The Pensions Review

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Challenges for the future of the state pension

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Institute for Fiscal Studies
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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

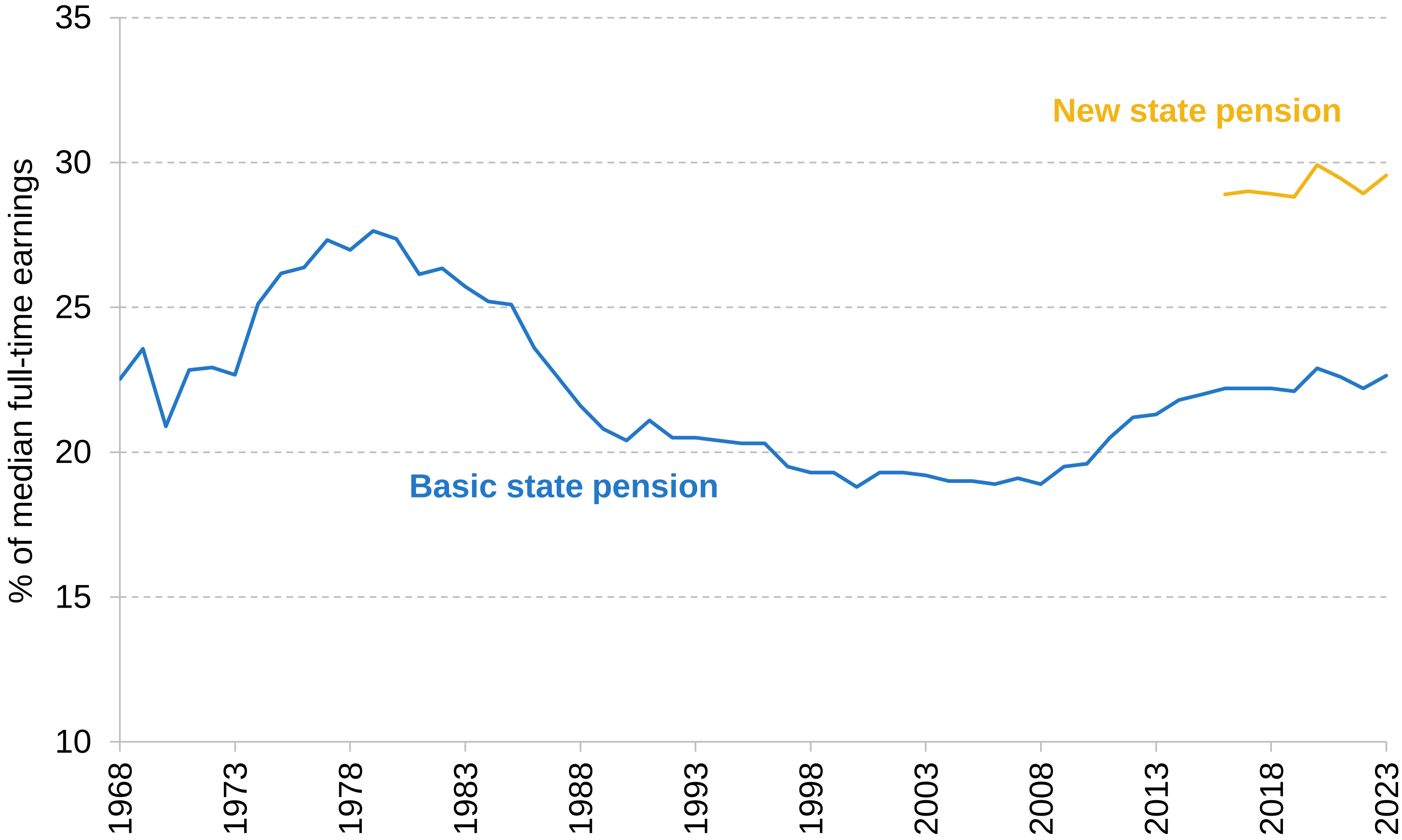
- Very **important source of income** even for high-income pensioners
  - 23% of income for highest income fifth of people aged 66-70

