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Means Testing and the
UK State Pension /
Professor Paul Sweeting



Background

- Three strands to UK State Pension
 - Basic
 - Additional
 - Safety Net

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- Three strands to UK State Pension
 - **Basic**
 - Additional
 - Safety Net
- Basic
 - Started with Old Age Pension (1909)
 - This was replaced with Basic State Pension (1948)
 - Now we have New State Pension (2016)

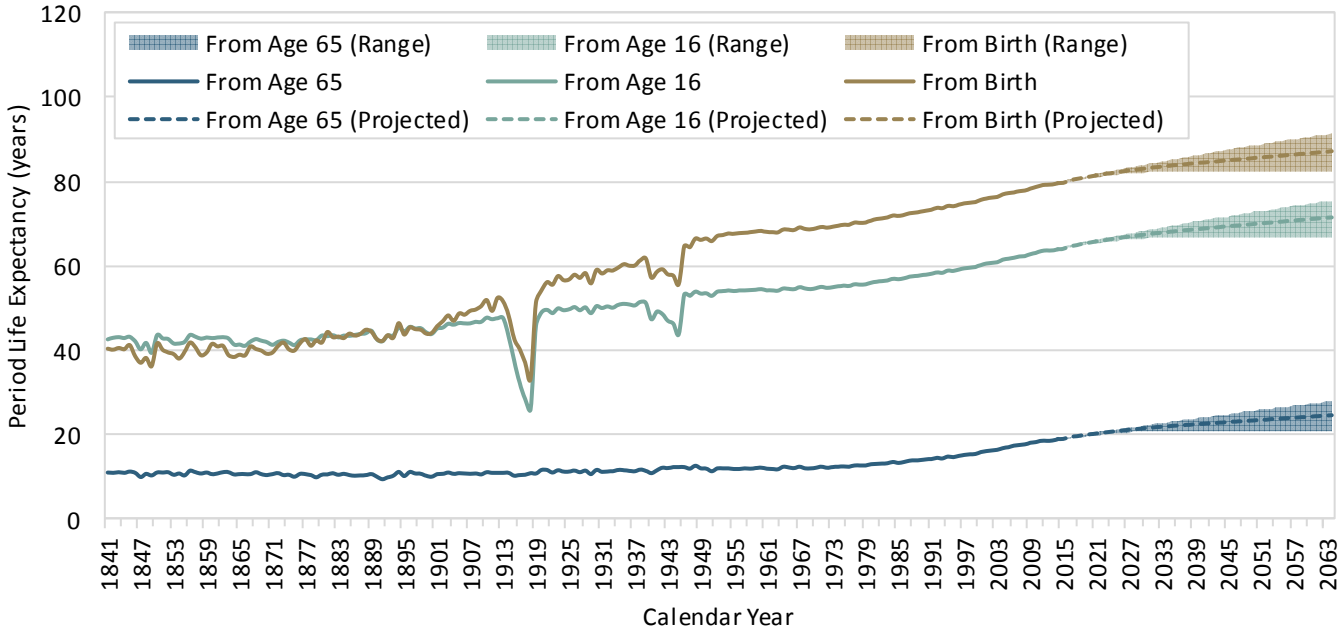
Background

- Three strands to UK State Pension
 - Basic
 - **Additional**
 - Safety Net
- Additional
 - Old-Age Contributory Pension (1928) gave a “bridging pension”
 - Graduated Retirement Benefit (1961) was earnings-related
 - State Earnings Related Pension Scheme or SERPS (1978) was more generous
 - State Second Pension or S2P (2002) was more redistributive

