



Department
for Work &
Pensions

Long term projections of social security expenditure in the United Kingdom, including Scotland

April 2014

Introduction

This note provides the assumptions, methodology and key figures underlying projections of social security expenditure in Scotland, used in “Scotland Analysis: Work and pensions”. The projections are based on the United Kingdom-level projections published in the Office for Budget Responsibility’s (OBR) 2013 Fiscal Sustainability Report,¹ updated to include the 2012-based Office for National Statistics’ (ONS) population projections,² and the forecasts published in the OBR’s Economic and Fiscal Outlook at the Autumn Statement³. Apart from these changes, forecast assumptions are consistent with those used in the OBR publications.

The approach behind the projections is to take account of future demographic trends in the UK and Scotland to assess the future evolution of spending in each. Further analysis estimates the impact on expenditure of various policy proposals by the current Scottish Government. Due to the degree of uncertainty surrounding demographic projections, this analysis includes alternative projections, particularly focusing on the migration variants of the population projections.

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 OBR assume that over the long term expenditure will grow as if benefit rates were up-rated in line with growth in earnings so in this note we have presented projections under this assumption, although the default up-rating for most benefits is by the Consumer Prices Index (CPI). The projections shown are for the United Kingdom and overseas, unlike the DWP’s medium term forecasts, which exclude Northern Ireland.

These projections have not been quality assured and endorsed by the OBR and do not constitute an OBR view of long-term social security expenditure in Scotland or the United Kingdom.

¹ Office for Budget Responsibility, *Fiscal sustainability report – July 2013*, July 2013, budgetresponsibility.independent.gov.uk/fiscal-sustainability-report-july-2013/.

² Office for National Statistics, *National Population Projections, 2012-based projections*, November 2013, www.ons.gov.uk/ons/rel/npp/national-population-projections/2012-based-projections/index.html.

³ Office for Budget Responsibility, *Economic and fiscal outlook – December 2013*, December 2013, budgetresponsibility.org.uk/economic-fiscal-outlook-december-2013/.

Methodology

Summary

As there are currently no forecasts for future expenditure in Scotland our methodology comprises the following steps:

- take UK projections of benefit expenditure, and adjust for differences between the 2010-based and 2012-based ONS population projections;
- align the resulting expenditure projections to the Autumn Statement 2013 forecasts, at 2018/19 (the final year of those forecasts);
- take out-turn expenditure for 2012/13 for Scotland and the UK, and calculate expenditure per head for both, for 2012/13 for Scotland, for all years for the UK;
- project expenditure per person in Scotland from 2013/14 onwards in line with the projection in the UK, using the ratio of spending seen in Scotland compared to the UK in 2012/13; and
- multiply by the population projection for Scotland, to derive a spending projection.

Each of these steps is usually applied at single year of age, or age group level, and by gender. This takes account of the different demographic trends in Scotland compared with the UK at a fairly low level. Differences in economic activity are assumed over the projection period to be purely driven by differential demographic trends.

More detail on each of these steps is given below.

Baseline (pre-policy change) expenditure projection

UK projections of benefit expenditure were published in the OBR's latest Fiscal Sustainability Report in July 2013. Further details of the expenditure projections for pensioner benefits were published by DWP at the same time.⁴ This section describes how those projections have been modified to derive the updated UK projections used in this analysis, and the corresponding projections for Scotland as forecasts have not been produced at a regional level before. Further background on the UK working-age projections underpinning the Fiscal Sustainability Report is given in the Annex.

These UK-level projections assume existing UK Government policy throughout, including planned future changes such as the Single Tier Pension, the continued roll out of Universal Credit and Personal Independence Payment and changes to State Pension age. They do not take account of policy proposals made by the current Scottish Government. They also include State Pension and other benefit expenditure on claimants who are resident overseas, some of which in practice would be paid to people who made some or all of their contributions, or gained entitlement, while resident in Scotland.

Since the July 2013 projections were based on the ONS 2010-based population projections, the UK projections have been adjusted to correspond with the 2012-based population projections published by ONS on 6 November 2013. This adjustment is applied pro-rata according to the ratio between the populations of each age and sex in the two projections: for smaller benefits and for older ages broader age groups may be used; this is unlikely to make a material difference to the projections. A final step in updating these projections was to align them to the 2018/19 expenditure forecasts published in the OBR's Autumn Statement Economic and Fiscal Outlook (with supplementary detail published by DWP).

To project expenditure forward in Scotland, a similar approach to updating the UK projection was used. Information on benefit claimants and average amounts of benefit by age (individual age or bands, dependent on benefit) and sex were obtained for 2012/13, for both Great Britain and Scotland.⁵ Expenditure at each age (or age band) and sex combination was then projected forward in line with the relative population change in Great Britain and Scotland. This preserves any differences between Scotland and Great Britain, per head of population, throughout the projection, and assumes that economic activity at each age (or age band) and sex combination retains the same relative pattern between Scotland and Great Britain in future. The resulting projections were then adjusted to align to out-turn expenditure in Scotland for 2012/13,⁶ and also to the Autumn Statement forecast for 2018/19.

⁴ Department for Work and Pensions, *Long term projections of pensioner benefits*, July 2013, www.gov.uk/government/publications/long-term-projections-of-pensioner-benefits--2.

⁵ Availability of detailed data limits these comparisons to Great Britain, but the resulting projections are then aligned to Great Britain level forecasts.

⁶ Department for Work and Pensions, *Social security expenditure in the United Kingdom, including Scotland*, April 2014.

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Projections for Child Benefit and Child and Working Tax Credits were produced by allocating Scotland a share of the projected UK expenditure based on Scotland's proportion of spending on these benefits in the UK in 2012/13 and adjusting to take into account future trends in the number of children in Scotland and the UK.⁷

In these projections, Universal Credit is treated as a marginal cost on top of the six benefits and tax credits it will replace, in line with treatment in the Autumn Statement 2013 forecasts. Beyond 2018/19 this marginal cost is assumed to be a constant percentage of the spending on those six benefits and tax credits.

For benefits that involve a relatively small amount of expenditure, the projections were produced at a higher level – for example Over-75 TV licences were projected in line with the population over 75, with no further breakdown below this. Other low spending benefits, particularly where spending in Scotland is not fully identifiable from the available data, were aggregated together for the purposes of these projections. These simplifications are unlikely to materially affect the overall figures.

For the main comparison in the Scotland Analysis paper, the projections for the UK use the ONS 2012 population projections consistent with the ONS scenario of low migration. This is in line with the Office for Budget Responsibility's 2013 *Fiscal Sustainability Report* on the grounds that this best reflects UK Government policy. The main projections for Scotland also use a low migration assumption consistent with the overall UK-level projections.

