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Centenary deep dive: GAD’s role in social security

Successive government actuaries have supported the state pension and welfare system. This has included advising on government policies, projecting the financial effects of changes and providing regular reports to parliament throughout a century of social security reform.

Beginnings

In 1908, David Lloyd George introduced non-contributory means tested pensions from age 70. Benefits on sickness and disability followed soon after, funded by national insurance contributions. In the 1920s pensions became contributory, pension age was reduced to 65, and regular increases were introduced to prevent erosion by inflation. The 1940s saw the female pension age reduced to age 60. The newly formed GAD provided advice on all these changes.

Beveridge’s vision

While Britain fought World War II, senior civil servant Sir William Beveridge explored post-war societal improvements with a committee that included the Government Actuary George Epps. Their 1942 report envisaged a contributory state pension supporting rich and poor alike:

- pension benefit rate sufficient to meet basic living costs for all recipients
- flat-rate contributions paid by all workers (above an earnings threshold)
- a National Insurance Fund to collect any surplus of contributions over benefit payments

After the war ended in 1945, Clement Attlee’s government was elected with a mandate for social reform. They implemented Beveridge’s proposals, albeit with some changes due to financial and other constraints. The pension benefit payment rate was lowered, and the scheme operated on a largely pay-as-you-go basis. (The National Insurance Fund operates as a buffer to smooth out year-on-year fluctuations.) Ongoing regular reviews, still supported by annual GAD reports, keep benefit rates broadly in line with inflation.

Earnings related reform

In 1961, a partially earnings related top-up to the flat-rate pension was introduced along with additional contributions. These later became fully earnings related in 1978. Members of occupational pension schemes could opt out of the top-up pension benefit (‘contract out’) in return for paying a lower contribution rate. Rebate rates were set by the Government Actuary. Among several changes in the 1980s, contracting out was extended to personal pension arrangements.

Back to the future

Further changes in the early 21st century led to growing complexity. In 2014 the Government decided that full scale reform was needed.

These most recent reforms have a ‘back to the future’ feel. As was Beveridge’s vision, the focus has shifted back to supporting low earners. In addition, phased increases to the state pension age (SPA – the age from which state pension is paid) are being introduced over time.

What next?

Since 2016 those reaching SPA have received a flat-rate main state pension. This is set above the threshold for means-tested benefits (ie the amount deemed necessary to cover basic living costs). Women now reach SPA at the same age as men, and since December 2018 both now reach SPA after their 65th birthday. The newly introduced state pension ages will be kept under regular review, as will the sustainability of the new flat rate pension. Advice from the Government Actuary has been a key part of this process and is likely to continue to be so for many years to come.