Background

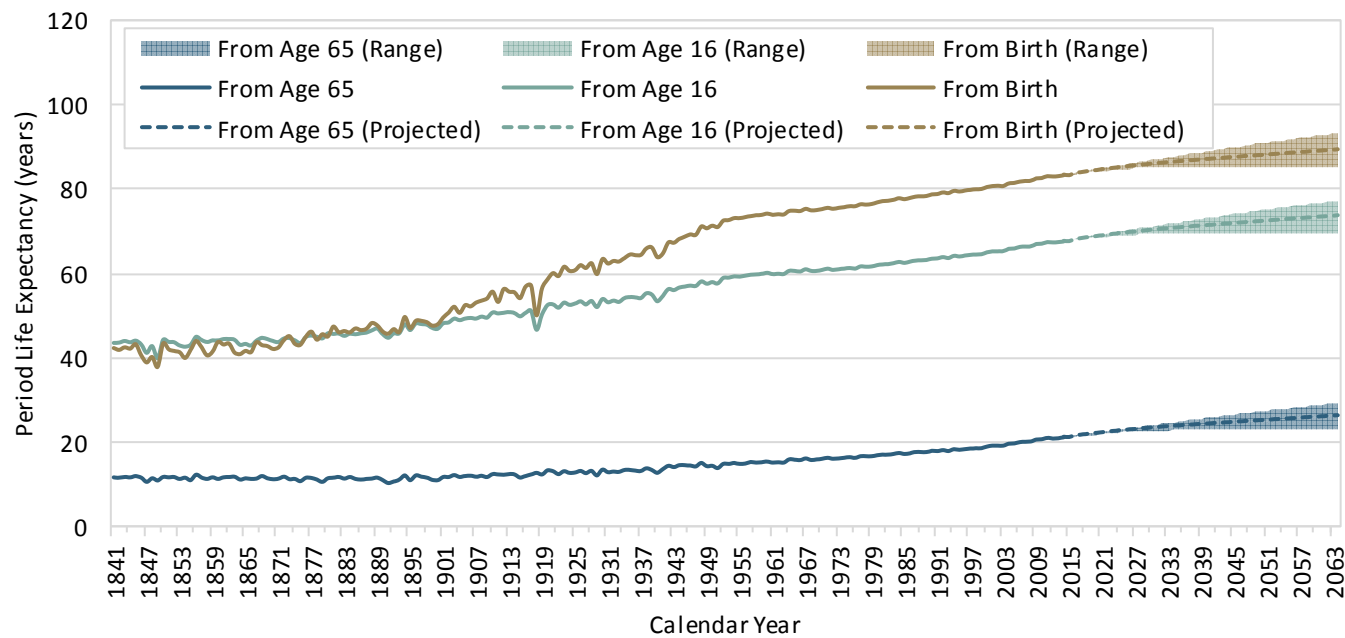
- Three strands to UK State Pension
 - Basic
 - Additional
 - **Safety Net**
- Safety Net
 - National Assistance (1948) introduced to help those that did not qualify for a Basic State Pension
 - Supplementary Benefits (1966) did a similar job...
 - ...as did Income Support (1988)...
 - ...and the Pensions Credit (2003)

Period Life Expectancy, Males



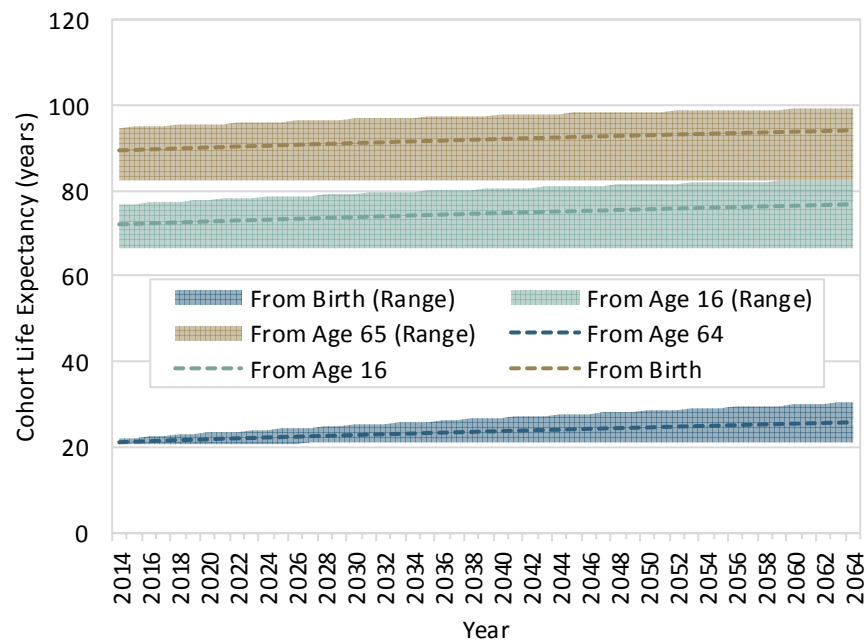
Source: Human Mortality Database, Office for National Statistics

