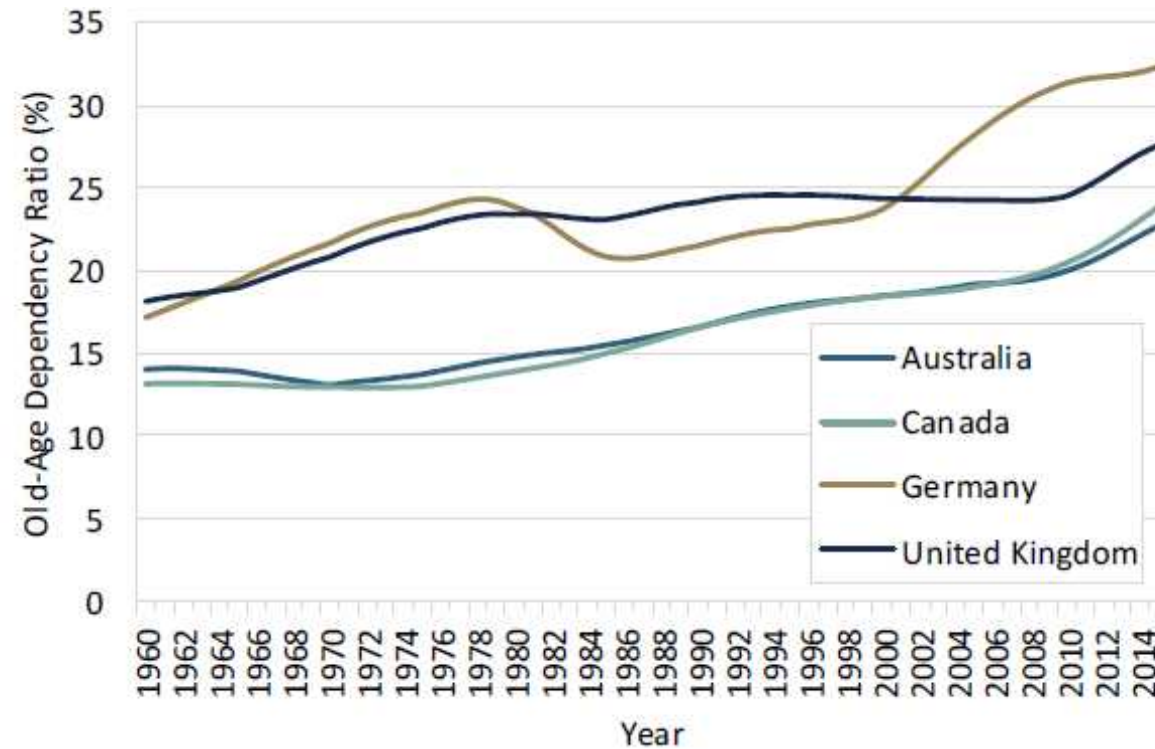
Fertility Rate, 1960 to 2014



Source: World Bank

Immigration could help

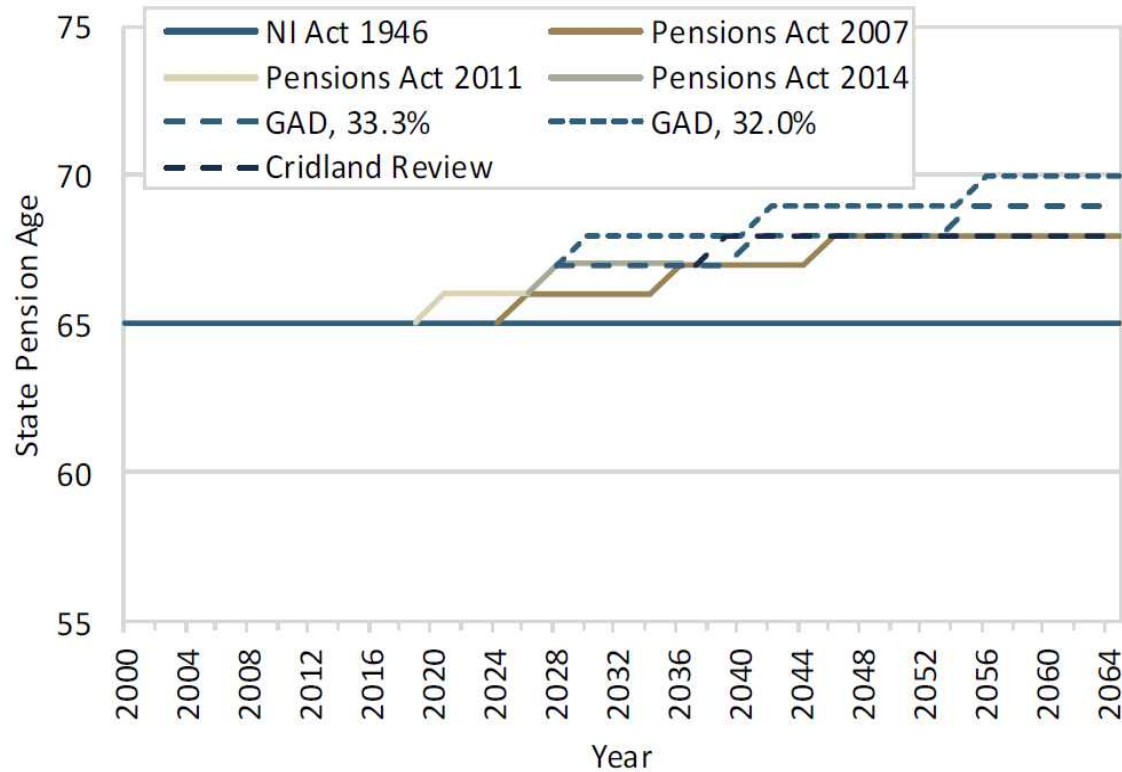
