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Means Testing and the UK State Pension /
Professor Paul Sweeting

Background

- Three strands to UK State Pension
  - Basic
  - Additional
  - Safety Net

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Background

- Three strands to UK State Pension
  - **Basic**
  - Additional
  - Safety Net

- Basic
  - Started with Old Age Pension (1909)
  - This was replaced with Basic State Pension (1948)
 - Now we have New State Pension (2016)

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Background

- Three strands to UK State Pension
  - Basic
  - **Additional**
  - Safety Net

- Additional
  - Old-Age Contributory Pension (1928) gave a "bridging pension"
  - Graduated Retirement Benefit (1961) was earnings-related
  - State Earnings Related Pension Scheme or SERPS (1978) was more generous
  - State Second Pension or S2P (2002) was more redistributive

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Background

- Three strands to UK State Pension
  - Basic
  - Additional
  - **Safety Net**

- Safety Net
  - National Assistance (1948) introduced to help those that did not qualify for a Basic State Pension
  - Supplementary Benefits (1966) did a similar job…
  - …as did Income Support (1988)…
  - …and the Pensions Credit (2003)

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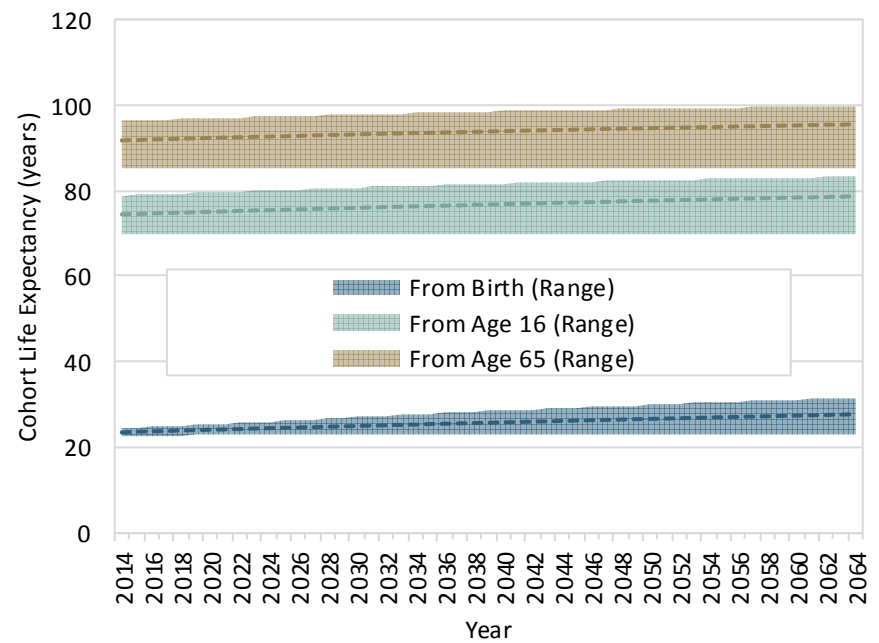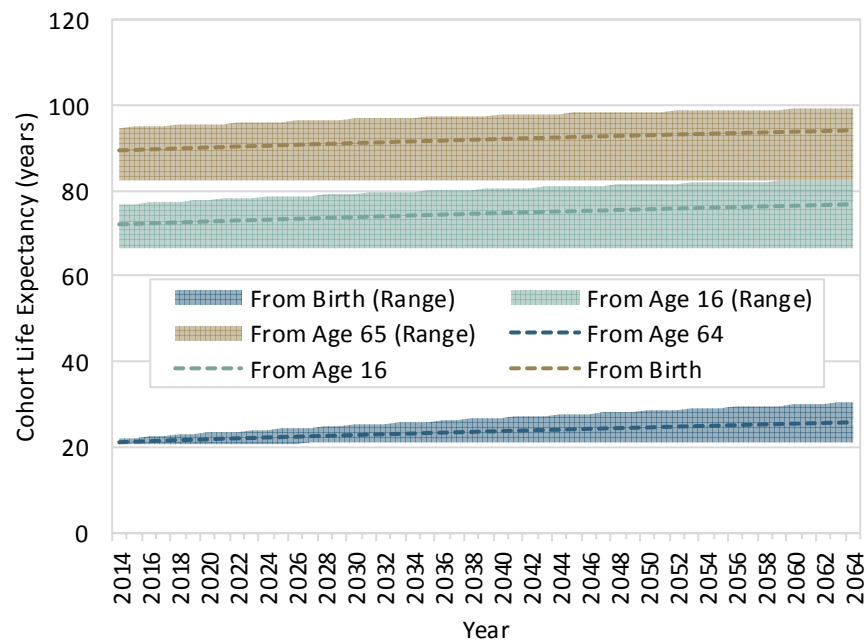
Period Life Expectancy, Males
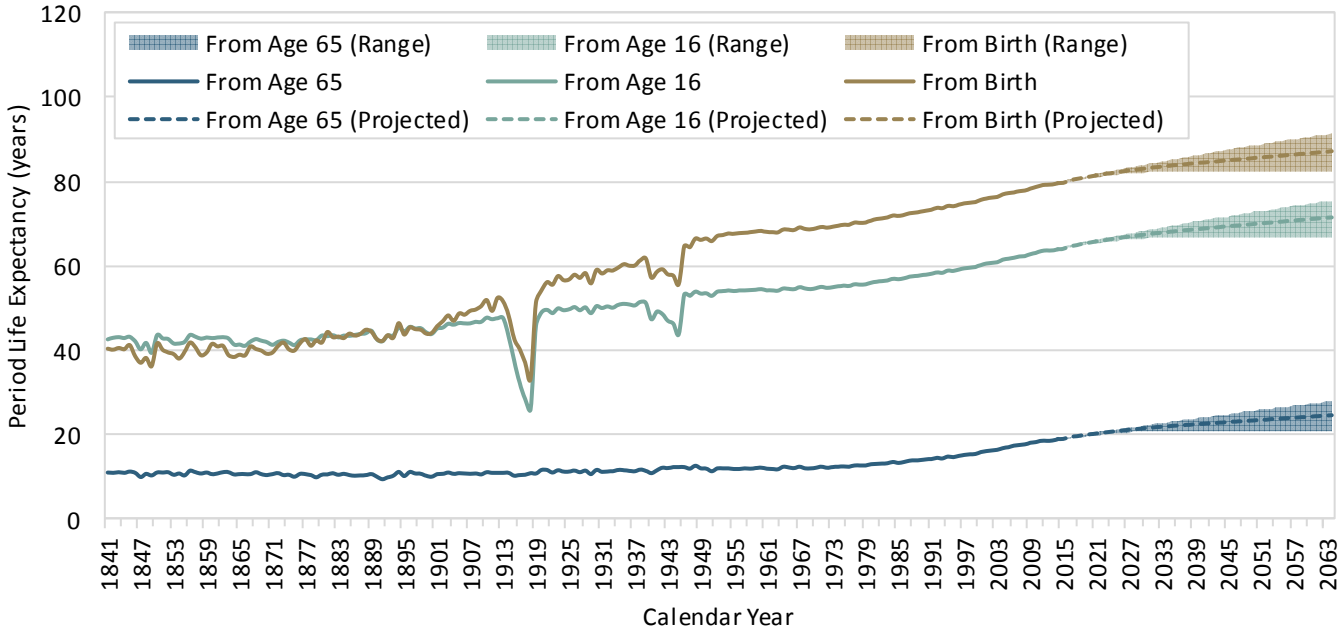
Source: Human Mortality Database, Office for National Statistics
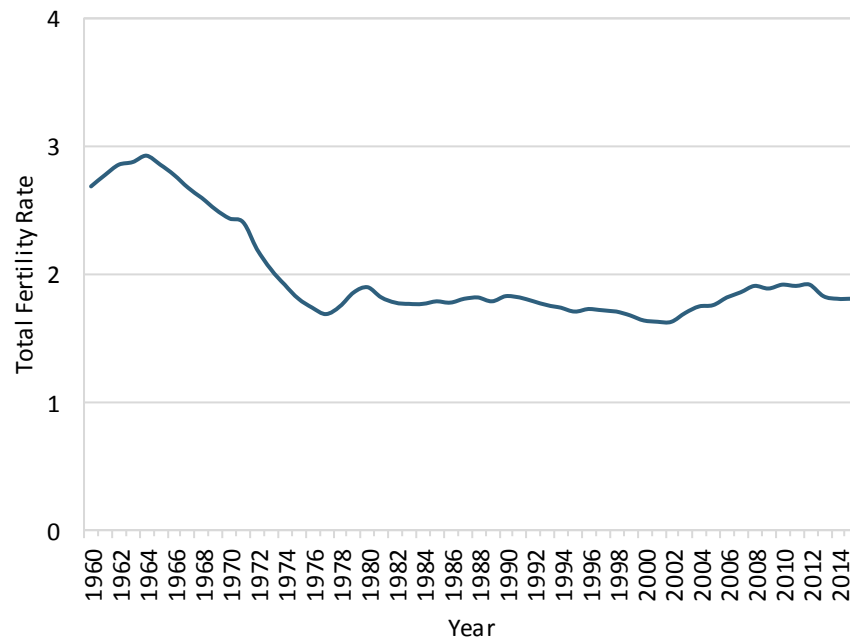
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Period Life Expectancy, Females