Period Life Expectancy, Females

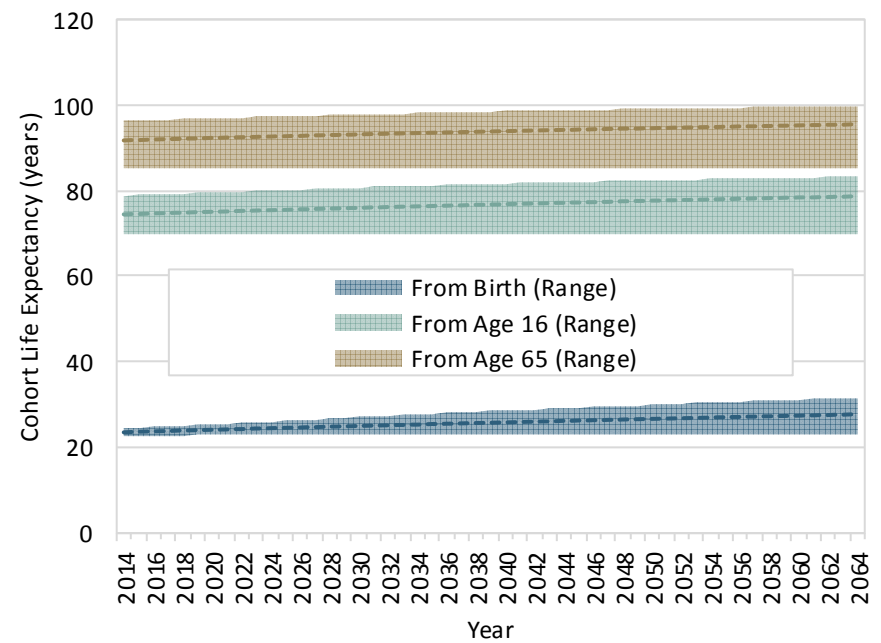


Source: Human Mortality Database, Office for National Statistics

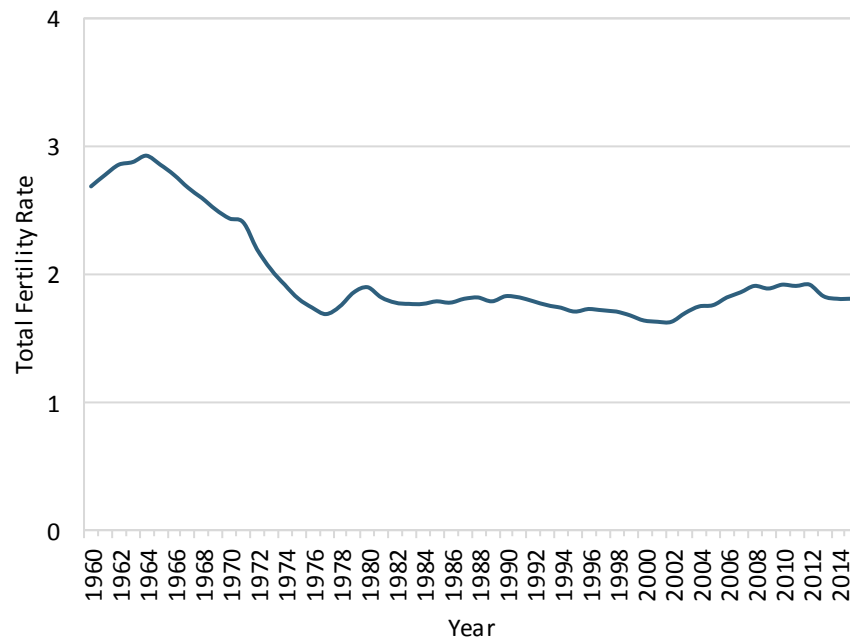
Cohort Life Expectancy, Males (L) and Females (R)