Old Age Dependency Ratio, 1960 to 2014



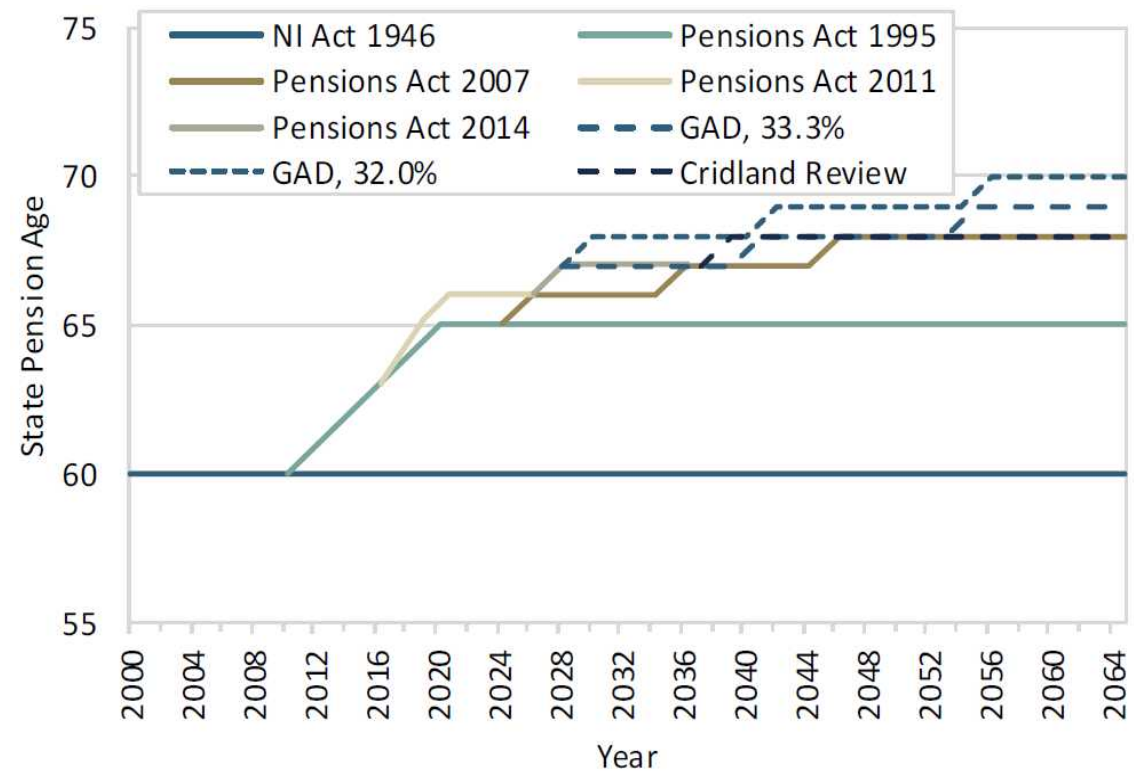
Source: World Bank

The solution has been to increase the State Pension Age...

