

# Long-term projections of pensioner benefits

May 2012

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## Background

The Office for Budget Responsibility (OBR) published long-term projections of pensioner benefit expenditure in their July 2011 Fiscal Sustainability Report<sup>1</sup>.

This note and the accompanying table update those projections. These projections will enable the Impact Assessment for the Single Tier Pension to be based on the most up to date population projections, along with the earlier increase in State Pension Age to 67.

Though consistent with the approaches adopted by the OBR in their Fiscal Sustainability Report, these projections have not been quality assured and endorsed by the OBR and do not constitute an updated OBR view of long-term pensioner benefit expenditure. Such an update will be published by the OBR on 12 July 2012.

The projections have been updated in the following ways:

- o To take account of the 2010-based population projections published by the Office for National Statistics on 26 October 2011.
- o To align with the Economic and Fiscal Outlook forecasts published by the OBR on 21 March 2012<sup>2</sup>.
- o To include bringing forward the increase in the State Pension Age to 67 announced in the Autumn Statement<sup>3</sup>; this is now planned to occur between April 2026 and April 2028, compared to between 2034 and 2036, which was assumed in the Fiscal Sustainability Report.
- o Additionally, these projections adopt an assumption of price uprating for disability benefits in the long term, in line with current uprating policy.

These are illustrative projections, in that they are designed to show the overall fiscal sustainability of benefit policy, as it stands at 2016/17 (the end of the current medium-term forecasts), along with any future changes to benefits that have already been decided upon, 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.

The projections shown are for the United Kingdom, unlike other forecasts presented on this site which generally only cover Great Britain.

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<sup>1</sup> <http://budgetresponsibility.independent.gov.uk/wordpress/docs/FSR2011.pdf>, with data at:

[http://budgetresponsibility.independent.gov.uk/wordpress/docs/Long\\_term\\_projections\\_annual\\_data\\_series.xls](http://budgetresponsibility.independent.gov.uk/wordpress/docs/Long_term_projections_annual_data_series.xls)  
Table 1.1

<sup>2</sup> <http://budgetresponsibility.independent.gov.uk/wordpress/docs/March-2012-EFO1.pdf>

<sup>3</sup> [http://cdn.hm-treasury.gov.uk/autumn\\_statement.pdf](http://cdn.hm-treasury.gov.uk/autumn_statement.pdf) page 6.

# Methodology: Summary of key assumptions

## Demographic trends

Underlying all of the individual benefit projections are the Office for National Statistics 2010-based population projections<sup>4</sup>. As with the Fiscal Sustainability Report central projection and the OBR's Autumn 2011 forecasts, 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 Autumn 2011 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 the GDP growth used as the denominator for spending as a share of GDP.

The productivity growth assumption appears higher than that used in the Fiscal Sustainability Report (2.2%), as a result of changes made by ONS to the way it calculates the GDP deflator, which were reflected in the Autumn 2011 Economic and Fiscal Outlook. The resulting nominal earnings figures are the same in both projections, so the two should be regarded as equivalent.

## 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 (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.

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<sup>4</sup> <http://www.ons.gov.uk/ons/rel/npp/national-population-projections/2010-based-projections/index.html>

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 0.2 percentage points per year above average earnings. State Second Pension is uprated by CPI when in payment, but by earnings during the accrual phase.

### **Pension Credit, Housing Benefit and Council Tax 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.

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 benefit assessment.

Additionally, key assumptions behind the Housing Benefit and Council Tax Benefit projections are the future increases in rents and Council Tax rates. Broadly speaking, in the main projection presented here Council Tax rates and rents rise in line with earnings in the long term. Council Tax Benefit is assumed to retain its current structure: no judgements have been made as to how the benefit will evolve once it is localised in 2013.

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 renters in the pensioner population compared with currently.

### **Disability benefits**

The projections for Attendance Allowance and Disability Living Allowance / 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**

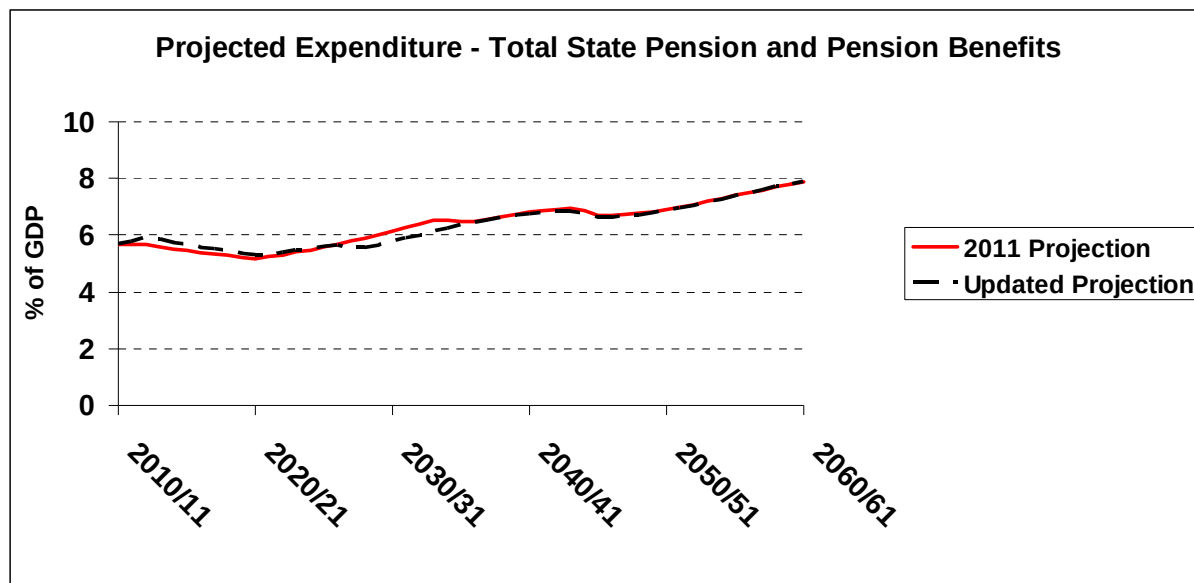
Winter Fuel Payments are assumed to remain at their 2016/17 level (£200, with an additional £100 for those over 80) throughout the projection period, as is Christmas Bonus (£10). Free TV Licences for the Over 75s are assumed to increase in line with CPI after 2015/16.

