European Commission

EUROPEAN SOCIAL POLICY NETWORK (ESPN)

Assessment of pension adequacy

United Kingdom

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Social Europe

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ESPN Thematic Report: Assessment of Pension Adequacy

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Manuscript completed in September 2020.

Luxembourg: Publications Office of the European Union, 2021

Quoting this report: Bradshaw, Jonathan and Bennett, Fran (2021). ESPN Thematic Report on Assessment of Pension Adequacy – United Kingdom, European Social Policy Network (ESPN), Brussels: European Commission.

CONTENTS

Highlights

- The UK basic state pension, and additional state pension (for those who reached pensionable age before 6 April 2016), the contributory new state pension (for those who reach state pension age from 6 April 2016 onwards) and means-tested pension credit are broadly redistributive, though comparatively low. But now the state provides only a flat-rate pension and there is likely to be no redistribution in any private provision above that.
- Pensioner poverty rates have fallen, and the means-tested minimum pension credit is now 90% of the minimum income standard for pensioner couples. 12% of pensioners receive means-tested pension credit but 39% of those eligible do not claim.
- Pensionable age was increased to 65 for women in 2018 and to 66 for men and women in 2020. It will rise to 67 between 2026 and 2028 and there are proposals to increase it to 68 by 2039 in a declared effort to ensure sustainability. The employment rates of those over pensionable age and of older workers have been rising. Pension sustainability is tackled by raising pensionable age and by abolishing state earnings-related provision altogether, rather than by reducing indexation or increasing contributions. Self-employed people pay lower contributions than employees for the same level of pension benefits.
- Workplace pensions – occupational pensions or supplementary personal pensions – contributed 44.3% of retirement income in 2018/2019. After a long decline, coverage has risen, especially among 22- to 29-year-olds, after automatic enrolment was introduced in 2012, obliging employees without an existing scheme to contribute (unless they opt out). Personal pensions with no employer involvement are important for the self-employed.

1 General description of the national pension system

The UK has been described as combining 'one of the least generous state systems in the developed world' with one of the 'most developed' sets of voluntary arrangements.[1]

The current statutory pension scheme includes the following:

1. A contributory basic state pension (bSP) for those reaching pensionable age before 6 April 2016 and a new state pension (nSP) for those reaching it thereafter.
2. An earnings-related additional state pension (graduated retirement benefit, then the state earnings-related pension scheme (SERPS), and then the state second pension (S2P)) for those reaching pensionable age before 6 April 2016.
3. A means-tested, tax-financed pension credit (PC) may be payable to persons who have reached pensionable age. Mixed age couples now have to claim Universal Credit.

The state system accounted for 5.0% of GDP, 49% of public social protection expenditure and 12.3% of total managed public expenditure in 2019/2020.[2]

The wider package includes the universal winter fuel payment, the Christmas bonus, free TV licences (for the over-75s),[3] and free prescriptions and eye and dental tests, as well as help from local councils through housing benefit, council tax support and free bus passes - some available at different ages and under different conditions depending on the council.

With the introduction of the nSP from April 2016, people are no longer able to accrue qualifying years for an additional state pension while working prior to pensionable age.

The bSP level from April 2020 is £134.25 (€153.04)[4] per week, plus any additional pension award. People with no national insurance (NI) record before 6 April 2016 and with 35 qualifying years will receive the full nSP rate (£175.20 (€199.73) per week from April 2020) at pensionable age. If they have an NI record at 6 April 2016, their nSP is calculated under transitional arrangements taking that into account. A 'starting amount' is based on their NI record to 6 April 2016. If less than the full rate (likely if someone has been 'contracted out' of the additional state pension into an occupational pension for many years), 1/35th of the full rate is added with each qualifying year from 2016 on, until they reach the full amount or their pensionable age, whichever is first. If the starting amount is higher than the full amount, because of past additional state pension entitlement, they keep the higher figure as their starting amount. There are no earnings disregard rules for the state pension; so pensioners can combine work and pension income, and they no longer pay NI contributions.