The Scotland Analysis paper also contains a comparison using the principal population variant for Scotland and the low migration population variant for the UK on the grounds that the current Scottish Government has suggested that an independent Scottish state would seek to have a more open immigration policy than the UK currently has.⁸ Using the principal migration scenario for an independent Scottish state rather than the low migration scenario serves to reduce Scottish social security spending per working-age person, relative to that in the UK overall. This is because most migrants are of working age and welfare spending is, on average, less for working-age people than for pensioners.

Published expenditure for Scotland is based on residence: it does not include State Pension and other benefit spending on people resident overseas but whose National Insurance was paid while resident in Scotland. Since there is insufficient information to assess National Insurance paid while claimants were resident in Scotland, this analysis allocates Scotland a share of overseas spending based on Scotland's proportion of contributory State Pension spending in the UK excluding overseas. In 2012/13 this consisted of around £300 million of the £3.4 billion of State Pension paid outside the UK – around 8.8 per cent. A similar approach is used for other benefits that are paid overseas.

⁷ HM Revenue and Customs, *Disaggregation of HMRC tax receipts*, November 2013, www.gov.uk/government/publications/disaggregation-of-hmrc-tax-receipts.

⁸ The Scottish Government, *Scotland's Future*, November 2013, www.scotland.gov.uk/Publications/2013/11/9348, page 267.

Caveats to the baseline expenditure projection

Projections do not take account of possible differential trends in future spending per person between Scotland and the UK (or Great Britain), at the level of disaggregation used in the analysis (age / age band and sex). The analysis of spending over the past ten years shows that after controlling for demographic differences, there have been differential trends in spending per head between Scotland and Great Britain overall, including in incapacity benefits, Housing Benefit and tax credits, with spending per head in each case falling relative to that in Great Britain. However, during the past two years the differential trends in incapacity benefits and tax credits have levelled off, and there are signs of the same happening in Housing Benefit. Since such differential trends are very difficult to predict with any certainty, and could go in either direction, it is unlikely that this simplification will materially affect the results: differential demographic trends are fully taken into account through the methodology.

The projections allocate pensions and other benefits paid overseas on a pro-rata basis to Scotland – using Scotland’s share of the UK (excluding overseas) spend on contributory State Pension. It is possible that people who have paid National Insurance contributions in Scotland may be more, or less, likely to move overseas than those in the UK overall, and have higher, or lower, payments when overseas, these being dependent on both the amount of National Insurance paid in different locations, and whether they live in a country where pensions in payment are frozen or up-rated each year.

For Scotland, as well as a share of overseas pensions, costs potentially arise for people resident elsewhere in the UK who paid some or all of their National Insurance in Scotland, offset by those resident in Scotland who have paid National Insurance elsewhere in the UK. At this point there are no estimates of the extent of the net impact of National Insurance contributions and residence being different.

Scottish Government policy proposals

The current Scottish Government have made a number of policy proposals in the event of independence which would have a financial impact if carried out.

Pensioner benefits

The current Scottish Government has proposed a start level of the single-tier pension of £160 a week, retaining the Savings Credit element of Pension Credit and that it will “reserve judgement on the increase [of the State Pension age] to 67 between 2026 and 2028”.⁹

a) Level of the single tier pension

⁹ The Scottish Government, *Scotland’s Future*, November 2013, www.scotland.gov.uk/Publications/2013/11/9348, pages 141-142.

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The UK Government of the day will finalise the level of the single-tier in the autumn of 2015 in time for payment from April 2016. The current Scottish Government propose a start level of £160 a week in cash terms in 2016 (matching the UK rate should this be higher).

For the single-tier pension we have estimated the cost of these policies by calculating the costs on a consistent basis and methodology with our Single-Tier Impact Assessment¹⁰ which uses the Pensim2 model. Further details on this model are provided in Annex A of the Impact Assessment.

For every £1 additional increase in the starting level of single tier the extra cost to the UK would be in the region of £500 million a year around 20 years from today.

In order to calculate this cost:

- We ran the DWP “Pensim2” pensions forecasting model twice: once for the illustrative start rate used in the Bill impact assessment (£144 per week in 2012/13 prices); and subsequently for a start rate £1 higher than this, converting nominal values into real terms (using the GDP deflator from OBR).
- We then calculated the difference between the expenditure profiles that these two model runs generated. We assessed the value 20 years from today for an illustrative impact (as the costs of Single Tier build over time from zero on day one).
- We then took a proportion of this total equivalent to the proportion of pensioner benefit spending in Great Britain that takes place in Scotland (8.8 per cent in around 20 years’ time) to represent the cost in Scotland.

This produces costs for Scotland in the region of around £50 million per year around 20 years from today (2013/14 prices).

b) Savings Credit

The current Scottish Government has stated that it would retain the Savings Credit element of Pension Credit for people who reach State Pension age on or after 6 April 2016, and that Savings Credit would be up-rated in line with growth in earnings. We have interpreted this as meaning that the maximum Savings Credit (60 per cent of the difference between the Savings Credit threshold and the Standard Minimum Guarantee) would grow in line with the same earnings growth figures that inform the up-rating of the Standard Minimum Guarantee.

Current UK benefit expenditure projections assume that the maximum Savings Credit would only grow in line with CPI inflation so this creates costs over and above those associated with allowing more people to claim Savings Credit.

¹⁰ Department for Work and Pensions, *The single tier pension: a simple foundation for saving*, October 2013, www.gov.uk/government/uploads/system/uploads/attachment_data/file/254151/a-pensions-bill-single-tier-ia-oct-2013.pdf.

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The costs of retaining the Savings Credit for people who reach State Pension age after 5 April and uprating the maximum award in line with earnings could rise to around £2 billion a year on a UK basis around 20 years from today (with increasing costs over time).

In order to calculate this cost:

- We ran the DWP “Pensim2” pensions forecasting model for a scenario where we kept Savings Credit and up-rated the maximum Savings Credit by earnings.
- We calculated the additional costs relative to our Fiscal Sustainability Report (FSR) 2013 version of single-tier converting nominal values into real terms (using the GDP deflator from OBR).
- We assessed the value in 2020/21 and 20 years from today for an illustrative impact (as the costs of single tier build over time from zero on day one).
- We then took a proportion of this total equivalent to the proportion of pensioner benefit spending in Great Britain that takes place in Scotland (8.8 per cent in around 20 years’ time) to represent the cost in Scotland.

This produces costs for Scotland in the region of around £20-£30 million in 2020/21 and £200 million a year around 20 years from today (in 2013/14 prices).

c) Delay in increasing the State Pension Age (SPA) to 67

i) Increased public expenditure in Scotland

The current Scottish Government has stated that it “will reserve judgment on the UK Government’s timetable for the increase in SPA to 67 until it has considered the findings of the Independent Commission” (the current Scottish Government plans to set up in the event on an independent Scotland).