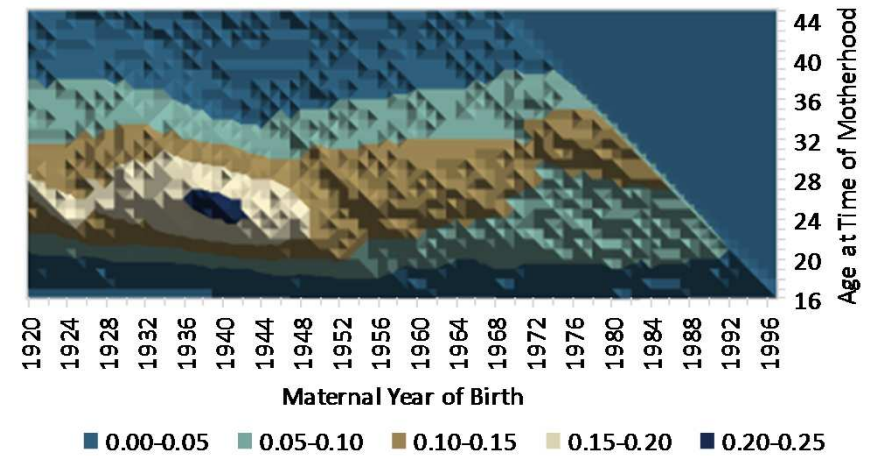
Source: Office for National Statistics



UK Total Fertility Rate (L) and Cohort Fertility Rates (R)

