Department for Work & Pensions

Long term projections of pensioner benefits

July 2013

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Background

The Office for Budget Responsibility (OBR) published long-term projections of pensioner benefit expenditure in their July 2013 Fiscal Sustainability Report published on 17th July 2013[1].

This note and the accompanying tables update projections of pensioner benefit expenditure published in January 2013. These projections include the single-tier pension reforms which are part of the Pensions Bill currently before parliament. For more information on the single-tier pension, see:
https://www.gov.uk/government/policies/making-the-state-pension-simpler-and-fairer/supporting-pages/introducing-a-simple-single-tier-state-pension

These are illustrative projections, in that they are designed to show the overall fiscal sustainability of benefit policy, as it stands at 2017/18 (the end of the current medium-term forecasts), along with any future changes to benefits that have been announced at or before the 2013 Budget, under a particular set of reasonable assumptions.

The projections show a broad path of expenditure over the next fifty years; results for any particular year will, in practice, be affected by cyclical factors in the economy and other areas, which it is not possible to predict, so the actual figures would fluctuate around the trend shown.

Previous editions of these tables have used DWP's preferred assumption that disability benefits (Disability Living Allowance, Attendance Allowance and Personal Independence Payments) will continue to be uprated in line with consumer prices (CPI) over the long term and that Winter Fuel Payments will continue to be fixed in cash terms. The OBR assume that over the long term expenditure will grow as if these benefits were uprated in line with growth in earnings. In this publication we have presented projections under both assumptions.

The projections shown are for the United Kingdom and overseas, unlike the DWP's medium term forecasts, which exclude Northern Ireland. Benefit Expenditure tables are published at: https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2013

[1] http://cdn.budgetresponsibility.independent.gov.uk/2013-FSR_OBR_web.pdf

Methodology: Summary of key assumptions

Demographic trends

Underlying all of the individual benefit projections are the Office for National Statistics 2010-based population projections[2]. As with the Fiscal Sustainability Report central projection, the low migration variant of the ONS population projections is used here; the reasons for adopting this projection are discussed in the Fiscal Sustainability Report and other associated documents.

Economic assumptions

Labour market and productivity assumptions used in these projections are detailed in the Fiscal Sustainability Report and March 2013 Economic and Fiscal Outlook; these projections assume productivity growth in the longer term is 2.2% per year. In the pension projections the productivity assumption is relevant both for earnings growth (which is assumed to follow productivity), and growth of the nominal GDP figures used as the denominator for spending as a share of GDP.

Changes to State Pension Age

Women's pension age is assumed to increase progressively from 60 in 2010 to 66 in 2020, with men's pension age rising from 65 to 66 between November 2018 and October 2020. Subsequently pension age is assumed to increase further to 67 between 2026 and 2028, and 68 between 2044 and 2046. As well as affecting eligibility for state pensions, these changes will also affect the qualifying ages for Pension Credit and Winter Fuel Payments (which are tied to women's state pension age).

State Pension

The State Pension projections are largely driven by demographic trends – the numbers reaching state pension age each year and the mortality rates. They also take account of increased Basic State Pension entitlements as a result of the Pension Act 2007 reforms and higher entitlements of younger pensioners who have had longer to accrue more State Second Pension entitlement.

Basic State Pension is uprated by the "triple guarantee" (highest of average earnings increases, CPI inflation or 2.5%), and it is assumed that on average this means increases by 0.30 percentage points per year above average earnings. State Second Pension is uprated by CPI when in payment, but by earnings during the accrual phase.

The single-tier pension will be introduced for new pensioners from April 2016, and is assumed to be uprated using the triple guarantee.

Pension Credit and Housing Benefit

These are modelled using DWP's long-term dynamic simulation model, Pensim2. Average earnings inflation is used to uprate the Pension Credit Guarantee level.

[2] http://www.ons.gov.uk/ons/rel/npp/national-population-projections/2010-based-projections/index.html

The key elements of the projections include the impact of the maturing of the State Earnings Related Pension Scheme (SERPS) and the State Second Pension (S2P), and the future evolution of incomes from private pensions, including the National Employment Savings Trust (NEST). These determine the evolution of income brought to account in the assessment of means-tested benefits. The projections also include the removal of the Savings Credit element of Pension Credit for new pensioners from April 2016 as part of the single tier reforms.