If this review were to result in a policy decision to retain the previous 2036 timetable for the rise in SPA to 67, this would cost a future Scottish state around £6 billion over the ten year period (in 2013/14 prices). This cost is relative to the baseline of the current UK government policies.

This cost has been calculated by taking a proportion of the £73.5 billion in net savings reported in the State Pension Age 67 impact assessment,¹¹ scaling the overall savings to the relative share of Great Britain pensioner benefit expenditure occurring in Scotland (8.8 per cent in around 20 years’ time).

ii) Reduced GDP in Scotland

Many people take the SPA as a signal for when to stop working, including making joint decisions on retirement with their spouse or partner. Delaying the rise in the SPA could therefore result in fewer people in employment in Scotland, reducing GDP by around £9 billion over the ten year period (in 2013/14 prices).

This cost has been calculated by taking a proportion of the £106 billion in increased GDP reported in the State Pension Age 67 impact assessment, scaling the overall impact to the relative share of Great Britain pensioner benefit expenditure occurring in Scotland (8.8 per cent in around 20 years’ time).

Non-pensioner benefits

The current Scottish Government has said that they would halt the further rollout of Personal Independence Payment (PIP) and Universal Credit (UC) as well as reversing the removal of the spare room subsidy in the event of independence.¹²

The data upon which the impacts of PIP has been estimated is too small a sample to provide Scotland-specific estimates, so a proportion of the savings for Great Britain¹³ is allocated based on Scotland’s proportion of the forecast spending on working-age Disability Living Allowance (DLA) and PIP in Great Britain. It is then projected forward

¹¹ Department for Work and Pensions, *Long term State Pension sustainability: increasing the State Pension age to 67*, November 2013
www.gov.uk/government/uploads/system/uploads/attachment_data/file/253610/b-pensions-bill-state-pension-age-ia-oct-2013.pdf.

¹² The Scottish Government, *Scotland’s Future*, November 2013,
www.scotland.gov.uk/Publications/2013/11/9348, page 158.

¹³ HM Treasury, *Table 2.2: Measures announced at Autumn Statement or earlier which take effect from April 2013 or later*, March 2013,
www.gov.uk/government/uploads/system/uploads/attachment_data/file/221901/budget2013_table2-2_previous_measures_with_effect_april2013.xls.

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beyond 2017/18 using projected growth in working-age DLA and PIP expenditure. In 2016/17 we estimate that halting the introduction of PIP in Scotland would cost over £210 million.¹⁴

The expected Annually Managed Expenditure (AME) impact of UC on Scotland is based on expenditure forecasts submitted to the Office for Budget Responsibility, but have been scaled down to take into account that around 8.7 per cent of the working-age population live in Scotland based on the ONS 2012 mid-year population estimates.

Estimated savings for the removal of the spare room subsidy in Scotland in 2013/14 are derivable from the Impact Assessment for under occupation of social housing.¹⁵ This is up-rated over the medium term to take into account changes in social sector rents and the working-age social sector Housing Benefit caseload. Then beyond 2017/18 it is projected using projected growth in Housing Benefit expenditure for the social rented sector in Scotland. In 2016/17 we estimate that reintroducing the spare room subsidy in Scotland would cost around £60 million.¹⁶

Analyses

The resulting projections are then expressed in a number of different forms:

- Converted to real terms (2012/13 prices), which simply takes out the effect of inflation. In 50 years' time the price level is assumed to be almost three times its current level, so showing figures in nominal terms would not be informative.
- Spending per working-age person per year, in real terms (2012/13 prices). Since most State financial support comes from taxes or National Insurance contributions, the majority of which is paid by those of working age, a useful way of looking at the challenges faced is through spending per working-age person.
- However, due to projected economic growth over the next 50 years, figures expressed in real terms do not give a meaningful indication of the relative burden of spending on individuals, overstating the likely costs relative to affordability. In addition, when comparing the position for an independent Scotland compared to the continuing UK, growth in spending in the latter needs also to be taken account of. For example, pensioner benefit spending per working-age person is four times today's level, in real terms, in 50 years' time. Although as the OBR's Fiscal Sustainability Report shows, the increase as a share of GDP is much less. To take account of these factors, spend per working-age person is also expressed in today's terms by adjusting for UK

¹⁴ In 2012/13 prices.

¹⁵ Department for Work and Pensions, *Housing Benefit: under occupation of social housing*, June 2012, www.gov.uk/government/uploads/system/uploads/attachment_data/file/214329/social-sector-housing-under-occupation-wr2011-ia.pdf.

¹⁶ In 2012/13 prices.

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growth in spending per working-age person.¹⁷ A fuller assessment of affordability of social security spending alongside other public spending and projections of economic growth and revenue in Scotland will be published in a subsequent Scotland Analysis paper.

The main analysis focuses on spending per working-age person, as working-age people will contribute the majority of tax revenue required to pay for future benefits. This is a simplification in two ways: Firstly, pensioners contribute taxes to the Exchequer, and secondly around one quarter of working-age people are not in work and therefore will tend to pay relatively little in tax (and the majority would be net recipients of state support). A more sophisticated analysis would consider the contribution made by taxpayers to meeting these costs, but the two simplifications above will tend to offset each other, so the figures presented in this analysis give a reasonable picture of likely trends in the increasing costs of benefits. To test the sensitivity of the analysis to this approach, however, we also include comparisons of expenditure per head of population.

Variant population projections

Since demographic projections are uncertain, and the migration assumption particularly so, this note presents comparisons based on low migration projections for both Scotland and the UK, principal projections for both territories, high migration for both territories¹⁸ and one scenario using the low migration projection for the UK and principal projection for Scotland.

However, the ONS low and high migration variants for Scotland (and other parts of the UK) are not consistent with the overall UK-level projections due in particular to the inclusion of migration between Scotland and other parts of the UK, as well as the range of the migration variants being wider in Scotland than for the UK projection, in percentage terms. Although there are reasons why it may be appropriate to assume a wider potential variance in international migration for smaller countries compared to larger ones, this analysis derives a pair of projections based on historic international migration patterns, as follows:

- in the principal projections, which are consistent between the UK and Scotland, net international migration is assumed to be 165,000 persons per year in the long term for the UK, of which 12,000 is to Scotland;¹⁹
- between 2003 and 2012 long-term international net migration to Scotland was 7.1 per cent of the UK total;²⁰

¹⁷ Growth in pensioner spending per working-age person is applied to the difference in pensioner spending, growth in working-age benefit spending per working-age person is applied to working-age spending.

¹⁸ The OBR's Fiscal Sustainability Report also showed projections based on the high migration variant for the UK, although not the principal variant (which is midway between the two).