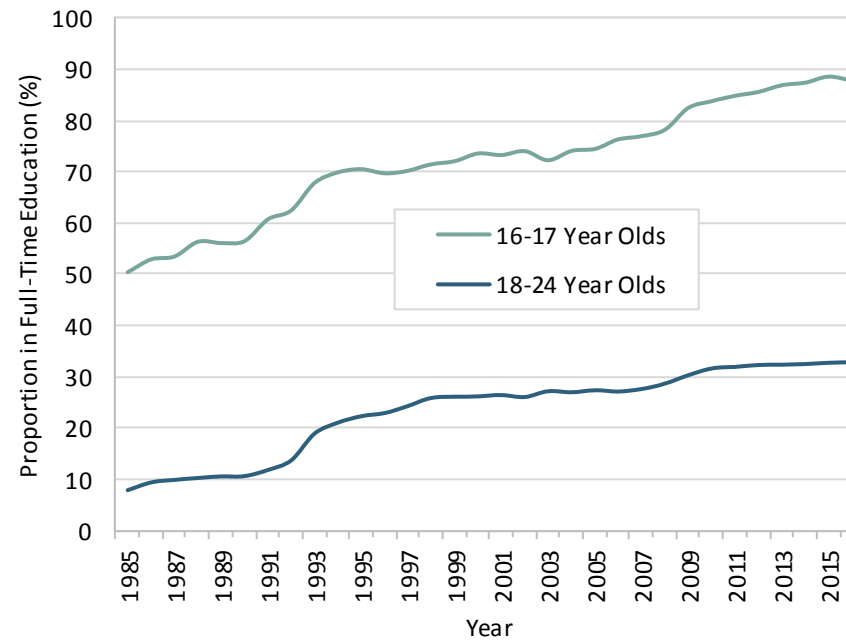


Source: World Bank



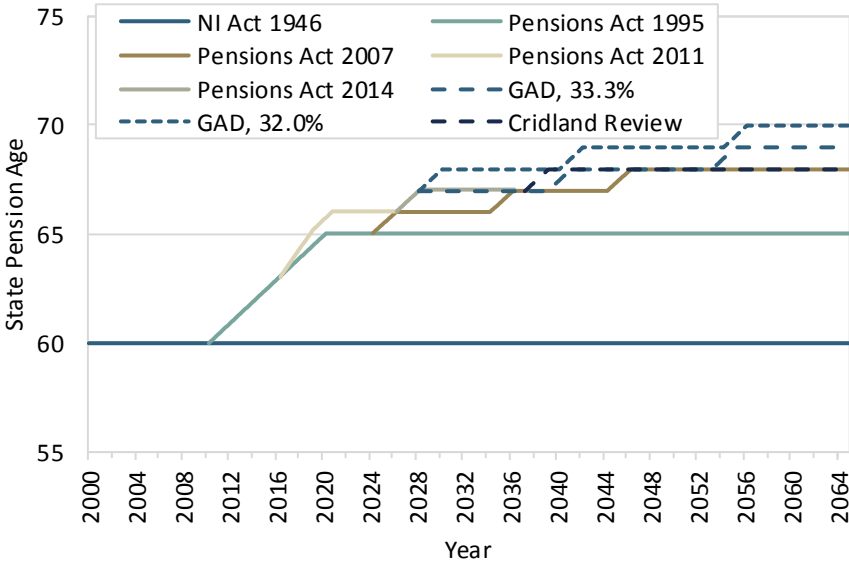
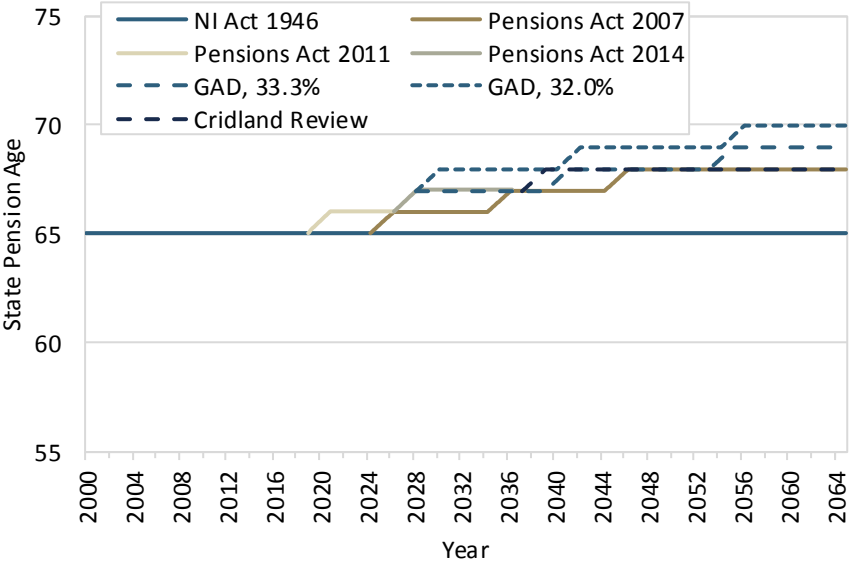
Source: Office for National Statistics, Author's Calculations

Proportion of Children and Young Adults in Education



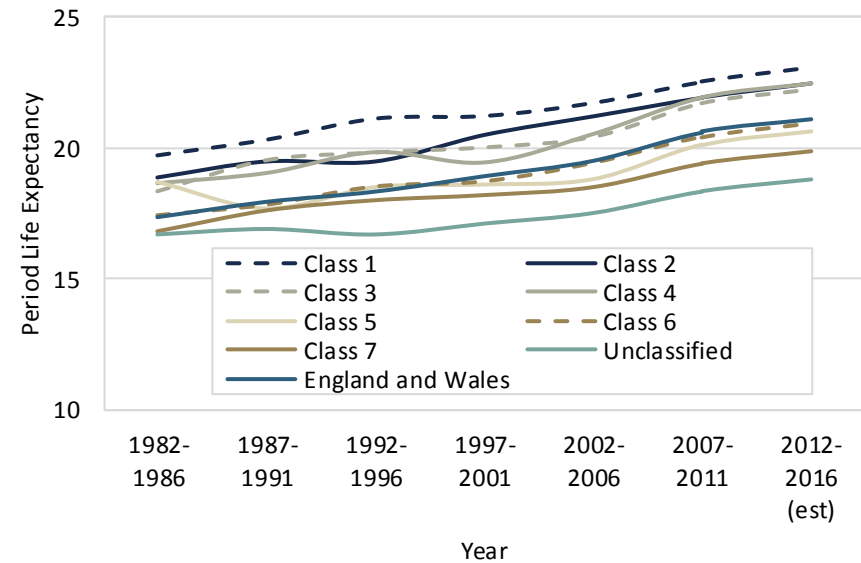
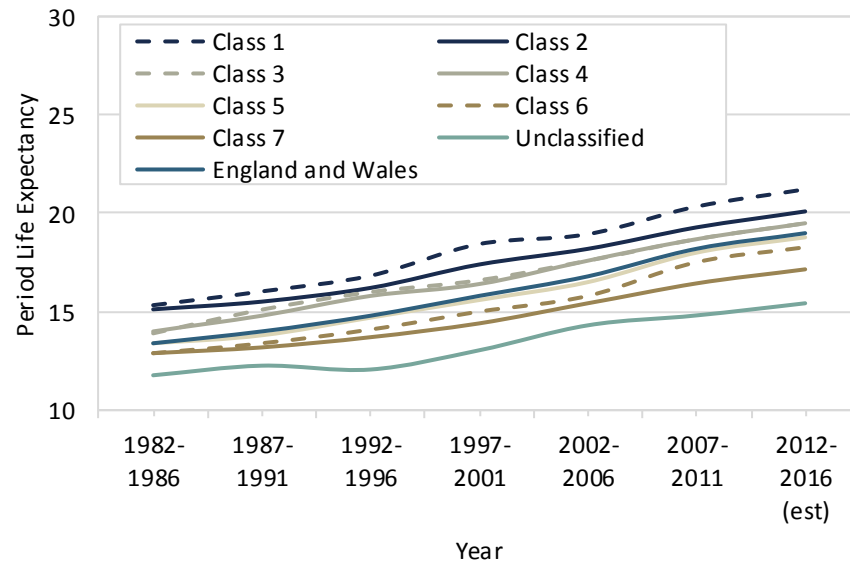
Source: Office for National Statistics, Author's Calculations

