Department
for Work &
Pensions

Long term projections of pensioner benefits

January 2013

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Background

The Department for Work and Pensions published long term projections of pensioner benefit expenditure following the Office for Budget Responsibility's (OBR) Fiscal Sustainability Report[1] in July 2012. These projections have now been updated to reflect the changes to the medium term outlook at the 2012 Autumn Statement.

This note and the accompanying tables update those projections in line with the benefit expenditure and caseload projections produced for the 2012 Autumn Statement. This enables the White Paper 'The single-tier pension: a simple foundation for saving' and the accompanying impact assessment to be based on the most up to date economic forecasts. These projections **do not** include the single-tier pension.

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 in July 2013.

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 Autumn Statement, 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 which generally only cover Great Britain. Benefit Expenditure tables are published at: http://research.dwp.gov.uk/asd/asd4/index.php?page=expenditure .

[1] http://budgetresponsibility.independent.gov.uk/fiscal-sustainability-report-july-2012/

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 and the OBR's Autumn 2012 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 2012 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.

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.

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

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

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 assessment of means-tested benefits.

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 is to be localised in 2013 and is no longer included in the projections.

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. These benefits are assumed to increase in line with CPI throughout the projection period.

Other pensioner benefits

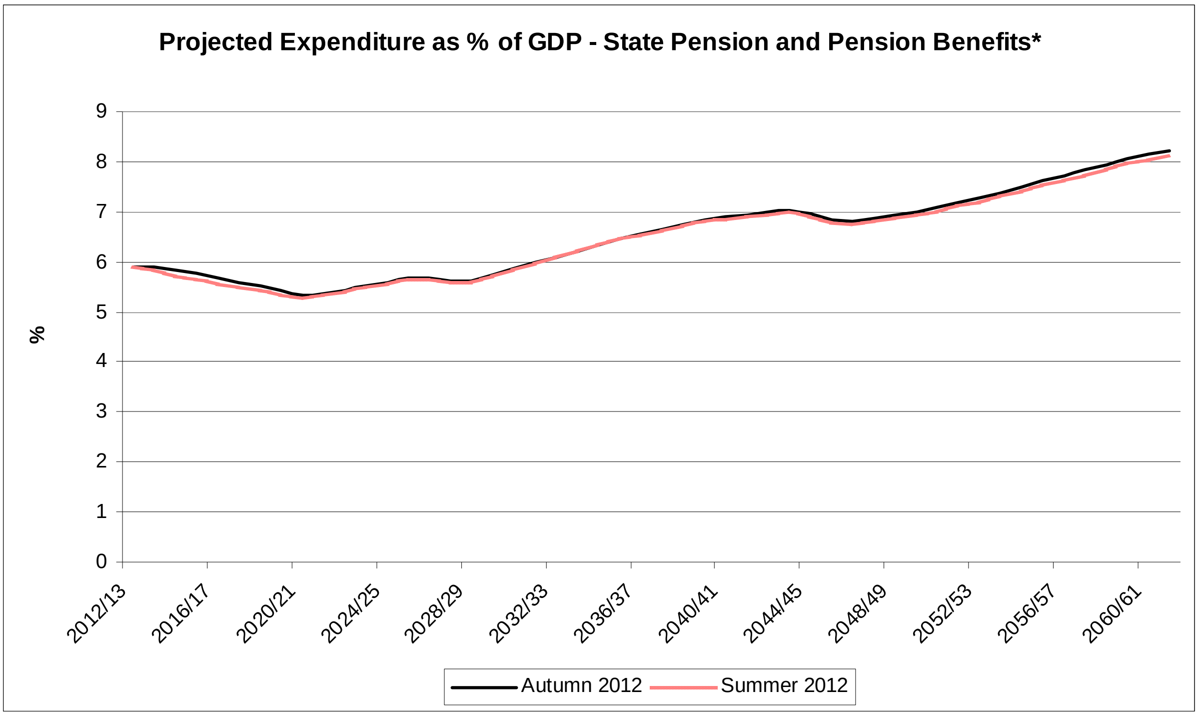
Winter Fuel Payments are assumed to remain at their 2016/17 level (£200, with an additional £100 for those over 80) throughout the projection period, as is Christmas Bonus (£10). Free TV Licences for the Over 75s are assumed to increase in line with CPI after 2015/16.

Results

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

Table LT1: Pensioner benefits expenditure, current policy projection **United Kingdom, £ billion, 2012/13 prices**	**2012/13**	**2017/18**	**2020/21**	**2030/31**	**2040/41**	**2050/51**	**2060/61**
Basic State Pension	63	68	71	106	162	208	292
State Second Pension	16	19	19	25	40	60	99
Other elements of State Pension	3	3	3	2	2	2	2
Pension Credit	8	6	5	4	4	3	3
Other pension benefits	3	3	3	3	3	2	2
Total	**92**	**98**	**101**	**140**	**210**	**275**	**399**
Housing Benefit	6	6	5	7	9	9	9
Disability Living Allowance, Personal Independence Payment and Attendance Allowance	11	11	11	13	15	15	15
Total	**109**	**115**	**117**	**160**	**233**	**299**	**423**
As % of GDP	**2012/13**	**2017/18**	**2020/21**	**2030/31**	**2040/41**	**2050/51**	**2060/61**
Basic State Pension	4.0	3.9	3.8	4.4	5.3	5.4	6.0
State Second Pension	1.0	1.1	1.0	1.0	1.3	1.5	2.0
Other elements of State Pension	0.2	0.2	0.1	0.1	0.1	0.0	0.0
Pension Credit	0.5	0.3	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
Total	**5.9**	**5.6**	**5.3**	**5.8**	**6.9**	**7.1**	**8.1**
Housing Benefit	0.4	0.3	0.3	0.3	0.3	0.2	0.2
Disability Living Allowance, Personal Independence Payment and Attendance Allowance	0.7	0.6	0.6	0.5	0.5	0.4	0.3
Total	**7.0**	**6.6**	**6.2**	**6.7**	**7.7**	**7.7**	**8.6**
Caseloads (millions)	**2012/13**	**2017/18**	**2020/21**	**2030/31**	**2040/41**	**2050/51**	**2060/61**
Basic State Pension	13.0	13.1	12.8	14.8	17.5	17.5	19.2
State Second Pension	10.1	10.8	10.7	13.1	15.7	15.8	17.3
Pension Credit	2.6	2.2	2.0	1.9	1.7	1.3	1.0
Housing Benefit	1.4	1.3	1.2	1.4	1.5	1.3	1.1
Disability Living Allowance, Personal Independence Payment and Attendance Allowance	2.8	2.9	3.0	3.6	4.2	4.5	4.8

Comparison of Autumn 2012 and Summer 2012 Projections



* Excluding Housing Benefit, Disability Living Allowance, Personal Independence Payment and Attendance Allowance.

The OBR's Autumn forecasts significantly downgraded the outlook for earnings growth. This reduced the projected real term spending on pensions, through the slower uprating of basic state pension in the medium term, and the reduction of accruals of additional pension in the longer term. As lower earnings growth is associated with slower growth in GDP, there is little effect on expenditure as a proportion of GDP.

Projections on a year-by-year basis are published alongside this document.

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