¹⁹ Office for National Statistics 5. *Migration Assumptions, 2012-based National Population Projections*, November 2013, www.ons.gov.uk/ons/dcp171776_331385.pdf, Table 5-6.

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- the UK net migration variants are +/- 60,000; 7.1 per cent of this is just under 4,250;
- taking account of 3,500 net internal migration to Scotland, and rounding to the nearest 500, gives a low net migration assumption of 11,500, and a high net migration assumption of 19,500. These are variances of just over 25 per cent on the principal assumption;
- because migration also has a knock-on impact on births, to apply these assumptions to the ONS population projections we take the following steps:
 - calculate the difference between the ONS principal and zero migration (natural change only) projections – this is the impact of the principal migration assumption; and
 - apply the variances (of just over 25 per cent) to these differences, as the assumed impact of migration in the alternative variants.

Therefore, the high and low international migration variants for Scotland used here are different from the high and low migration variants produced by ONS, which include a broader range of variations in migration (both internal and international) that are not appropriate for this analysis.

²⁰ Office for National Statistics, *LTIM Area of Destination or Origin within the UK, 1991-1992 to 2011-2012*, November 2013, www.ons.gov.uk/ons/rel/migration1/long-term-international-migration/2012/2-06.xls.

Results^{21 22}

Full results are in the associated Excel tables provided alongside this note.

Key results **using ONS low migration population projection for both the UK and Scotland** (tables 1, 2 and 3), are:

- currently the cost of pensioner benefits per working-age person per year is £80 higher in Scotland than the UK;
- over the next 20 years expenditure on pensioners rises to almost £200 more per working-age person per year in Scotland than the UK;
- In 50 years' time spending on pensioners in Scotland is around £140 higher per working-age person than in the UK;
- currently the cost of working-age benefits per working-age person per year is £70 lower in Scotland than the UK;
- in 20 years' time it is projected to be around £80 lower in Scotland than the UK and around £70 lower in 50 years time; and
- overall, spending per working-age person in Scotland is very slightly higher (by about £10) than in the UK currently, but this rises to nearly £120 higher in 20 years' time.

Projections using alternative migration assumptions

Key results using the **low migration population projection for the UK and the principal population projection for Scotland** are:

- over the next 20 years expenditure on pensioners would rise to almost £140 more per working-age person per year in Scotland than the UK;
- the difference in expenditure then falls and in 50 years' time spending on pensioners per working-age person per year is about the same in Scotland and the UK; and
- in 20 years' time expenditure on working-age benefits would be around £50 lower per working-age person per year in Scotland than the UK and around £20 lower in 50 years.

²¹ All spending figures quoted here are in today's terms. Figures quoted may not sum due to rounding.

²² The latest year that outturn data is available for is 2012/13, expenditure figures for all other years are projections, therefore expenditure figures for 20 or 50 years time relate to expenditure 20 or 50 years from 2012/13.

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Key results using the **principal population projections for the UK and Scotland** are:

- over the next 20 years expenditure on pensioners would rise to around £200 more per working-age person per year in Scotland than the UK;
- the difference in expenditure then falls and in 50 years' time spending on pensioners per working-age person per year is around £100 more in Scotland than in the UK; and
- in 20 years' time expenditure on working-age benefits would be around £40 lower per working-age person per year in Scotland than the UK and around £10 higher in 50 years.

Key results using the **high migration population projections for the UK and Scotland** are:

- over the next 20 years' expenditure on pensioners would rise to around £190 more per working-age person per year in Scotland than the UK;
- the difference in expenditure then falls and in 50 years' time spending on pensioners per working-age person per year is around £60 more in Scotland than in the UK; and
- in 20 years' time expenditure on working-age benefits would be around £10 lower per working-age person per year in Scotland than the UK and around £60 higher in 50 years.

Impact of the Scottish Government's proposed policy changes

- If the current Scottish Government's proposed policy changes for pensioner benefits are added to these projections this would add a further £210 per working-age person per year for Scotland in 20 years' time.
- However in 50 years' time they would only add around £80 per working-age person per year as the impact of not increasing the SPA to 67 earlier no longer has an impact.
- If the current Scottish Government's proposed policy changes for working-age benefits are added to these projections this would add a further £120 per working-age person per year for Scotland in 20 years' time.
- This additional cost remains relatively constant and in 50 years' time they would still add around £120 per working-age person per year.

Summary

The impact of demographic changes (on a like for like basis, using the low migration assumption) mean that the cost of pensioner benefits and working-age benefits would cost each working-age person in an independent Scotland £120 more in 20

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years' time than in the UK. The current Scottish Government's proposed policy changes would add a further £330, resulting in £450 extra for each working-age person in Scotland. In 20 years' time, expenditure on social security in Scotland would be around £1.55 billion more per year than if spending per working-age person was at projected UK levels.

These figures are not constant over time but change due to a mix of demographic factors and time varying costs of the current Scottish Government's proposed policy changes. These figures also vary depending on the migration scenario used. Assuming that Scotland has higher net migration than the UK spreads the costs of benefit spending over a larger working-age population. If we assumed principal migration for Scotland and low migration for the UK, spending on benefits would cost £420 more per working-age person in 20 years' time. This would mean that expenditure would be around £1.46 billion more per year than if spending per working-age person was at projected UK levels.

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Chart 1: Difference in pensioner benefit spending per working-age person per year

