State pension: A new way forward
The new state pension

- Many aspects of the new state pension commendable

- Some key features should be retained:
  - Flat-rate – no means-testing or earnings-related part
  - Accessible from a single universal state pension age

- But, given the challenges, we need a new way forward
  - Build on the strengths of the current system
  - Provide a sustainable long-term future for the state pension
A new way forward

- We introduce a suggested new **four-point pension guarantee**
- Consider different aspects of the system together:
  - Level of the new state pension
  - Indexation
  - State pension age
- These policy suggestions are based on
  - New findings in this report
  - Evidence from specially conducted polling and focus groups
  - Discussions with expert stakeholders
1. There should be a government target level for the new state pension, expressed as a share of median full-time earnings.
A target level for the state pension

- We need a long-term strategy for the level of the state pension
- As with the minimum wage, politicians should state what the new state pension should be as share of average earnings
- Then legislate a pathway to hit that target with a specific timetable
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Four-point pension guarantee

2. Both before and after the target level is reached, the state pension will continue to increase at least in line with inflation every year.
3. The state pension **will not be means-tested**.
4. The state pension age will only rise as longevity at older ages increases, and never by the full amount of that longevity increase.
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Four-point pension guarantee

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Setting the level – key trade-off

Impact on state pension spending in 2050 (relative to earnings indexation from 2023 onwards)

New state pension as a share of median full-time earnings

Source: Figure ES1 from Cribb et al. 2023.
Setting the level – key trade-off

Impact on state pension spending in 2050 (relative to earnings indexation from 2023 onwards)

Source: Figure ES1 from Cribb et al. 2023.

Third of average earnings; cost of £18bn per year

Current 2023–24 level

New state pension as a share of median full-time earnings

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Proposed indexation

- Australian-style indexation

- In good years: value of the state pension grows in line with average earnings and general living standards

- In bad years when average earnings growth is below inflation:
  - Value of the state pension rises in line with prices
  - Protects the purchasing power of the state pension

- Indexation remains in line with prices until the state pension returns to its target level
Indexation in the long run

Illustration of how our suggested new style of indexation would operate

Source: Figure ES2 from Cribb et al. 2023.
Indexation in the long run

Illustration of how our suggested new style of indexation would operate

Falls in real earnings (e.g. recessions)

‘Pension guarantee’ – new style of indexation

Average earnings indexation

Price indexation

Source: Figure ES2 from Cribb et al. 2023.
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Source: Figure ES2 from Cribb et al. 2023.
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Illustration of how our suggested new style of indexation would operate

*Falls in real earnings (e.g. recessions)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of the state pension (relative to value in year 1)</th>
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<tbody>
<tr>
<td>1</td>
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<tr>
<td>2</td>
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<td>19</td>
<td>90%</td>
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<tr>
<td>20</td>
<td>95%</td>
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*Source: Figure ES2 from Cribb et al. 2023.*
Our four-point pension guarantee is carefully designed to provide a new way forwards for the state pension.
# Four-point pension guarantee

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<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Long-term commitment to keep the state pension at a <em>set level relative to average earnings</em></td>
<td>2</td>
<td>State pension will <em>always be protected against inflation</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3</td>
<td>State pension will <em>never be means-tested</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4</td>
<td>State pension age will only go up when life expectancy increases</td>
</tr>
</tbody>
</table>

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Summary

▪ Our four-point pension guarantee is carefully designed to provide a way forwards for the state pension

▪ It would:
  ▪ Build on the strengths of the current state pension system
  ▪ Address some of the key challenges we have identified
  ▪ Help ensure people can have confidence and certainty over the state pension as a future source of income
  ▪ Protect from old-age poverty and provide a bedrock on top of which people can build private pension saving