Proposed State Pension Ages for Males (L) and Females (R)



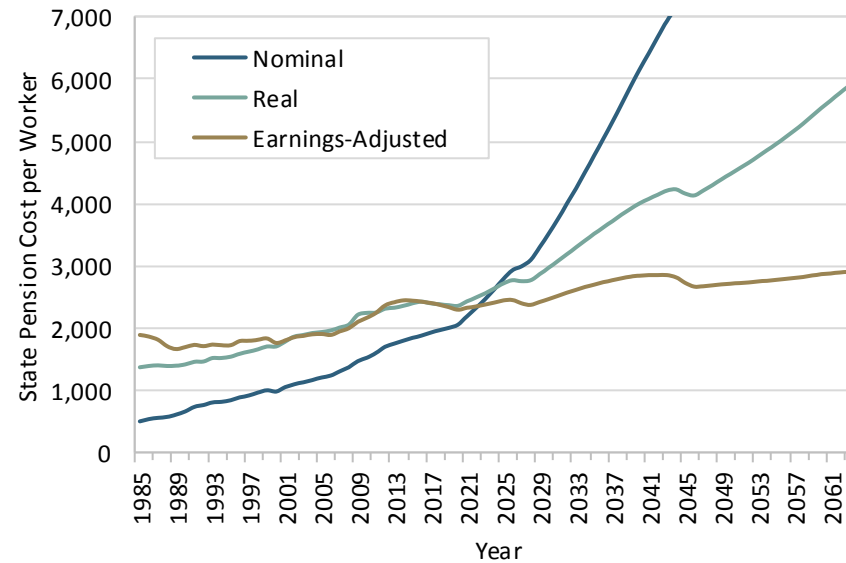
Source: Thurley and Keen (2017), Government Actuary's Department (2017)

Period Life Expectancy from age 65 for Males (L) and Females (R)