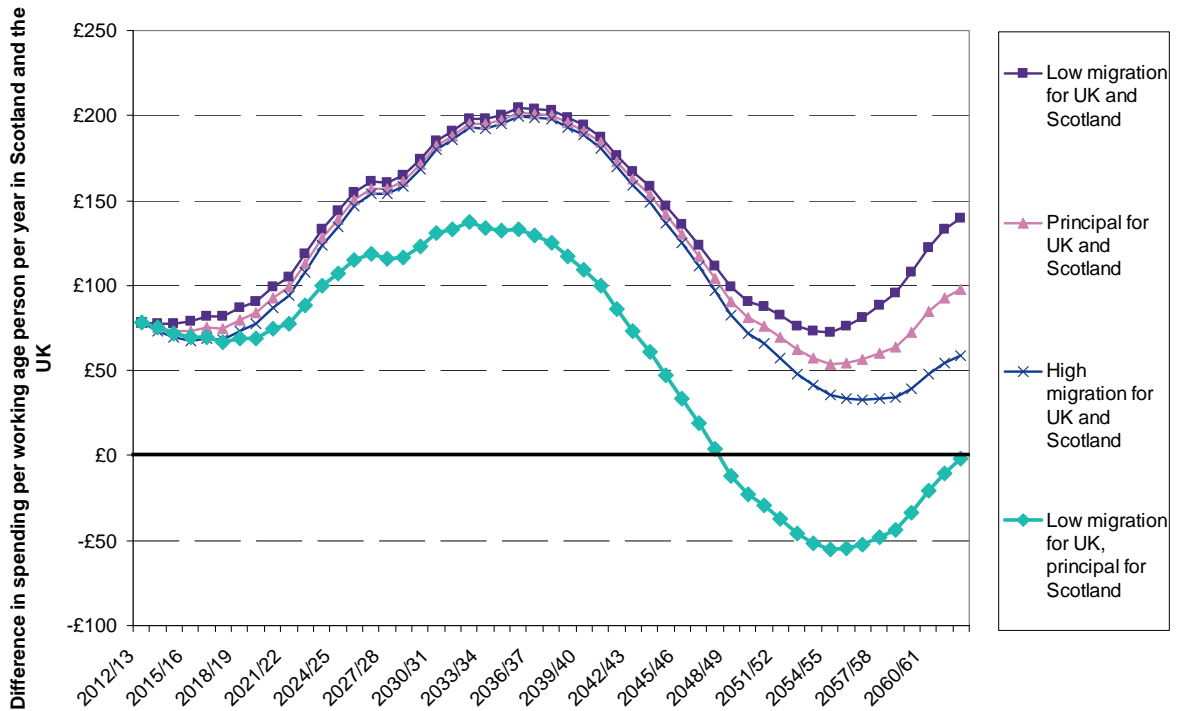
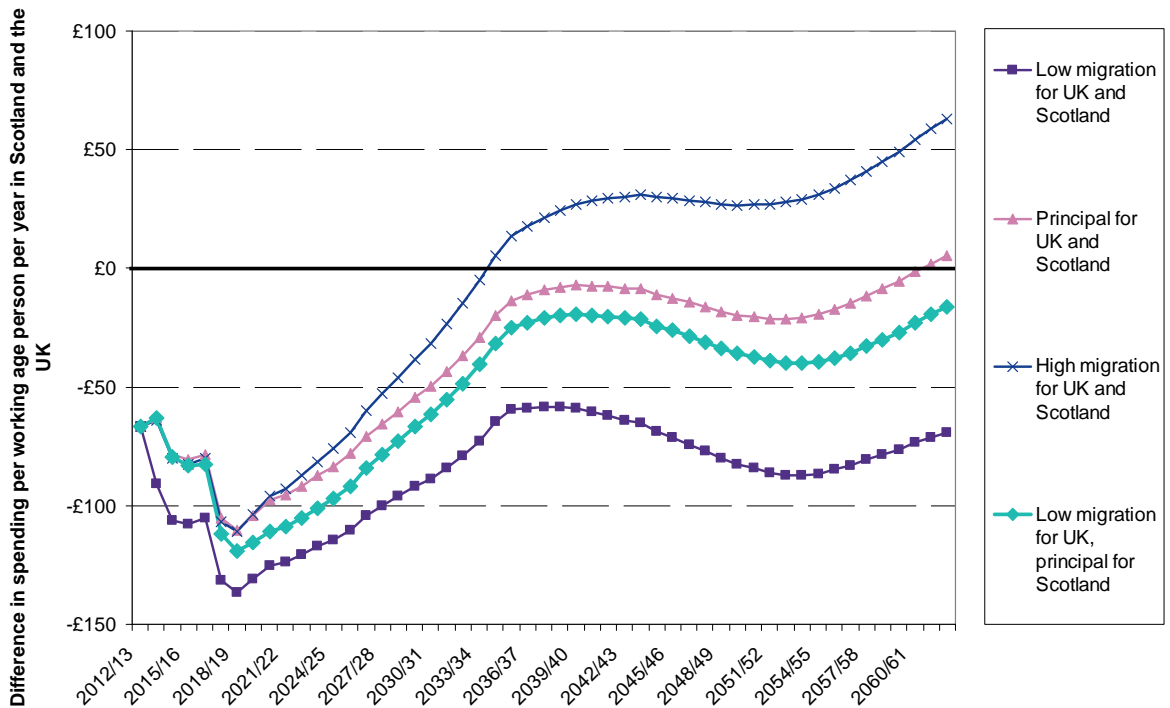
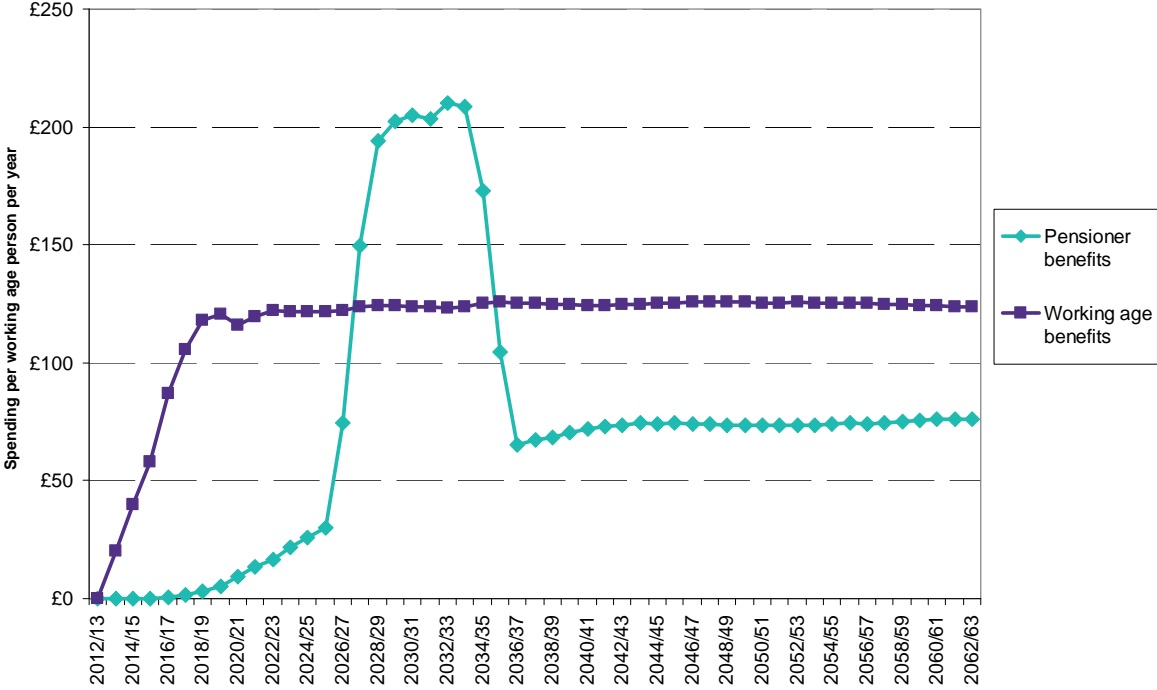


Chart 2: Difference in working-age benefit spending per working-age person per year



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Chart 3: Additional costs of the current Scottish Government’s proposed policies



Tables

- Table 1: Pensioner benefits spending – low migration population variant for UK and Scotland.
- Table 2: Working-age benefits spending – low migration population variant for UK and Scotland.
- Table 3: Total pensioner and working-age benefits spending – low migration population variant for UK and Scotland.
- Table 4: Comparison of differences in benefits spending per working-age person between Scotland and the UK using different migration assumptions.