# Results

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

| <b>Pensioner benefit expenditure, current policy projection</b> |            |            |            |            |            |            |            |
|-----------------------------------------------------------------|------------|------------|------------|------------|------------|------------|------------|
| <b>United Kingdom, £ billion, 2012/13 prices</b>                |            |            |            |            |            |            |            |
|                                                                 | 2010/11    | 2015/16    | 2020/21    | 2030/31    | 2040/41    | 2050/51    | 2060/61    |
| Basic State Pension                                             | 58         | 66         | 72         | 107        | 160        | 202        | 276        |
| State Second Pension                                            | 14         | 18         | 19         | 25         | 42         | 65         | 113        |
| Other elements of State Pension                                 | 3          | 3          | 2          | 2          | 2          | 2          | 2          |
| Pension Credit                                                  | 9          | 7          | 6          | 5          | 4          | 3          | 4          |
| Other pension benefits                                          | 4          | 3          | 2          | 2          | 2          | 2          | 2          |
| <b>Total</b>                                                    | <b>88</b>  | <b>97</b>  | <b>102</b> | <b>142</b> | <b>211</b> | <b>274</b> | <b>398</b> |
| Housing Benefit and Council Tax Benefit                         | 8          | 7          | 7          | 10         | 12         | 12         | 12         |
| Disability Living Allowance and Attendance Allowance            | 10         | 11         | 12         | 13         | 15         | 15         | 15         |
| <b>Total</b>                                                    | <b>106</b> | <b>116</b> | <b>121</b> | <b>165</b> | <b>237</b> | <b>301</b> | <b>425</b> |
| <b>As % of GDP</b>                                              |            |            |            |            |            |            |            |
|                                                                 | 2010/11    | 2015/16    | 2020/21    | 2030/31    | 2040/41    | 2050/51    | 2060/61    |
| Basic State Pension                                             | 3.8        | 3.9        | 3.8        | 4.4        | 5.1        | 5.0        | 5.5        |
| State Second Pension                                            | 0.9        | 1.0        | 1.0        | 1.0        | 1.3        | 1.6        | 2.2        |
| Other elements of State Pension                                 | 0.2        | 0.2        | 0.1        | 0.1        | 0.1        | 0.0        | 0.0        |
| Pension Credit                                                  | 0.6        | 0.4        | 0.3        | 0.2        | 0.1        | 0.1        | 0.1        |
| Other pension benefits                                          | 0.2        | 0.2        | 0.1        | 0.1        | 0.1        | 0.1        | 0.0        |
| <b>Total</b>                                                    | <b>5.7</b> | <b>5.7</b> | <b>5.3</b> | <b>5.8</b> | <b>6.7</b> | <b>6.9</b> | <b>7.9</b> |
| Housing Benefit and Council Tax Benefit                         | 0.5        | 0.4        | 0.4        | 0.4        | 0.4        | 0.3        | 0.2        |
| Disability Living Allowance and Attendance Allowance            | 0.7        | 0.7        | 0.6        | 0.5        | 0.5        | 0.4        | 0.3        |
| <b>Total</b>                                                    | <b>6.8</b> | <b>6.8</b> | <b>6.3</b> | <b>6.7</b> | <b>7.6</b> | <b>7.5</b> | <b>8.4</b> |
| <b>Caseloads (millions)</b>                                     |            |            |            |            |            |            |            |
|                                                                 | 2010/11    | 2015/16    | 2020/21    | 2030/31    | 2040/41    | 2050/51    | 2060/61    |
| Basic State Pension                                             | 12.7       | 13.1       | 12.7       | 14.6       | 17.1       | 17.1       | 18.6       |
| State Second Pension                                            | 9.5        | 10.6       | 10.7       | 14.0       | 17.0       | 17.1       | 18.6       |
| Pension Credit                                                  | 2.8        | 2.5        | 2.1        | 2.0        | 1.9        | 1.4        | 1.2        |
| Housing Benefit                                                 | 1.4        | 1.3        | 1.2        | 1.5        | 1.5        | 1.3        | 1.1        |
| Council Tax Benefit                                             | 2.5        | 2.3        | 2.1        | 2.0        | 1.9        | 1.6        | 1.4        |
| Disability Living Allowance and Attendance Allowance            | 2.7        | 2.9        | 3.0        | 3.6        | 4.2        | 4.5        | 4.8        |

## Comparison of 2011 and Updated Projections



The projected expenditure as a percentage of GDP does not change significantly between the two projections. The differences between 2010/11 and 2020/21 are from a combination of changing population and economic projections. The change in the timing of raising the State Pension Age to 67 contributes to the differences in 2030/31.

Projections on a year-by-year basis are available at:  
[http://research.dwp.gov.uk/asd/asd4/index.php?page=long\\_term](http://research.dwp.gov.uk/asd/asd4/index.php?page=long_term)

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**May 2012**