State Pension Ages for Men



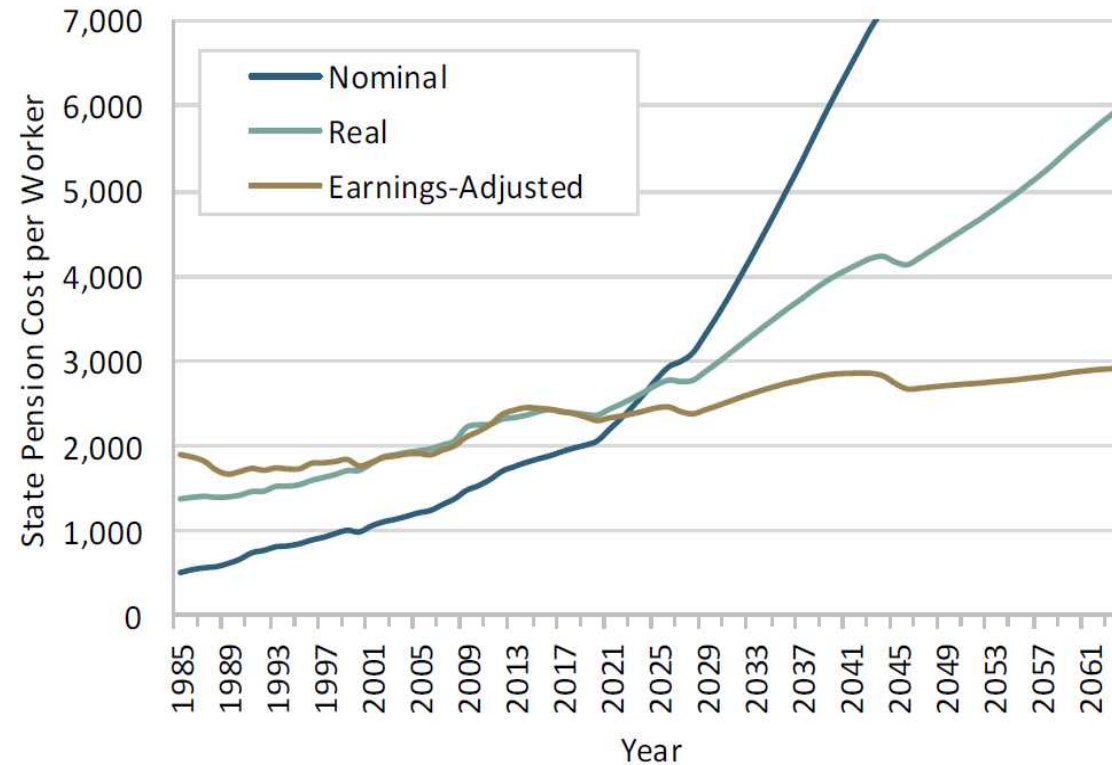
State Pension Ages for Women



Source: Thurley & Keen (2017); Government Actuary's Department (2017); Thurley & Keen (2017); Government Actuary's Department

...but this will not be enough to control costs

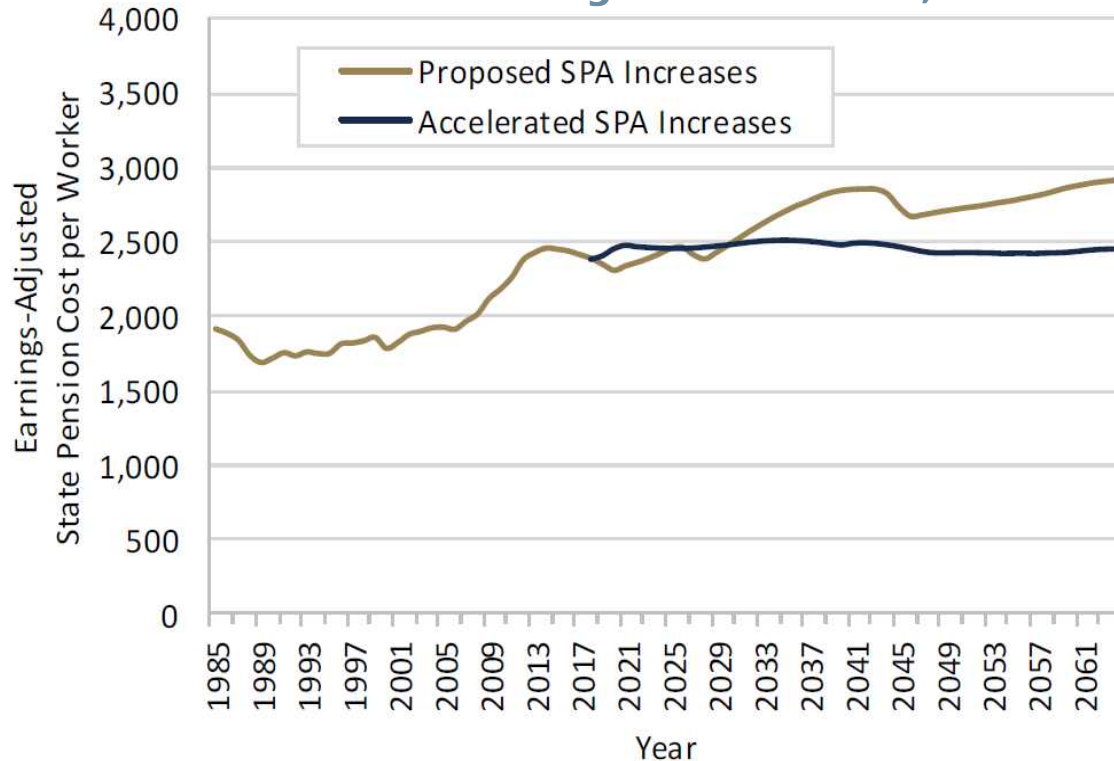
Historical and Projected Annual Cost of UK State Pensions per Worker, 1985 to 2064