Source: Human Mortality Database, Office for National Statistics

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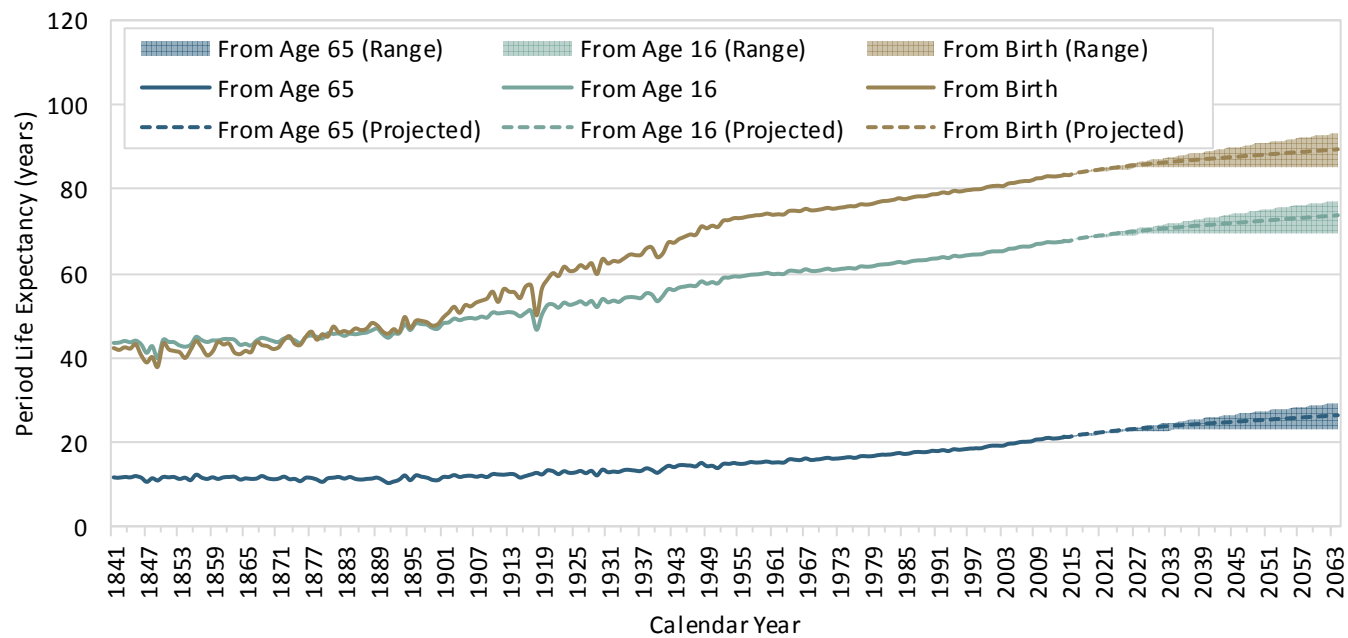
Cohort Life Expectancy, Males (L) and Females (R)