Additionally, key assumptions behind the Housing Benefit projections are the future increases in rents. Broadly speaking, in the main projection presented here rents rise in line with earnings in the long term.

Additionally, assumptions have been made about the evolution of home ownership in the population in future, using an analysis of home ownership by birth cohort, based on the Labour Force Survey. This leads to a marginal increase in the proportion of renters in the pensioner population compared with currently.

Council Tax Benefit was replaced by localised support in April 2013 and is no longer included in the projections.

Disability benefits

The projections for Attendance Allowance, Disability Living Allowance and Personal Independence Payment assume that after the medium-term the proportion of remaining life after age 65 spent receiving these benefits remains constant – so the per head rate at any given age falls over time due to increasing life expectancy.

Other pensioner benefits

Winter Fuel Payment in LTP1 and LTP2 are assumed to remain at their 2017/18 level (£200, with an additional £100 for those over 80) throughout the projection period, as is Christmas Bonus (£10). Free TV Licences for the Over 75s are assumed to increase in line with CPI after 2015/16. Tables LTP3 and LTP4 assume that over the long term expenditure will grow as if these benefits were uprated in line with growth in earnings.

Results

The resulting projections are summarised in the following table – expressed in real terms and as a share of GDP, and with caseloads for the main benefits.

Pensioner benefit expenditure, disability benefits and Winter Fuel Payments in line with current uprating policy.

Table LTP1: Pensioner benefit expenditure, disability benefits and Winter Fuel Payments in line with current uprating policy **United Kingdom, £ billion, 2013/14 prices**	**2012/13**	**2017/18**	**2022/23**	**2032/33**	**2042/43**	**2052/53**	**2062/63**
Basic State Pension	63	67	63	45	21	4	1
SERPS and State Second Pension	16	19	16	11	5	1	0
Single Tier Pension		4	26	104	208	298	421
Other elements of State Pension	3	3	2	1	0	0	0
Pension Credit	8	6	5	4	3	2	3
Other pension benefits	3	3	3	3	3	3	3
Total state pensions	**94**	**102**	**115**	**167**	**240**	**308**	**427**
Housing Benefit	6	6	6	8	11	11	13
Disability Living Allowance, Personal Independence Payments and Attendance Allowance	11	11	10	12	13	13	14
Total state pensions and pensioner benefits	**110**	**118**	**131**	**187**	**264**	**333**	**454**
As % of GDP	**2012/13**	**2017/18**	**2022/23**	**2032/33**	**2042/43**	**2052/53**	**2062/63**
Basic State Pension	4.1	3.8	3.1	1.8	0.7	0.1	0.0
SERPS and State Second Pension	1.0	1.1	0.8	0.4	0.1	0.0	0.0
Single Tier Pension		0.3	1.3	4.1	6.4	7.2	8.1
Other elements of State Pension	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Pension Credit	0.5	0.4	0.2	0.1	0.1	0.1	0.1
Other pension benefits	0.2	0.2	0.1	0.1	0.1	0.1	0.0
Total state pensions	**6.0**	**5.8**	**5.8**	**6.6**	**7.4**	**7.5**	**8.2**
Housing Benefit	0.4	0.3	0.3	0.3	0.3	0.3	0.2
Disability Living Allowance, Personal Independence Payments and Attendance Allowance	0.7	0.6	0.5	0.5	0.4	0.3	0.3
Total state pensions and pensioner benefits	**7.1**	**6.8**	**6.6**	**7.3**	**8.1**	**8.1**	**8.7**
Caseloads (millions)	**2012/13**	**2017/18**	**2022/23**	**2032/33**	**2042/43**	**2052/53**	**2062/63**
Basic State Pension	13.0	12.6	10.4	6.0	2.3	0.4	0.0
SERPS and State Second Pension	10.1	10.3	8.7	5.2	2.0	0.4	0.0
Single Tier Pension		0.6	3.0	9.6	15.5	17.5	19.7
Pension Credit	2.6	2.3	1.8	1.5	1.0	0.7	0.7
Housing Benefit	1.4	1.3	1.2	1.3	1.4	1.2	1.1
Disability Living Allowance, Personal Independence Payments and Attendance Allowance	2.7	2.5	2.5	2.9	3.4	3.5	3.7