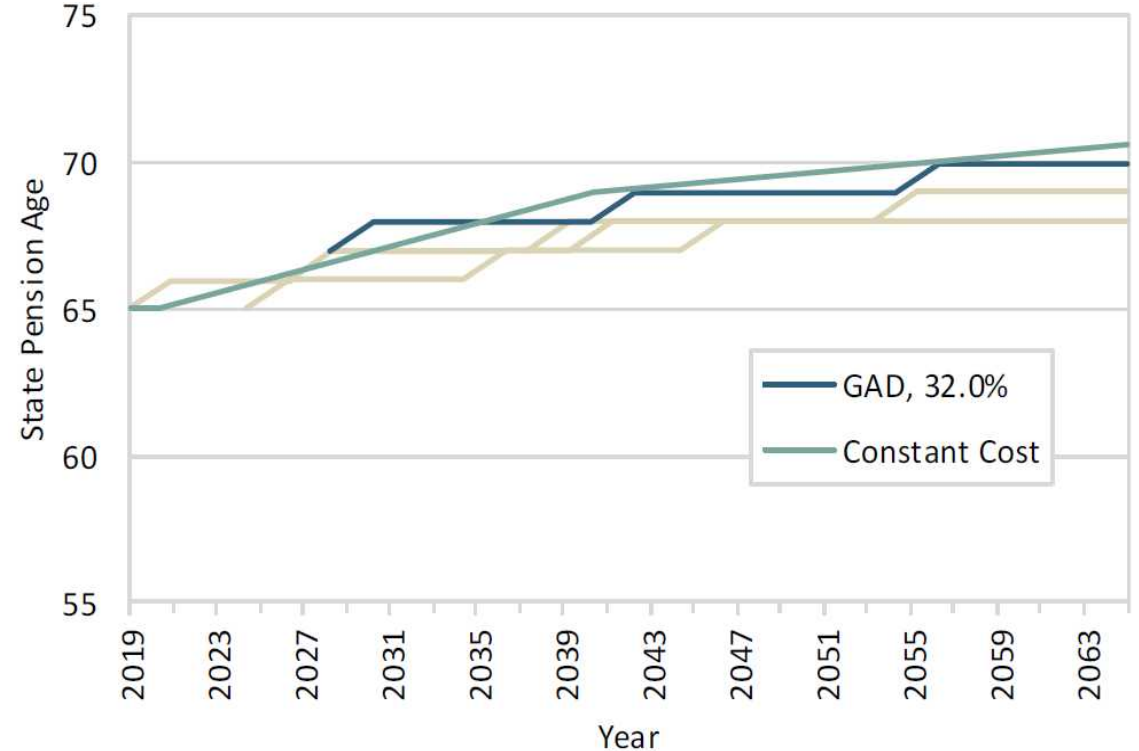
Office for National Statistics; author's calculations

It is possible to accelerate SPA increases...

Historical and Projected Annual Cost of UK State Pensions per Worker with Cost-Controlling SPA Increases, 1985 to 2064