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Table 1

Pensioner benefit projections, Fiscal Sustainability Report 2013, updated for 2012-based population projections and Autumn Statement 2013 Economic & Fiscal Outlook forecasts

Low migration population projection

	2012/13	2017/18	2022/23	2027/28	2032/33	2037/38	2042/43	2047/48	2052/53	2057/58	2062/63
Total expenditure (2012/13 prices)											
United Kingdom	£109.9bn	£115.0bn	£127.2bn	£152.9bn	£190.1bn	£235.0bn	£278.0bn	£309.0bn	£359.3bn	£415.9bn	£481.1bn
Scotland	£9.6bn	£9.9bn	£11.0bn	£13.1bn	£16.3bn	£19.9bn	£23.1bn	£25.1bn	£28.7bn	£33.0bn	£38.3bn
Expenditure per working age person (2012/13 prices)											
United Kingdom	£2,784	£2,813	£3,024	£3,566	£4,421	£5,474	£6,440	£6,972	£8,087	£9,338	£10,770
Scotland	£2,862	£2,896	£3,153	£3,771	£4,736	£5,873	£6,826	£7,250	£8,309	£9,633	£11,311
Difference	£78	£83	£129	£206	£315	£399	£386	£279	£222	£296	£540
Difference (%)	2.8%	2.9%	4.3%	5.8%	7.1%	7.3%	6.0%	4.0%	2.7%	3.2%	5.0%
Which is worth in 2012/13 terms	£78	£82	£119	£161	£198	£203	£167	£111	£76	£88	£140
Additional costs of Scottish Government policy proposals (2012/13 prices)											
Retain Savings Credit	£0.0bn	£0.0bn	£0.0bn	£0.1bn	£0.2bn	£0.2bn	£0.3bn	£0.3bn	£0.3bn	£0.3bn	£0.3bn
Delay rise in State Pension Age to 67 to 2034-36	£0.0bn	£0.0bn	£0.0bn	£0.5bn	£0.8bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn
Increase Single Tier start rate	£0.0bn	£0.0bn	£0.0bn	£0.1bn	£0.1bn	£0.2bn	£0.3bn	£0.4bn	£0.5bn	£0.6bn	£0.7bn
Derived entitlements in Single Tier	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn
Total	£0.0bn	£0.0bn	£0.1bn	£0.7bn	£1.1bn	£0.4bn	£0.6bn	£0.6bn	£0.7bn	£0.9bn	£1.0bn
Total expenditure with Scottish Government policy proposals (2012/13 prices)	£9.6bn	£9.9bn	£11.0bn	£13.8bn	£17.4bn	£20.3bn	£23.7bn	£25.8bn	£29.4bn	£33.8bn	£39.3bn
Per working age person	£2,862	£2,898	£3,171	£3,963	£5,070	£6,005	£6,996	£7,436	£8,522	£9,883	£11,606
Difference from United Kingdom	£78	£85	£147	£397	£649	£532	£556	£464	£435	£545	£835
Difference from United Kingdom (%)	2.8%	3.0%	4.9%	11.1%	14.7%	9.7%	8.6%	6.7%	5.4%	5.8%	7.8%
Which is worth, in 2012/13 terms	£78	£84	£135	£310	£408	£270	£240	£185	£150	£163	£216
of which due to Scottish Government policy proposals	£0	£2	£17	£149	£210	£67	£73	£74	£73	£74	£76
Total value of difference (£bn, 2012/13 terms)	£0.26bn	£0.29bn	£0.47bn	£1.08bn	£1.40bn	£0.92bn	£0.81bn	£0.64bn	£0.52bn	£0.56bn	£0.73bn

Long term projections of social security expenditure in the United Kingdom, including Scotland

Table 2

Working age benefit projections, Fiscal Sustainability Report 2013, updated for 2012-based population projections and Autumn Statement 2013 Economic & Fiscal Outlook forecasts
Low migration population projection

	2012/13	2017/18	2022/23	2027/28	2032/33	2037/38	2042/43	2047/48	2052/53	2057/58	2062/63
Total expenditure (2012/13 prices)											
United Kingdom	£98.7bn	£96.2bn	£109.0bn	£124.2bn	£139.3bn	£158.2bn	£176.4bn	£198.3bn	£222.5bn	£250.0bn	£280.2bn
Scotland	£8.1bn	£7.6bn	£8.6bn	£9.7bn	£10.8bn	£12.2bn	£13.5bn	£15.0bn	£16.7bn	£18.6bn	£20.6bn
Expenditure per working age person (2012/13 prices)											
United Kingdom	£2,500	£2,353	£2,592	£2,897	£3,239	£3,685	£4,087	£4,474	£5,008	£5,614	£6,273
Scotland	£2,433	£2,229	£2,466	£2,781	£3,136	£3,599	£3,983	£4,337	£4,833	£5,433	£6,099
Difference	-£67	-£124	-£125	-£116	-£103	-£86	-£105	-£138	-£174	-£181	-£174
Difference (%)	-2.7%	-5.3%	-4.8%	-4.0%	-3.2%	-2.3%	-2.6%	-3.1%	-3.5%	-3.2%	-2.8%
Which is worth in 2012/13 terms	-£67	-£132	-£121	-£100	-£79	-£58	-£64	-£77	-£87	-£81	-£69
Additional costs of Scottish Government policy proposals (2012/13 prices)											
Reverse Social Sector Size Criteria changes	£0.0bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.2bn
Do not roll out Personal Independence Payment	£0.0bn	£0.3bn	£0.3bn	£0.4bn	£0.4bn	£0.5bn	£0.5bn	£0.6bn	£0.7bn	£0.7bn	£0.8bn
Do not roll out Universal Credit	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn
Total	£0.0bn	£0.3bn	£0.4bn	£0.5bn	£0.5bn	£0.6bn	£0.7bn	£0.8bn	£0.9bn	£1.0bn	£1.1bn
Total expenditure with Scottish Government policy proposals (2012/13 prices)											
Per working age person	£2,433	£2,328	£2,593	£2,925	£3,296	£3,783	£4,187	£4,562	£5,085	£5,713	£6,410
Difference from United Kingdom	-£67	-£25	£2	£27	£57	£98	£99	£87	£77	£100	£137
Difference from United Kingdom (%)	-2.7%	-1.0%	0.1%	0.9%	1.8%	2.7%	2.4%	1.9%	1.5%	1.8%	2.2%
Which is worth, in 2012/13 terms	-£67	-£26	£2	£24	£44	£67	£61	£49	£38	£44	£55
of which due to Scottish Government policy proposals	£0	£105	£122	£124	£123	£125	£125	£126	£126	£125	£124
Total value of difference (£bn, 2012/13 terms)	-£0.22bn	-£0.09bn	£0.01bn	£0.08bn	£0.15bn	£0.23bn	£0.21bn	£0.17bn	£0.13bn	£0.15bn	£0.18bn