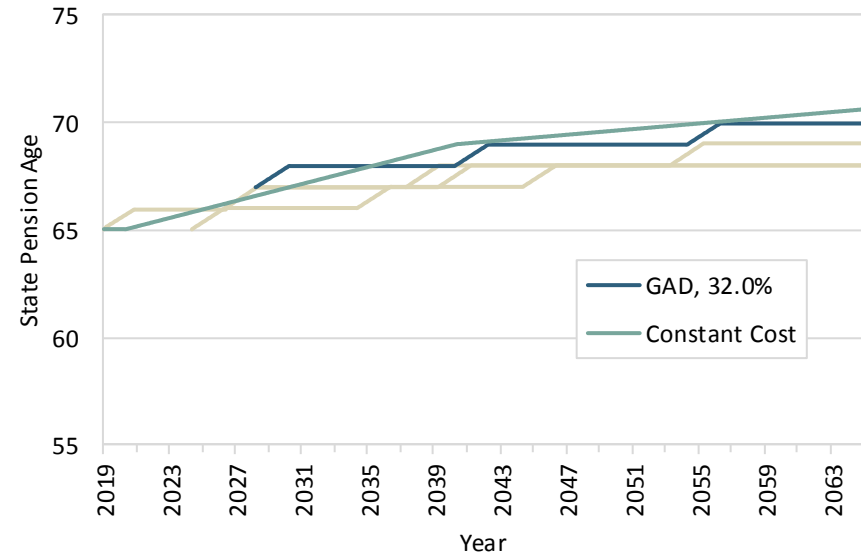
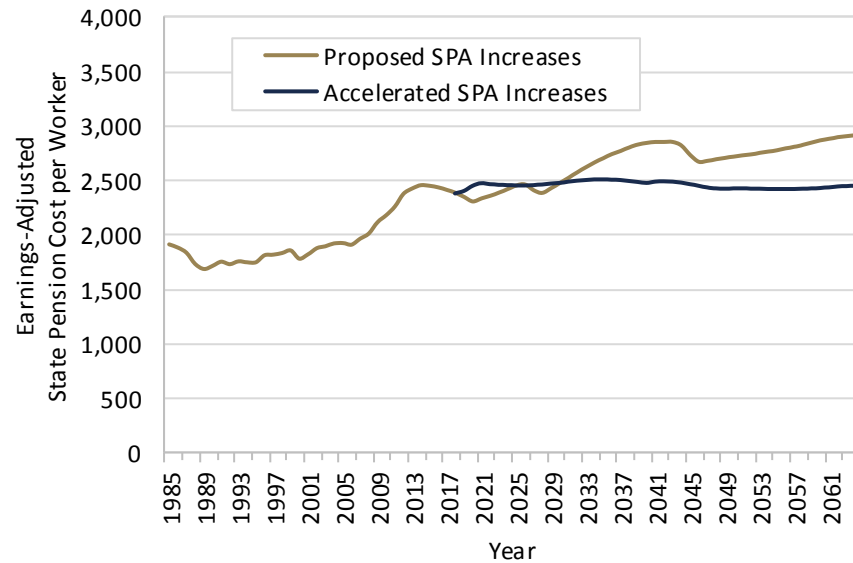
Source: Office for National Statistics, Author's Calculations

Historical and Projected Annual Cost of UK State Pensions per Worker



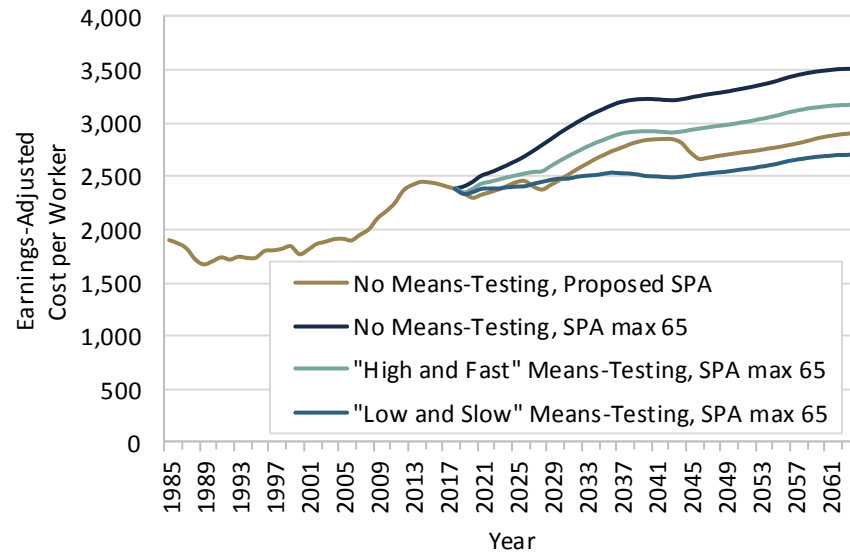
Office for National Statistics; author's calculations; earnings-adjusted figures are calculated in April 2016 terms

Annual Cost of UK State Pensions per Worker with Cost-Controlling SPA Rises



Office for National Statistics; author's calculations; earnings-adjusted figures are calculated in April 2016 terms