Cost-Controlling SPA Increases

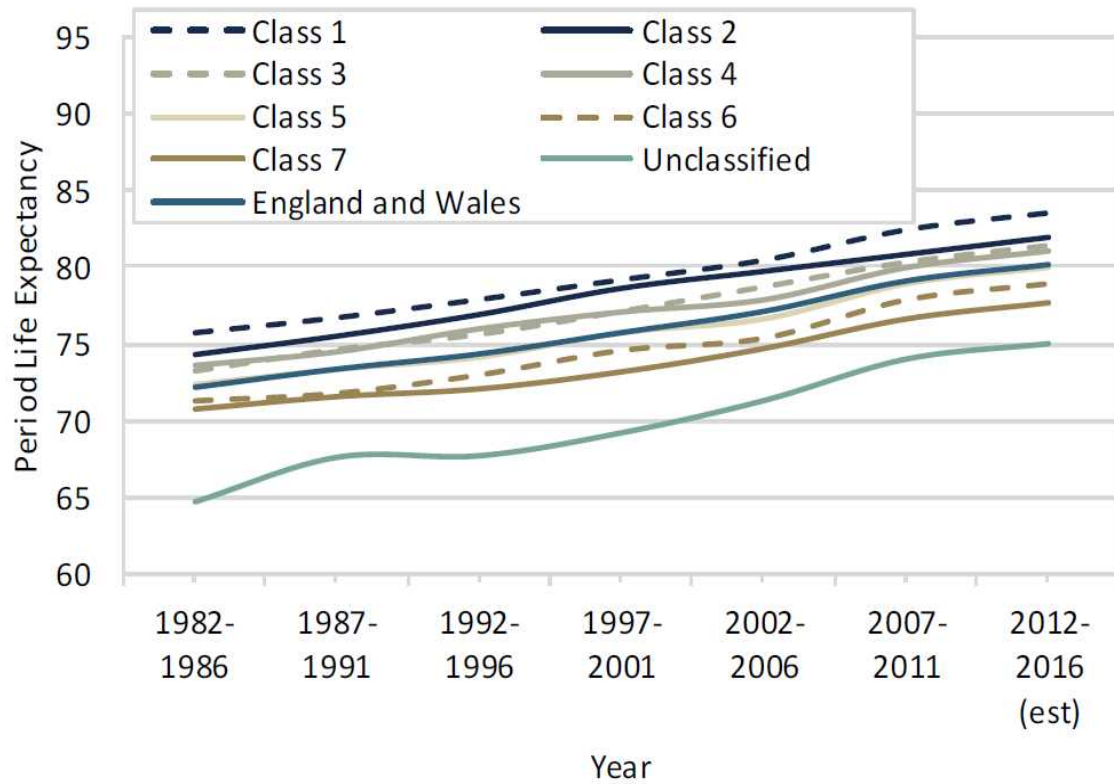


Office for National Statistics, author's calculations

Government Actuary's Department (2017), author's calculations

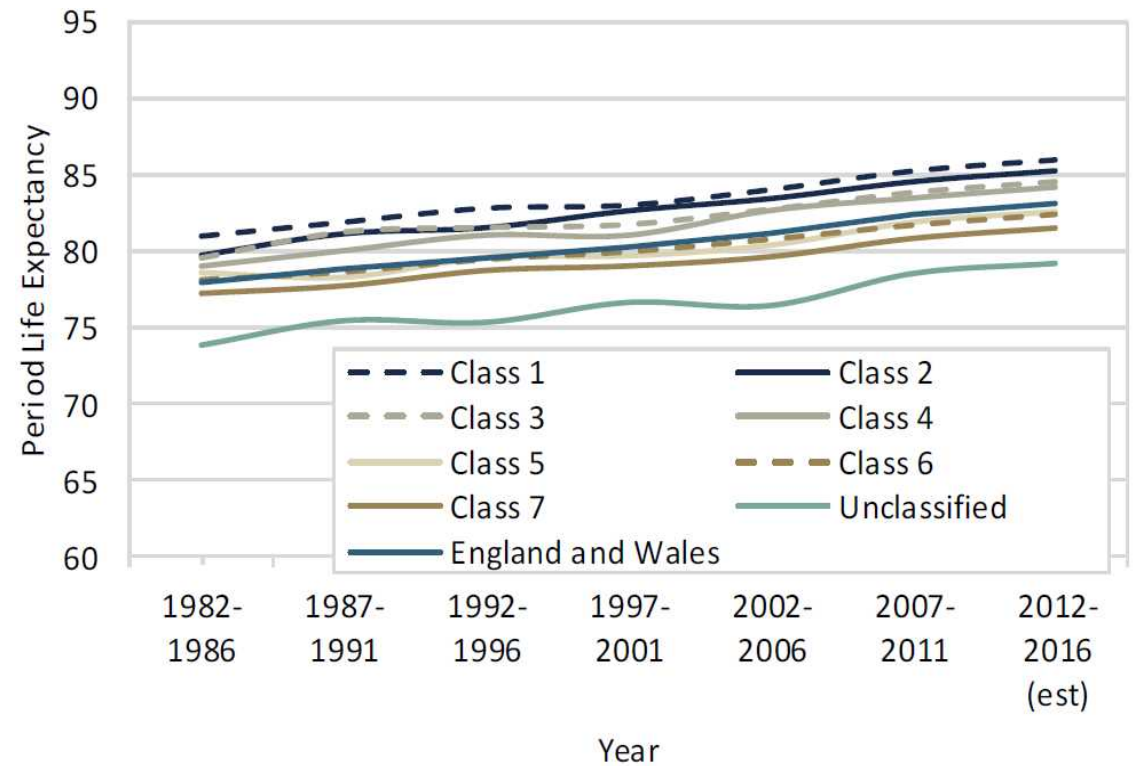
...but this would hit the poorest hardest