There is a minimum qualifying period of 10 years to get any nSP.[5] The nSP is based on individual contributions and people will not be able to claim on their spouse's (or civil partner's) contributions at pensionable age or if they are widowed or divorced. Major

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1 Pension Commission (2004), Pensions: Challenges and Choices. The First Report of the Pensions Commission, London: TSO

2 Table 5.2 Public Expenditure Statistical analysis 2017
https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2019
https://obr.uk/wtr/welfare-trends-report-december-2019/ Table T1.1

3 Due to end in August 2020

4 The £ to € exchange rate has been volatile recently and at the time of writing was advertised as £1=€ 1.14

5 Until 2010, a person was not entitled to any bSP if they had too few qualifying years to get at least 25% of the full rate - 10 years for a woman, but 11 for a man, due to the different female/male pensionable ages reforms were also made to bereavement benefits in 2017, but these were for people of working age.[6]

The self-employed, who have not qualified for state earnings-related pension, have benefited from the introduction of the nSP as this is a higher flat-rate amount than the bSP. The Secretary of State says only 2.5% of the NI contributions take is from the self-employed.[7] The government tried to increase NI contributions for the self-employed[8] in the spring 2017 Budget, in part because of this improved provision, but had to withdraw its proposal after a week.[9] It is also dropping a plan to abolish the flat-rate NI contributions.

Individuals without substantial capital or other income of any kind may also claim pension credit (PC), a means-tested, tax-financed payment consisting in part of guarantee PC topping up other income to a weekly income from April 2020 of £173.75 (€198.08) per week for a single person and £263.20 (€300.05) for a couple. 1.5 million[10] people (12% of pensioners) were getting PC in 2019/20. Generally income is taken into account in assessing PC eligibility, except (e.g.) for personal independence payment, disability living allowance and attendance allowance (all for extra costs of disability), and child tax credit and child benefit, which are disregarded. Capital under £10,000 (€11,400) is disregarded and £1 is taken into account for every £500 (€565) of capital over £ 10,000. The official Department for Work and Pensions (DWP) estimate is that in 2017/2018 the take-up[11] of PC was 61% of eligible people and 70% of the expenditure was claimed. PC savings credit, intended to reward pensioners for having saved, is being phased out. Mixed age couples, in which one partner is of pensionable age but the other is not, have since mid-May 2019 had to claim Universal Credit (the new means-tested benefit for those of working age) instead of PC.

Since the June 2010 Budget, the bSP has been uprated using the 'triple lock' – the highest of CPI (consumer price index) inflation or average earnings growth or 2.5% each year. This has also applied to the full nSP rate since 6 April 2016. The triple lock has resulted in a big increase in the real pension level, especially in comparison with earnings, since the start of the recession.

People can defer receiving state pension – for every 9 weeks of deferral, an extra 1% is added to the pension (reduced in April 2016 from 1% for every 5 weeks).

Supplementary pensions: UK workplace pensions are private pension arrangements that are not provided as part of the state benefit system, although they have to meet minimum quality conditions set by the government, and contributions to them benefit from tax relief.

[6] https://commonslibrary.parliament.uk/research-briefings/cbp-7887/

[7] In oral evidence to the Work and Pensions Select Committee, 25 March 2020

[8] https://commonslibrary.parliament.uk/research-briefings/cbp-7918/

[9] Bennett, F. (2018) 'Social protection for the self-employed in the UK: the disappearing contributions increase?', *Journal of Poverty and Social Justice* 27(2): 235-251

[10] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/867973/income-related-benefits-estimates-of-take-up-2017-2018.pdf

[11] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/645577/income-related-benefits-estimates-of-take-up-2015-16.pdf

They fall into two broad types:

- occupational pension schemes: pensions set up by an employer for employees;
- supplementary personal pensions: individual retirement plans, possibly facilitated (and part funded by contributions from) the employer or completely independent of them.[12]