Source: Office for National Statistics

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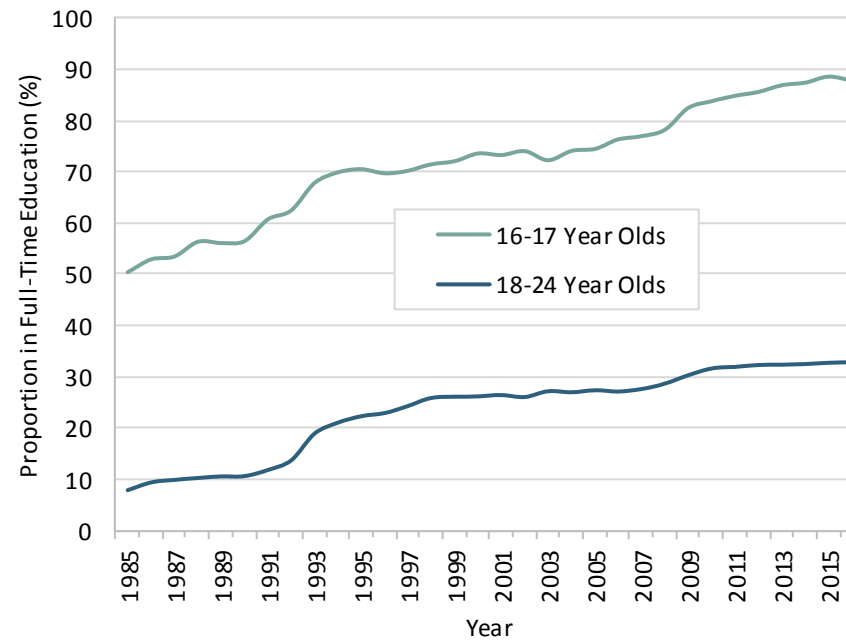
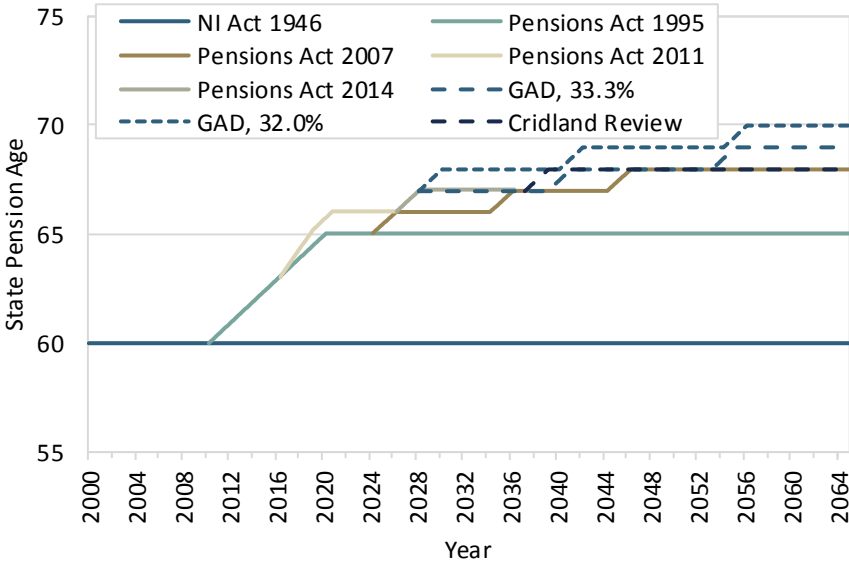# UK Total Fertility Rate (L) and Cohort Fertility Rates (R)
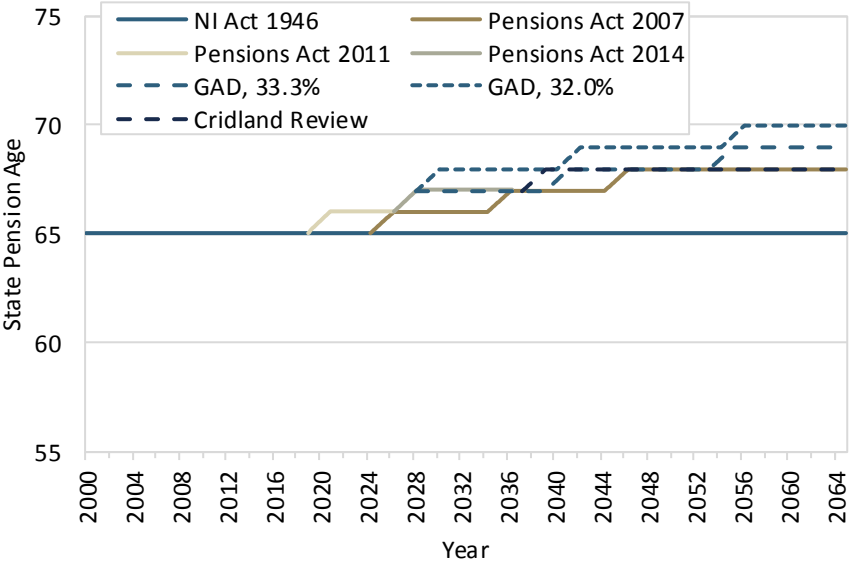