Male Period Life Expectancy from Birth By Socioeconomic Group, 1982 to 2016



Office for National Statistics, author's calculations

Female Period Life Expectancy from Birth By Socioeconomic Group, 1982 to 2016



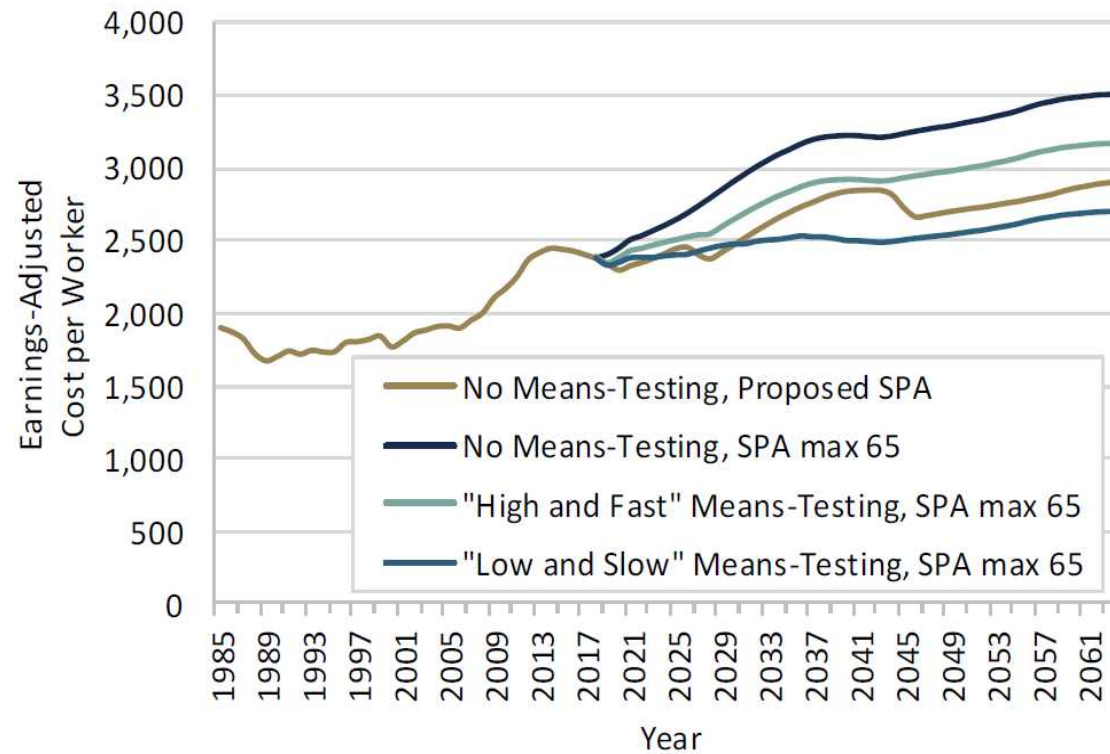
Office for National Statistics, author's calculations

Means testing could keep the SPA at 65 – at a cost...

Means-Testing Scenarios

Year	Income Earned Per £ Lost	
	"High and Fast"	"Low and Slow"
2019	10	20
2020	9	15
2021	8	12
2022	7	10
2023	6	8
2024	5	7
2025	4	6
2026	3	5.5
2027	2	5
2028	1	4.5
2029	1	4
2030	1	3.5
2031	1	3
2032	1	2.25
2033	1	2
2034	1	1.75
2035	1	1.625
2036	1	1.5
2037	1	1.3
2038	1	1.2
2039	1	1.1
2040	1	1