Personal pensions with no employer involvement are used by the self-employed especially, who may choose a personal / self-invested personal / stakeholder pension.[13]

Occupational pensions had been in long-term decline (e.g., from a peak of 12.2 million in 1967, membership had declined to 7.8 million by 2012).[14] To reverse this decline, from 2012 the UK began to require all employers to automatically enrol eligible jobholders into a qualifying workplace pension. Eligible jobholders who must be included are those who: earn more than £10,000 (€11,300) per year (in 2017/2018, not uprated since); are aged at least 22 and below pensionable age; ordinarily work in the UK under a worker's contract; and are not already part of a qualifying pension scheme. Employers are obliged to default eligible staff into a qualifying workplace pension; but jobholders can opt out in the first month and get their contributions back. Jobholders can also choose to stop saving at any point after this; but in such cases contributions are usually held in the pension until they retire. People who earn below the earnings trigger of £10,000 (€11,300) can choose to opt into the pension scheme and will get a mandatory employer contribution if they earn above the lower earnings limit (£5,876 (€6,640) in 2017/2018, and £6,240 (€7,113) in 2020/21). Auto-enrolment duties apply to all staff, including short-term, seasonal or temporary workers. The same rules apply to zero hours contract workers.[15]

Automatic enrolment was introduced gradually, with employers of all sizes involved by the end of February 2018. Indications are that the long-term decline in participation is being reversed – workplace pension scheme membership increased to 76% in 2018, from 50% in 2013.[16] Following its 2017 automatic enrolment review,[17] the government proposed to lower the entry age to 18, to nudge young people into pension saving.[18] Trades unions found pension black spots in industries in which women predominate, earning too little to be included; but DWP analysis shows numbers of women in the private sector without a workplace pension halving[19] and gender parity in pension participation between eligible men and women in the private sector. Employers are free to choose the type of workplace pension, provided it meets minimum quality criteria. But to ensure that every employer has access to a 'qualifying scheme', the UK set up a low-cost national employment savings trust (NEST), which any employer can use. Most schemes used for automatic enrolment are defined-contribution (DC) rather than defined-benefit (DB). The government legislated to regulate 'master trusts', set up in significant numbers due to automatic enrolment.[20]

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[12] This UK usage is somewhat different from the taxonomy usually used in the PAR

[13] https://www.pensionsadvisoryservice.org.uk/about-pensions/pensions-basics/automatic-enrolment/faqs-about-automatic-enrolment

[14] *Occupational Pension Schemes Survey 2013:* http://www.ons.gov.uk/ons/rel/fi/occupational-pension-schemes-survey/2013/stb-opss.html

[15] https://www.pensionsadvisoryservice.org.uk/about-pensions/pensions-basics/automatic-enrolment/faqs-about-automatic-enrolment

[16] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions

https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/bulletins/occupationalpensionschemessurvey/2015.

[17] *Maintaining the Momentum :* https://www.gov.uk/government/publications/automatic-enrolment-review-2017-maintaining-the-momentum.

[18] *The Times* 4 December 2017

[19] Financial Times 23 Oct 2017

[20] Pension Schemes Bill [Lords]: Second Reading, House of Commons *Hansard*, 30.1.17, col. 781

2 Reform trends

There have been few reforms in pension policy since 2017.

The Pensions Act 1995 legislated to increase pensionable age for women progressively from 60 to 65 by 2020, to match men's. The Pensions Act 2011 accelerated this, so women's pensionable age reached 65 by 2018. Pensionable age then rose for men and women to 66 between 2018 and 2020. The Work and Pensions Select Committee heard evidence that confusion is rife, including from some women who realised very late that receipt of their state pension was years further away than they had planned for. Several groups[21] were formed to campaign for better transitional arrangements. In 2013, pensionable age was due to be reviewed every 6 years in light of the latest life-expectancy projections.[22] Life expectancy, both at birth and at age 65, has increased significantly over recent decades. However, since 2011 life expectancy at 65 has improved much more slowly. In comparison with similar countries, the UK now has among the lowest life expectancy improvements for both males and females.[23]