Source: World Bank

Source: Office for National Statistics, Author's Calculations

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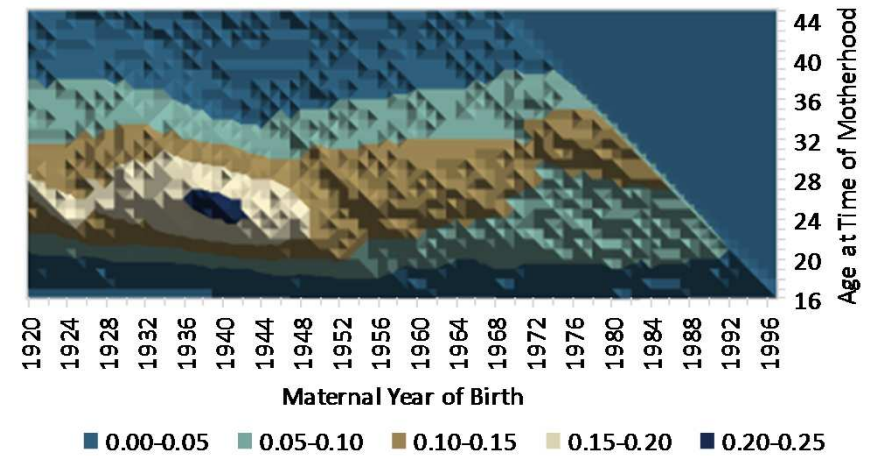
# Proportion of Children and Young Adults in Education

Source: Office for National Statistics, Author's Calculations

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Proposed State Pension Ages for Males (L) and Females (R)
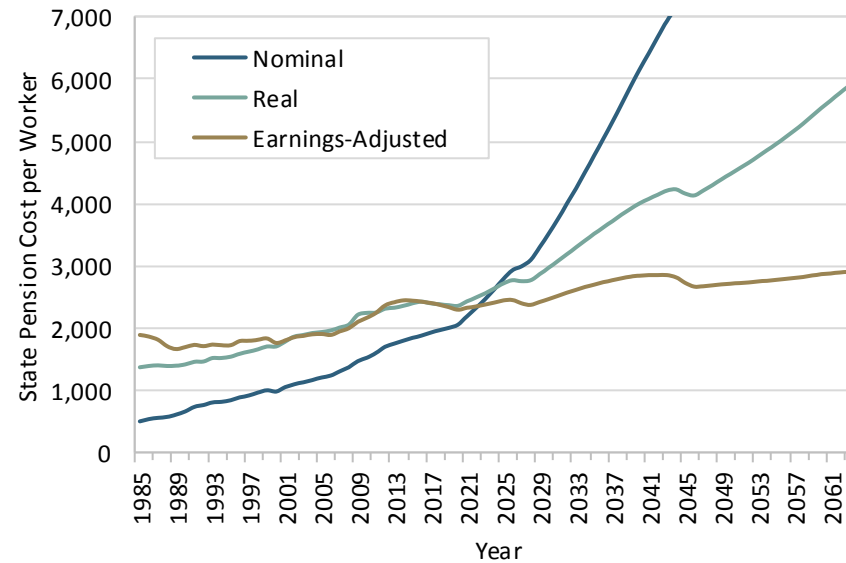

Source: Thurley and Keen (2017), Government Actuary's Department (2017)