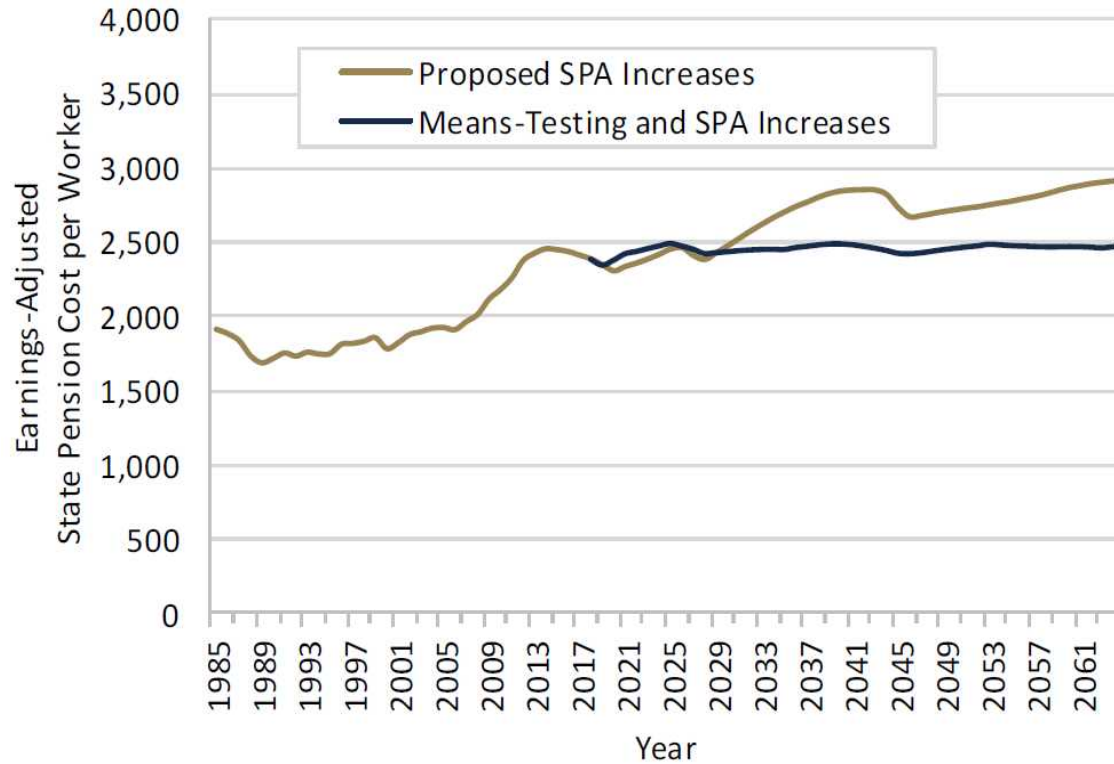
Historical and Projected Annual Cost of UK State Pensions per Worker With Means Testing, 1985 to 2064



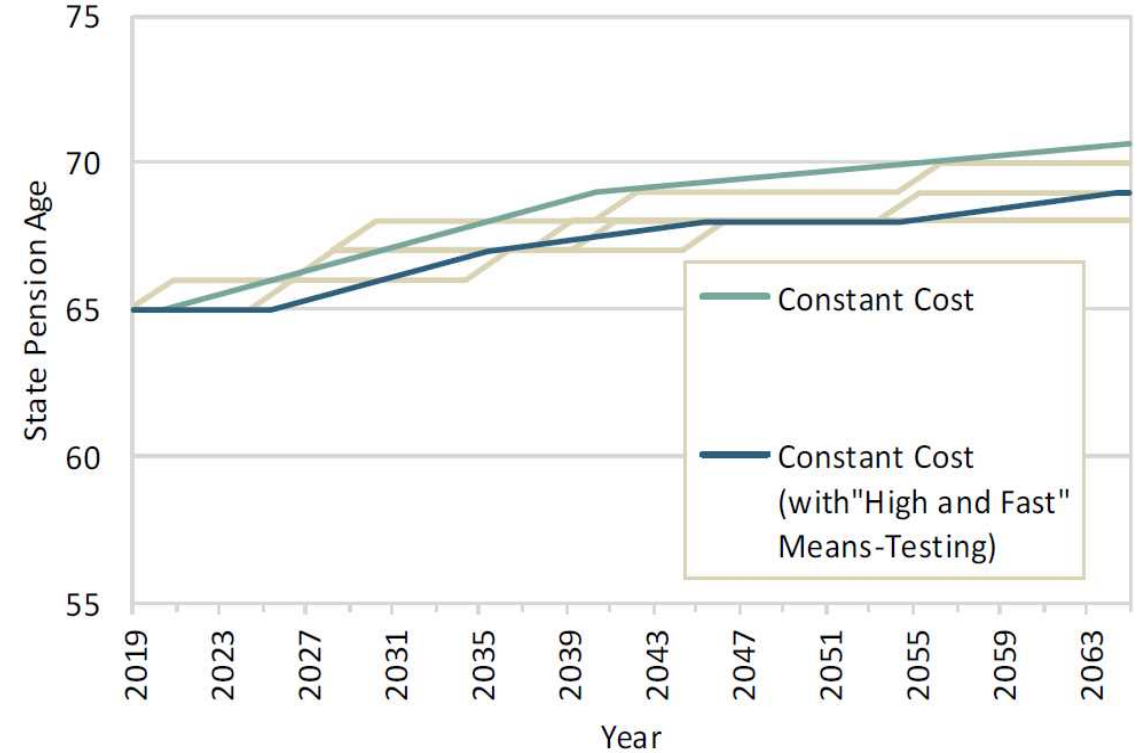
Office for National Statistics; author's calculations