As a result, the government plans to raise pensionable age from 66 to 67 between 2026 and 2028. A rise from 67 to 68 is currently legislated to take place between 2044 and 2046. However, in July 2017, the government announced[24] its intention to bring this forward 7 years, to 2037-2039. This follows the recommendation made in the government-commissioned, independent review of pensionable age by John Cridland, which found that, from 2017-2036/2037, annual state pension spending is set to rise by an extra 1% of GDP (5.2 to 6.2%). The government claims its proposed pensionable age timetable will reduce the rise in spending by 0.4% of GDP in 2039/2040 - around £400 (€456) per household based on the number of households today. It will save £74 billion (€84 billion) through to 2045/2046 compared with current plans, and more than £250 billion (€285 billion) to 2045/2046 compared with capping the rise in pensionable age at 66 in 2020. The aim is for up to 32% of adult life to be spent living on the state pension.

Employment rates of older people have been rising. 10.8% of the 65+ were employed in the quarter ending December 2019, compared with just 5.5% in March-May 1992 (when records began). The labour market participation of older workers aged 50-64 was 72.7% (77.1% for men, 68.50% for women) in the quarter ending December 2019.[25] The government published an employer-led strategy to increase the length of working lives through retention, retraining and recruitment of older workers.[26]

Though the number of pensioners had been steadily increasing, until the start of the recession spending on the state pension as a proportion of GDP remained steady at around 4%. Since the recession, spending has risen to 5.2% of GDP as a result of slower GDP growth, relatively generous indexation and a rising number of pensioners. The Office for Budget Responsibility (OBR)[27] forecast that the share of GDP spent on state pensions would fall from 2012/2013 to 2018/2019, mainly as a result of the increase in pensionable age for women to 65 by 2018. Before the recent decision to bring forward the increase in pensionable age, the OBR's longer-term forecast had state pension spending rising from

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[21] For instance, WASPI (Women against State Pension Inequality)

[22] Chancellor's *Autumn Statement,* 5 December 2013: https://www.gov.uk/government/publications/autumn-statement-2013-documents, p. 89 point 2.72

[23] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2016to2018

[24] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/630065/state-pension-age-review-final-report.pdf

[25] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employmentunemploymentandeconomicinactivitybyagegroupseasonallyadjusteda05sa

[26] https://www.gov.uk/government/publications/fuller-working-lives-a-partnership-approach

[27] Office for Budget Responsibility (2014) *Welfare trends report*, October

5.1% of GDP in 2019/2020 to 7.3% in 2064/2065, mainly due to the projected rise in the population aged 65 and over, from 18% in 2015 to over 26% in 2065.

From 6 April 2015, the Taxation of Pensions Act 2014 allowed people aged 55 and over to access their DC pension savings when and how they choose, subject to their marginal rate of income tax. Alongside these reforms, the government introduced measures in the Pension Schemes Act 2015 to support and protect those considering these new pension freedoms, including provision of free and impartial pension guidance, delivered through the government-backed Pension Wise service.

In its *Retirement Outcomes Review: Interim report*, published in 2017, the Financial Conduct Authority (FCA) found that consumers had welcomed these reforms, which became known as the pension freedoms. Of approximately 7 million eligible DC pots, 1.2 million, or 17%, had been accessed. The FCA found no evidence of consumers squandering their savings. While the report identified emerging issues around attitudes to leaving pension savings invested, withdrawing savings without taking advice and a lack of product innovation by the industry, the FCA acknowledged that the market is still developing and firms and consumers are continuing to adjust to the reforms. A quantitative service evaluation conducted by Ipsos MORI on behalf of Pension Wise found that the customer experience was highly positive: 97% either already had, or said they were likely to, recommend Pension Wise to others.