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# Period Life Expectancy from age 65 for Males (L) and Females (R)

Source: Office for National Statistics, Author's Calculations

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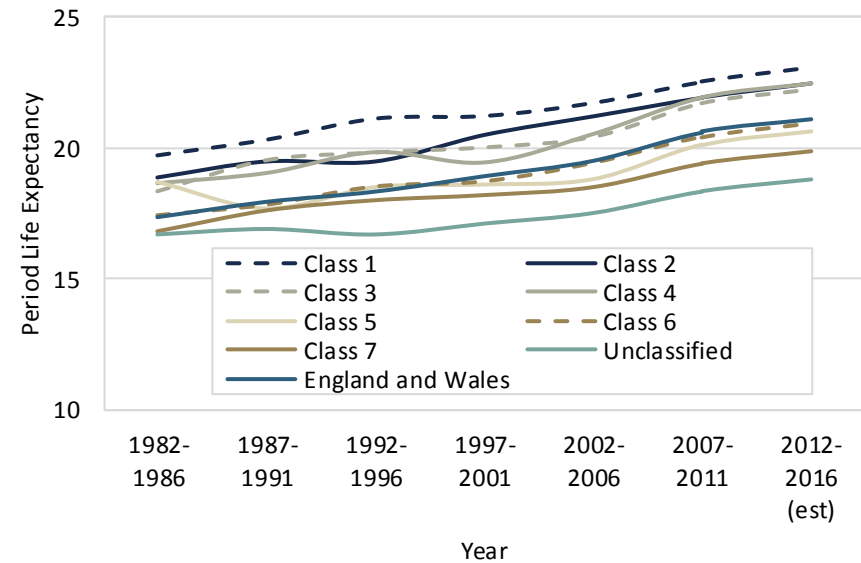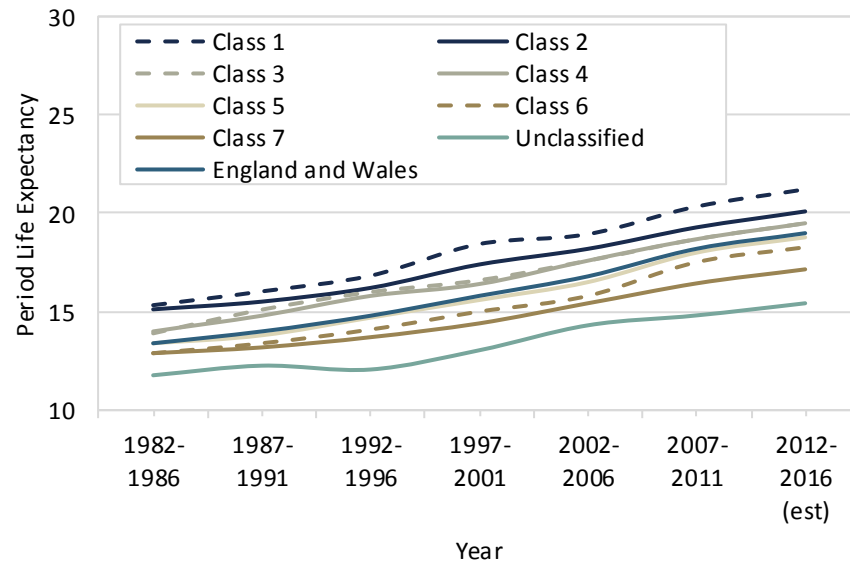
Historical and Projected Annual Cost of UK State Pensions per Worker

Office for National Statistics; author's calculations; earnings-adjusted figures are calculated in April 2016 terms