Long term projections of social security expenditure in the United Kingdom, including Scotland

Table 3

Total pensioner and working age benefit projections, Fiscal Sustainability Report 2013, updated for 2012-based population projections and Autumn Statement 2013 Economic & Fiscal Outlook forecasts

Low migration population projection

	2012/13	2017/18	2022/23	2027/28	2032/33	2037/38	2042/43	2047/48	2052/53	2057/58	2062/63
Total expenditure (2012/13 prices)											
United Kingdom	£208.6bn	£211.2bn	£236.2bn	£277.1bn	£329.4bn	£393.3bn	£454.4bn	£507.4bn	£581.8bn	£665.9bn	£761.3bn
Scotland	£17.7bn	£17.5bn	£19.5bn	£22.8bn	£27.0bn	£32.1bn	£36.6bn	£40.2bn	£45.4bn	£51.6bn	£58.9bn
Expenditure per working age person (2012/13 prices)											
United Kingdom	£5,283	£5,166	£5,616	£6,463	£7,660	£9,158	£10,527	£11,446	£13,095	£14,951	£17,043
Scotland	£5,294	£5,125	£5,620	£6,553	£7,872	£9,472	£10,809	£11,587	£13,143	£15,066	£17,410
Difference	£11	−£41	£4	£90	£212	£313	£282	£141	£48	£115	£366
Difference (%)	0.2%	−0.8%	0.1%	1.4%	2.8%	3.4%	2.7%	1.2%	0.4%	0.8%	2.1%
Which is worth in 2012/13 terms	£11	−£49	−£2	£61	£119	£145	£103	£34	−£11	£8	£70
Additional costs of Scottish Government policy proposals (2012/13 prices)											
Retain Savings Credit	£0.0bn	£0.0bn	£0.0bn	£0.1bn	£0.2bn	£0.2bn	£0.3bn	£0.3bn	£0.3bn	£0.3bn	£0.3bn
Delay rise in State Pension Age to 67 to 2034-36	£0.0bn	£0.0bn	£0.0bn	£0.5bn	£0.8bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn
Increase Single Tier start rate	£0.0bn	£0.0bn	£0.0bn	£0.1bn	£0.1bn	£0.2bn	£0.3bn	£0.4bn	£0.5bn	£0.6bn	£0.7bn
Derived entitlements in Single Tier	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn
Reverse Social Sector Size Criteria changes	£0.0bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.2bn
Do not roll out Personal Independence Payment	£0.0bn	£0.3bn	£0.3bn	£0.4bn	£0.4bn	£0.5bn	£0.5bn	£0.6bn	£0.7bn	£0.7bn	£0.8bn
Do not roll out Universal Credit	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.0bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn	£0.1bn
Total	£0.0bn	£0.3bn	£0.5bn	£1.2bn	£1.7bn	£1.1bn	£1.3bn	£1.4bn	£1.6bn	£1.8bn	£2.1bn
Total expenditure with Scottish Government policy proposals (2012/13 prices)	£17.7bn	£17.9bn	£20.0bn	£24.0bn	£28.7bn	£33.1bn	£37.9bn	£41.6bn	£47.0bn	£53.4bn	£61.0bn
Per working age person	£5,294	£5,226	£5,765	£6,887	£8,366	£9,789	£11,182	£11,998	£13,607	£15,596	£18,015
Difference from United Kingdom	£11	£60	£149	£424	£706	£630	£655	£552	£512	£645	£972
Difference from United Kingdom (%)	0.2%	1.2%	2.6%	6.6%	9.2%	6.9%	6.2%	4.8%	3.9%	4.3%	5.7%
Which is worth, in 2012/13 terms	£11	£58	£137	£334	£452	£337	£301	£234	£188	£207	£270
of which due to Scottish Government policy proposals	£0	£107	£139	£273	£333	£193	£198	£200	£199	£199	£200
Total value of difference (£bn, 2012/13 terms)	£0.04bn	£0.2bn	£0.48bn	£1.16bn	£1.55bn	£1.14bn	£1.02bn	£0.81bn	£0.65bn	£0.71bn	£0.92bn

Long term projections of social security expenditure in the United Kingdom, including Scotland

Table 4

Benefit projections, Fiscal Sustainability Report 2013, updated for 2012-based population projections and Autumn Statement 2013 Economic & Fiscal Outlook forecasts

Difference in expenditure per working age person in today's terms	2012/13	2017/18	2022/23	2027/28	2032/33	2037/38	2042/43	2047/48	2052/53	2057/58	2062/63
Low migration population projections											
Pensioner benefits	£78	£82	£119	£161	£198	£203	£167	£111	£76	£88	£140
Working age benefits	-£67	-£132	-£121	-£100	-£79	-£58	-£64	-£77	-£87	-£81	-£69
Baseline total	£11	-£49	-£2	£61	£119	£145	£103	£34	-£11	£8	£70
Scottish Government policy proposals	£0	£107	£139	£273	£333	£193	£198	£200	£199	£199	£200
Total including Scottish Government policy proposals	£11	£58	£137	£334	£452	£337	£301	£234	£188	£207	£270
Principal (Scotland) and low migration (UK) population projections											
Pensioners	£78	£67	£88	£115	£137	£125	£73	£4	-£46	-£48	-£2
Working age	-£67	-£112	-£105	-£79	-£49	-£21	-£21	-£31	-£40	-£33	-£16
Baseline total	£11	-£45	-£17	£37	£89	£104	£52	-£27	-£86	-£81	-£18
Scottish Government policy proposals	£0	£107	£138	£270	£328	£189	£194	£195	£194	£194	£194
Total including Scottish Government policy proposals	£11	£62	£121	£306	£416	£294	£246	£168	£108	£112	£176
Principal population projections											
Pensioner benefits	£78	£75	£113	£157	£195	£200	£163	£104	£62	£60	£98
Working age benefits	-£67	-£105	-£92	-£65	-£37	-£9	-£8	-£16	-£21	-£12	£5
Baseline total	£11	-£30	£21	£91	£158	£191	£154	£88	£41	£49	£103
Scottish Government policy proposals	£0	£107	£139	£272	£332	£192	£197	£199	£197	£197	£197
Total including Scottish Government policy proposals	£11	£76	£160	£364	£491	£383	£351	£287	£238	£246	£300
High migration population projections											
Pensioner benefits	£78	£68	£108	£154	£193	£198	£159	£97	£48	£33	£59
Working age benefits	-£67	-£107	-£87	-£53	-£15	£22	£30	£28	£28	£41	£63
Baseline total	£11	-£38	£21	£101	£178	£219	£189	£125	£76	£74	£122
Scottish Government policy proposals	£0	£107	£138	£272	£331	£191	£196	£198	£196	£196	£195
Total including Scottish Government policy proposals	£11	£68	£159	£372	£509	£410	£385	£323	£272	£270	£316