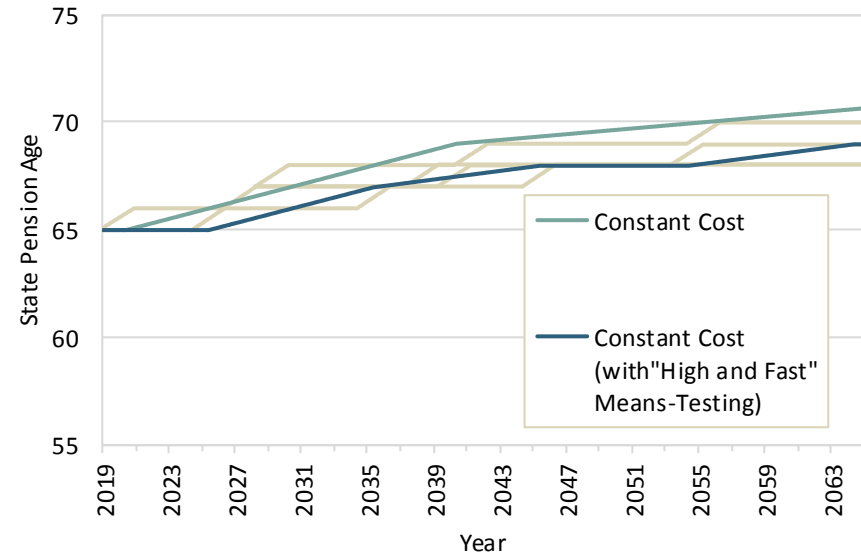
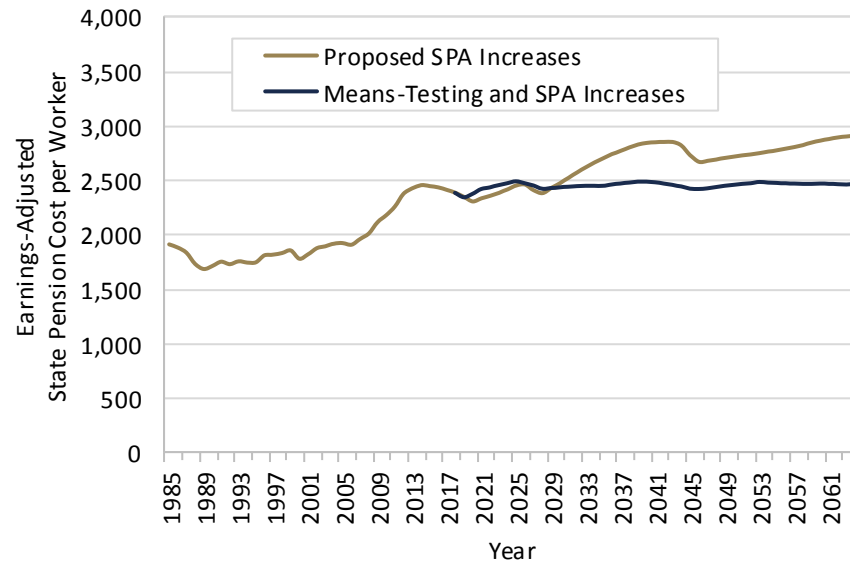
Annual Cost of UK State Pensions per Worker with Means-Testing



Office for National Statistics; author's calculations; earnings-adjusted figures are calculated in April 2016 terms

	"High and Fast"	"Low and Slow"
2019	10	20
2020	9	15
2021	8	12
2022	7	10
2023	6	8
2024	5	7
2025	4	6
2026	3	5.5
2027	2	5
2028	1	4.5
2029	1	4
2030	1	3.5
2031	1	3
2032	1	2.25
2033	1	2
2034	1	1.75
2035	1	1.625
2036	1	1.5
2037	1	1.3
2038	1	1.2
2039	1	1.1
2040	1	1

Annual Cost of UK State Pensions per Worker with Means-Testing and SPA Rises



Office for National Statistics; author's calculations; earnings-adjusted figures are calculated in April 2016 terms

Conclusion

- Increasing longevity and lower birth rates are making the State Pension less affordable
- To maintain affordability, severe increases in the SPA would be needed...
- ...but these would hit the poorest hardest
- Means-testing could be used instead...
- ...but on its own, the rate would be severe
- A compromise offers the best chance of affordability and fairness

<http://www.paulsweeting.com/library/170604SPA.pdf>

<https://www.amazon.co.uk/Surfing-Tsunami-Reforming-State-Pension/dp/1999768124>

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