The table shows total state pensions and pensioner benefits spending rising from 7.1% of GDP in 2012/13 to 8.7% in 2062/63, if CPI uprating is maintained for disability benefits, and Winter Fuel Payments are fixed in cash terms.

Pensioner benefit expenditure, disability benefits and Winter Fuel Payments uprated in line with earnings.

Table LTP3: Pensioner benefit expenditure, disability benefits and Winter Fuel Payments uprated in line with earnings United Kingdom, £ billion, 2013/14 prices	2012/13	2017/18	2022/23	2032/33	2042/43	2052/53	2062/63
Basic State Pension	63	67	63	45	21	4	1
SERPS and State Second Pension	16	19	16	11	5	1	0
Single Tier Pension		4	26	104	208	298	421
Other elements of State Pension	3	3	2	1	0	0	0
Pension Credit	8	6	5	4	3	2	3
Other pension benefits	3	3	3	5	7	10	13
Total state pensions	**94**	**102**	**116**	**170**	**245**	**315**	**438**
Housing Benefit	6	6	6	8	11	11	13
Disability Living Allowance, Personal Independence Payments and Attendance Allowance	11	10	12	17	24	31	41
Total	**110**	**118**	**134**	**194**	**280**	**358**	**491**
As % of GDP	**2012/13**	**2017/18**	**2022/23**	**2032/33**	**2042/43**	**2052/53**	**2062/63**
Basic State Pension	4.1	3.8	3.1	1.8	0.7	0.1	0.0
SERPS and State Second Pension	1.0	1.1	0.8	0.4	0.1	0.0	0.0
Single Tier Pension		0.3	1.3	4.1	6.4	7.2	8.1
Other elements of State Pension	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Pension Credit	0.5	0.4	0.2	0.1	0.1	0.1	0.1
Other pension benefits	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total state pensions	**6.0**	**5.8**	**5.8**	**6.6**	**7.5**	**7.6**	**8.4**
Housing Benefit	0.4	0.3	0.3	0.3	0.3	0.3	0.2
Disability Living Allowance, Personal Independence Payments and Attendance Allowance	0.7	0.6	0.6	0.7	0.7	0.8	0.8
'Total state pensions and pensioner benefits	**7.1**	**6.8**	**6.7**	**7.6**	**8.6**	**8.7**	**9.4**
Caseloads (millions)	**2012/13**	**2017/18**	**2022/23**	**2032/33**	**2042/43**	**2052/53**	**2062/63**
Basic State Pension	13.0	12.6	10.4	6.0	2.3	0.4	0.0
SERPS and State Second Pension	10.1	10.3	8.7	5.2	2.0	0.4	0.0
Single Tier Pension		0.6	3.0	9.6	15.5	17.5	19.7
Pension Credit	2.6	2.3	1.8	1.5	1.0	0.7	0.7
Housing Benefit	1.4	1.3	1.2	1.3	1.4	1.2	1.1
Disability Living Allowance, Personal Independence Payments and Attendance Allowance	2.7	2.5	2.5	2.9	3.4	3.5	3.7

The table shows total state pensions and pensioner benefits spending rising from 7.1% of GDP in 2012/13 to 9.4% in 2062/63, if disability benefits and Winter Fuel Payments are increased in line with earnings after 2017/18. Total state pension rises from 6.0% of GDP in 2012/13 to 8.4% in 2062/63. It is this projection that is shown in the OBR Fiscal Sustainability Report[3].

[3] See Chart 3.5 FSR 2013 post-Single Tier (triple lock uprating) http://cdn.budgetresponsibility.independent.gov.uk/Fiscal-sustainability-report-charts-and-tables-July-2013.xls

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