Note: positive values indicate spending per working age person is higher in Scotland than in the UK, negative values indicate that spending in Scotland is lower

Annex

Benefits and tax credits covered

Out-turn expenditure for Scotland is published on the DWP website.²³ Council Tax support is excluded, as responsibility for this was transferred to local authorities from 1 April 2013. OBR's projections include this support, on the basis of 2012/13 rules and structure continuing.

Non-pensioner benefits covered by this analysis comprise: Employment and Support Allowance, Statutory Maternity Pay, Maternity Allowance, Bereavement Benefits, Income Support, Jobseeker's Allowance, Carer's Allowance, Disability Living Allowance (for children and working age), Housing Benefit (for those under Guaranteed Credit age), Incapacity Benefit, Severe Disablement Allowance, Child Benefit, Guardian's Allowance, Child Tax Credit and Working Tax Credit.

Pensioner benefits covered by this analysis comprise: State Pension (all elements), Pension Credit, Winter Fuel Payments, Over 75 TV Licences, Christmas Bonus, Housing Benefit (for those over Guaranteed Credit age), Attendance Allowance, Disability Living Allowance (for pensioners) and Personal Independence Payment. The OBR presentation of these in their Fiscal Sustainability Report shows Housing Benefit, Attendance Allowance, Disability Living Allowance and Personal Independence Payment as "pensioner benefits", with the others covered by "state pensions".

Working-age UK expenditure projection – Fiscal Sustainability Report 2013

This section provides a summary of the methodology behind the expenditure projections for the main working-age benefits, used in the July 2013 Fiscal Sustainability Report (FSR). The methodology for the pensioner benefit projections was described in DWP's Long term projections of pensioner benefits publication.²⁴ The subsequent adjustments made to these projections to update for the 2012-based population projections, alignment to Autumn 2013 forecasts, and derivation of the Scotland projection, are covered in the main document above.

²³ Department for Work and Pensions, *Benefit expenditure by region 1996/97 to 2012/13*, December 2013, www.gov.uk/government/uploads/system/uploads/attachment_data/file/266830/expenditure_by_region_201213.xls.

²⁴ Department for Work and Pensions, *Long term projections of pensioner benefits*, July 2013, www.gov.uk/government/publications/long-term-projections-of-pensioner-benefits--2.

Demographic trends

Underlying the FSR individual benefit projections were the ONS 2010-based population projections, low migration variant. The reasons for adopting this projection are discussed in the FSR and other associated documents.

Economic assumptions

Labour market and productivity assumptions used in the FSR are detailed in that report and the March 2013 Economic and Fiscal Outlook; these projections assumed productivity growth in the longer term is 2.2 per cent per year and a non-accelerating inflation rate of unemployment (NAIRU) of 5.4 per cent of the labour force (ILO definition). In these projections the productivity assumption is relevant for earnings growth (which is assumed to follow productivity) and the NAIRU assumption is relevant for spending on benefits such as Jobseeker's Allowance and Statutory Maternity Pay (which are assumed to be affected by unemployment and employment levels).

The most important economic assumption for working-age benefit caseload forecasts is the assumption on labour force participation: those who are not part of the labour force are defined as "economically inactive" and are the most likely to be in receipt of a benefit. Participation is projected using a cohort model, described more fully in the 2011 FSR²⁵. This looks at rates of entry to, and exit from, the labour market by gender and each year of age, and then uses these to project forward participation rates for each cohort – in turn allowing overall participation rates to be derived.

In the main, this approach leads to some short-term changes in participation rates by age, principally at older ages, where participation increases. In addition to this, there are further adjustments to allow for changes in school-leaving age and participation in higher education, and changes in State Pension age. In the latter case 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. This affects eligibility for working-age benefits such as Employment and Support Allowance and Jobseeker's Allowance. As well as the direct effects, there are indirect effects of pension age on participation that are assumed, as historically participation has started to decline around ten years before pension age is reached.

Employment is simply derived using participation and the age-specific ILO unemployment rates, with the latter being adjusted to ensure an overall ILO unemployment rate of 5.4 per cent is achieved (otherwise it could vary as the demographic composition of the population changed).

²⁵ Office for Budget Responsibility, *Fiscal sustainability report – Annexes – July 2011*, budgetresponsibility.org.uk/wordpress/docs/FSR2011Annexes.pdf: paragraph B21 onwards.

Claimants of benefits related to the projection of inactivity

The projections for Employment and Support Allowance, Income Support and Carer's Allowance assume that after the medium term (up to 2017/18 at Budget 2013) the proportion of inactive people, by gender and single year of age, receiving these benefits remains constant – so the projection is driven by demographic trends and levels of inactivity. We use trends in receipt of this benefit over the 60 to 64 age range to estimate the proportion of inactive people who would receive these benefits at older ages as State Pension age increases and older people become eligible for these benefits.

Jobseeker's Allowance claimants

This projection assumes that after the medium term (2018/19) the proportion of ILO unemployed people who receive Jobseeker's Allowance remains constant – so the projection is driven by demographic trends and levels of unemployment.

Disability Living Allowance and Personal Independence Payment claimants

These projections assume that after the medium term the rate of receipt per head of population, by gender and single year of age, remains constant – so the projections are driven by demographic trends. We use trends in receipt of this benefit for 60 to 64 year olds to estimate the proportion of people receiving Personal Independence Payment as the State Pension age increases and older people become eligible for this benefit.

Housing Benefit

This projection is driven by employment levels and the projected caseloads of benefits whose claimants are eligible for Housing Benefit. The 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.

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

Maternity benefits

Statutory Maternity Pay and Maternity Allowance projections are driven by ONS fertility assumptions²⁶ and projected female employment levels.

²⁶ Office for National Statistics, *Table A5-1, Principal Projection – UK Detailed Fertility Assumptions, 2012-based*, November 2013, www.ons.gov.uk/ons/rel/npp/national-population-projections/2012-based-projections/rft-table-a5-1-principal-projection---uk-detailed-fertility-assumptions.xls.