Challenges for the future of the state pension

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The state pension: the basics

- Those reaching state pension age since April 2016 are eligible for the **new state pension** (full amount: £203.85 per week)

- Claimable from **state pension age**. Currently 66, rising to 67 by 2028 and 68 by 2046

- Very **important source of income** even for high-income pensioners
  - 23% of income for highest income fifth of people aged 66-70

- **State pension spending**: £124 billion in 2023–24
The new state pension

- The new state pension and the triple lock have boosted the value of the flat-rate state pension
Level of basic or new state pension

Source: Figure 2.1 from Cribb et al (2023).
The new state pension

- The **new state pension** and the **triple lock** have boosted the value of the flat-rate state pension.

- By mid 2030s, over 80% of new retirees will get the full amount.

- Most receiving the full NSP are **above or very close to the relative poverty line** – except some single private renters.

- Despite increases in the state pension age:
  - Men born in 1980 expect to live on average 17 years post SPA, 2 years more than men born in 1940.
  - Woman born in 1980 expect to live on average 20 years post SPA.
Key challenges

- The ageing population will add considerable pressure on public finances in coming decades
Pressure on public finances

Current (2023) and OBR projections for spending in 2050, % of GDP

- State pensions + pensioner benefits: 5.9% of GDP
- Health and social care: 9.4% of GDP

Additional by 2050:
- £45 bn per year (today's terms)
- £105 bn per year (today's terms)

Source: Figure 3.3 from Cribb et al (2023).
The ageing population will add considerable pressure on public finances in coming decades.

The triple lock increases the value and spending on the state pension relative to average earnings over time, in a way that creates additional uncertainty over level and cost of state pension.

Compared to earnings indexation, costs anywhere between an additional £5bn and £40bn per year in 2050 in today’s terms.
Key challenges

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- The triple lock increases the value and spending on the state pension relative to average earnings over time, in a way that creates additional uncertainty over level and cost of state pension.

- Maintaining triple lock and relying on only state pension age increases as tool to manage costs would hit those with lower life expectancy (such as poorer people) more.
% change in men’s total lifetime state pension income from increase in SPA from 66 to 67, and move from triple-lock to earnings indexation

Source: Figure 6.3 from Cribb et al (2023).
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- Despite simplicity of the state pension system, there is a mixture of confusion and pessimism about the future of the state pension.
Confusion and pessimism about the state pension

- Working-age people do not know that the state pension rises at least in line with inflation
  - 38%: state pension will rise **slower** than prices in next 10 years

- Many people worried about the future of the state pension
  - 1 in 3 think that the state pension will not exist in 30 years time
Summary: four key future challenges

- The ageing population will add considerable **pressure on public finances** in coming decades.

- **The triple lock** increases the value and spending on the state pension relative to average earnings over time, in a way that creates **additional uncertainty** over level and cost of state pension.

- Maintaining triple lock and **relying on only state pension age increases as tool to manage costs** would hit those with lower **life expectancy** e.g. poorer people more.

- Despite simplicity of the state pension system, there is a **mixture of confusion and pessimism about the future** of the state pension.