...but means testing and some SPA increases could bring sustainability

Historical and Projected Annual Cost of UK State Pensions per Worker with “High and Fast” Means Testing and Cost-Controlling SPA Rises, 1985 to 2064



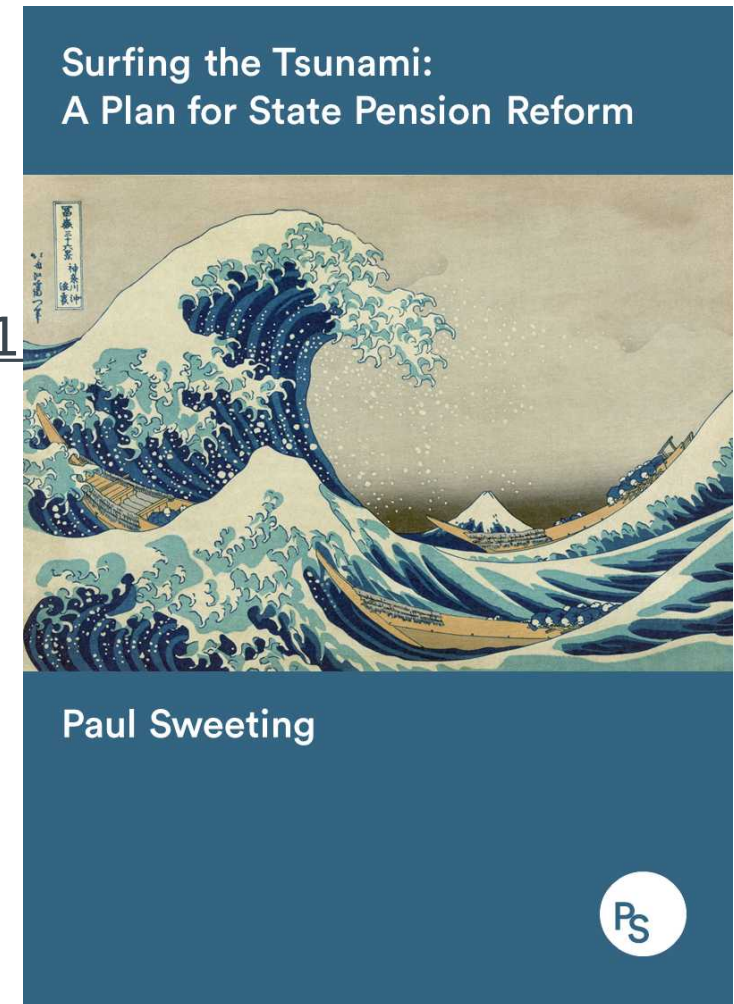
Cost-Controlling SPA Rises with “High and Fast” Means Testing



Office for National Statistics; author’s calculations Government Actuary’s Department (2017); author’s calculations

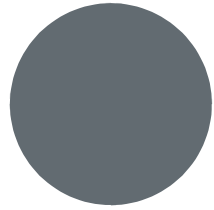
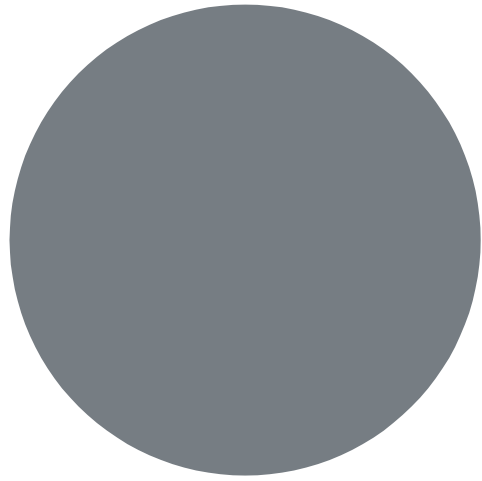
Full report

- Soft copy available here:
 - <http://paulsweeting.com/library/170604SPA.pdf>
- Hard copy available here:
 - <https://www.amazon.co.uk/gp/product/19997681>



References

- Rutherford, T. (2013) , Historical Rates of Social Security Benefits, House of Commons Library, London
- Government Actuary's Department (2017), Periodic review of rules about State Pension age: Report by the Government Actuary, HMSO, London
- J. Cridland (2017), Independent Review of the State Pension Age: Smoothing the Transition, HMSO, London
- Thurley, D. and R. Keen (2017). State Pension age review: briefing paper number CBP-06456, House of Commons Library, London



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