- **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

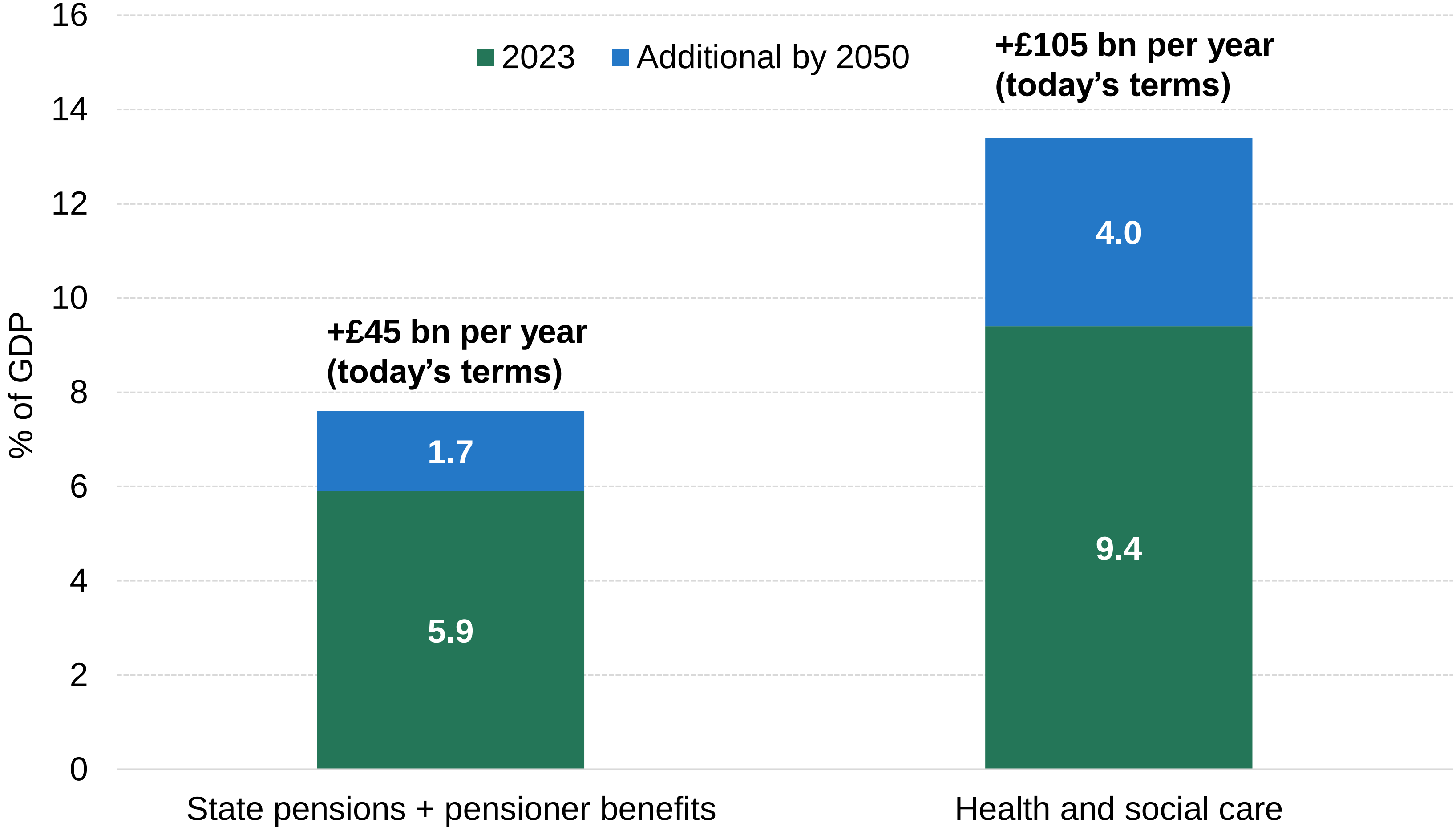
- The **new state pension** and the **triple lock** have boosted the value of the flat-rate state pension
- By mid 2030s, over 80% of new retirees will get the full amount
- Most receiving the full NSP are **above or very close to the relative poverty line** – except some single private renters
- **Despite 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



Source: Figure 3.3 from Cribb et al (2023).

Key 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
  - Compared to earnings indexation, costs anywhere between an additional **£5bn and £40bn per year in 2050 in today's terms**

Key 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** (such as poorer people) more

Change to SPA vs to indexation

% 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).

Change to SPA vs to indexation

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Key challenges

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- 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

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