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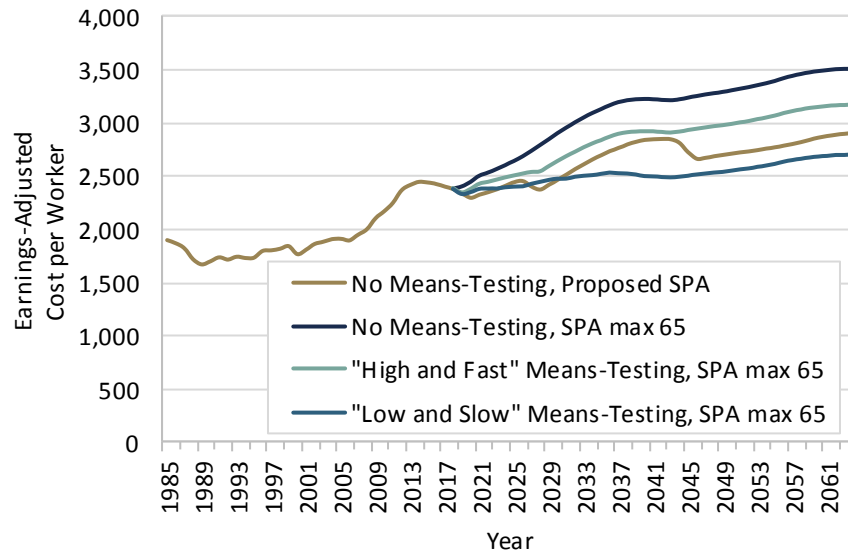# Annual Cost of UK State Pensions per Worker with Cost-Controlling SPA Rises
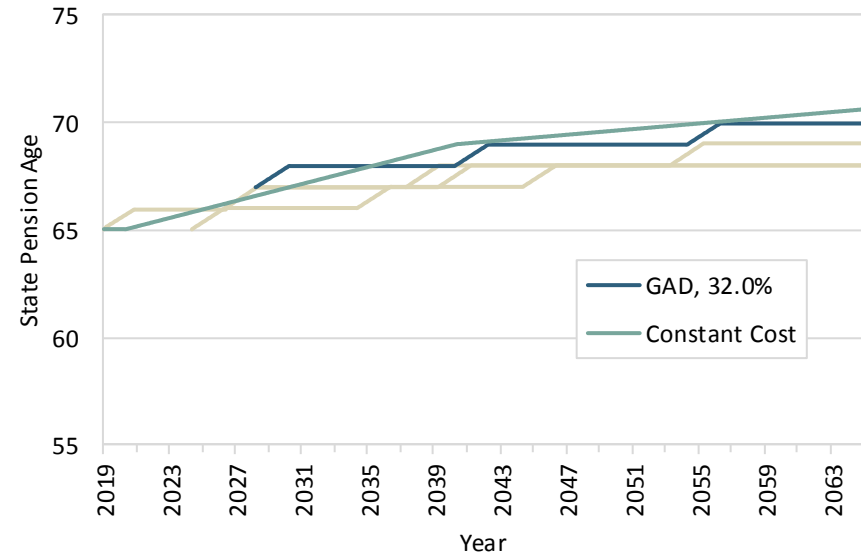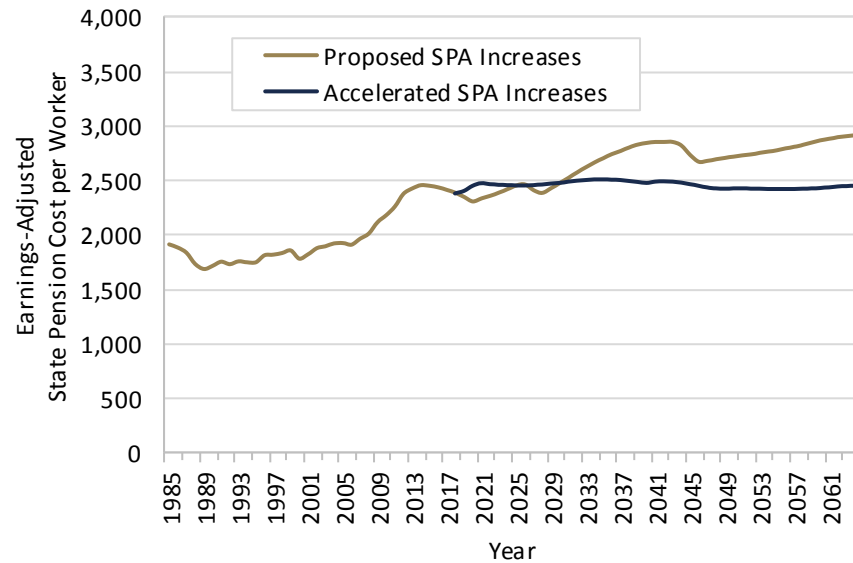
Office for National Statistics; author's calculations; earnings-adjusted figures are calculated in April 2016 terms
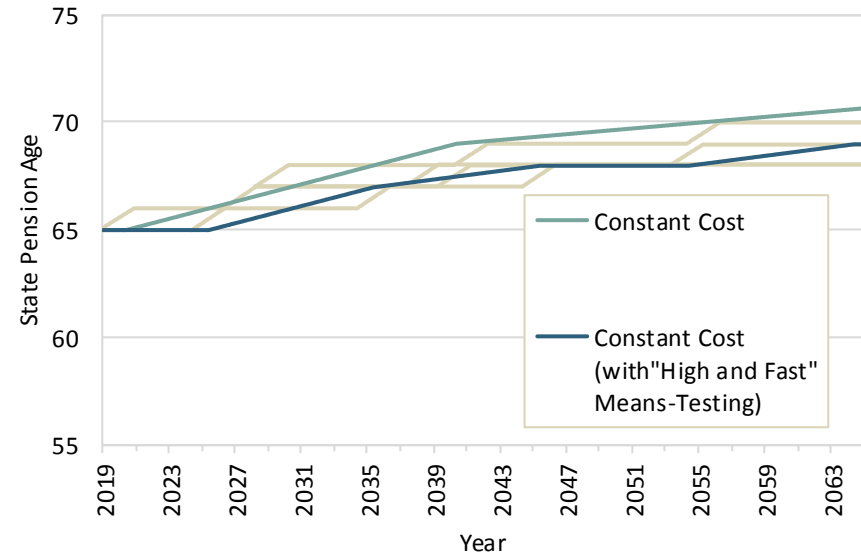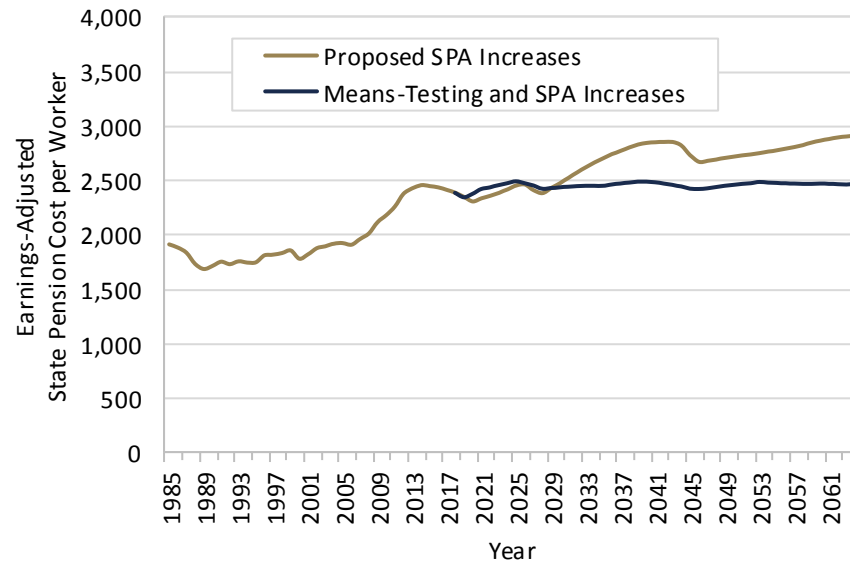
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Annual Cost of UK State Pensions per Worker with Means-Testing

	"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

Office for National Statistics; author's calculations; earnings-adjusted figures are calculated in April 2016 terms

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Annual Cost of UK State Pensions per Worker with Means-Testing and SPA Rises

Office for National Statistics; author's calculations; earnings-adjusted figures are calculated in April 2016 terms

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Conclusion

- Increasing longevity and lower birth rates are making the State Pension less affordable

- To maintain affordability, severe increases in the SPA would be needed…

- …but these would hit the poorest hardest

- Means-testing could be used instead…

- …but on its own, the rate would be severe

- A compromise offers the best chance of affordability and fairness

http://www.paulsweeting.com/library/170604SPA.pdf

https://www.amazon.co.uk/Surfing-Tsunami-Reforming-State-Pension/dp/1999768124

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