As part of its reforms, the government also introduced the advice requirement, which applies to those with safeguarded benefits, such as DB pension savings, valued at over £30,000 (€33,900). These individuals must demonstrate that they have taken advice from a financial adviser authorised by the FCA before they surrender these benefits by transferring or converting them into DC pension savings. In the autumn, the FCA made proposals to clarify its expectations of advisers and improve the quality of this advice.

3 Assessment of adequacy

3.1 Current adequacy

For this PAR the Eurostat figures for the UK have not been provided, presumably because of Brexit. We have extracted most of the numbers ourselves from the Eurostat Database in Section 5. Given the break in series in EU-SILC, it is probably better to use national statistics to monitor pensioner poverty over time, though the Eurostat figures generally confirm the national data. The overall proportion of elderly people at risk of poverty (AROP) has significantly declined since 1998/1999 and also since 2007/2008, but there has been no reduction in the latest period and a slight rise since 2014/15. There remains a gender gap – in 2018/19, the AROP rate for the 65+ group was 15% for men and 20% for women. The AROP rate also varies with age – it is 15% for the 65-69 age group and 24% for the 85+ group. The percentage of pensioners aged 65 and over in material deprivation was 7% in 2018/19. The Eurostat material deprivation rate for this group in 2018 was 1.4% and the material and social deprivation rate was 3.7% (see Section 5).

In 2019 means-tested pension credit (PC) was 90.3% of the Minimum Income Standard for a pensioner couple (£286.83, or €324 per week). This compares with a gap of 31.5% for a single adult of working age or 56.2% for a couple with two children if they are on minimum out-of-work benefits.[28]

[28] https://www.jrf.org.uk/report/minimum-income-standard-uk-2019. The MIS is based on what the public thinks people need for a decent minimum living standard

A decomposition analysis of pensioner incomes by quintile group[29] reveals that wages and salaries contributed very little to gross income in 2018/2019 – 5.8% on average, slightly more for the highest quintile. Private and occupational pensions contributed 44.3% on average in 2018/2019, up from 36% in 2007/2008, and the contribution is larger for richer quintile groups. The statutory pension share of gross income is 32.3% on average but 63.5% for the bottom quintile; its share of gross income fell slightly between 2007/2008 and 2018/2019. Direct taxes are broadly progressive and indirect taxes very regressive; the bottom quintile pays 10.0% of gross income in direct taxation and the top quintile pays 18.6%.

The bSP is paid on the basis of earnings-related NI contributions (NICs). In 2020/21, employees pay no NICS on earnings below £183 (€207) per week,[30] but are treated as having paid them as long as they are earning £120 (€136) per week or more. They pay 12% NICs on earnings of £9,500-50,000 per year (€10,830-57,000) and 2% on earnings above that, and employers pay contributions of 13.8% of earnings. The bSP is flat rate and the nSP has no earnings-related element. There was always some redistribution in the statutory pension system, including in the earnings-related element, before recent reforms. Employers' contributions can be seen as deferred wages. But as an allowable expense for employers they are not subject to progressive income tax.

Pension credit is highly redistributive to those on low incomes as it is tax-funded and means tested. But it suffers from a perennial problem of low take-up.

In relation to long-term care, cash benefits designed to contribute toward the costs of care such as attendance allowance are not means-tested and not affected by statutory pensions. Access to publicly funded care, whether domiciliary or residential, is heavily restricted and subject to stringent tests of both income and assets. Pension income (whether statutory, or from occupational or private pensions) is included in full in the income test. Anyone with assets of £23,250/€23,575 is not eligible for any publicly-funded long-term care, regardless of level of need. For residential long-term care, the value of a house is included in the calculation of assets after a short time. People whose incomes and/or assets are too high to qualify for publicly-funded care pay for this privately (or rely on unpaid relatives, or go without altogether). In addition, pensioners may be asked to pay user contributions towards any publicly-funded care they receive.

3.2 Future adequacy

The main question about the future adequacy of the statutory pension scheme concerns how it will be indexed.[31] For the bSP and the nSP, there is a statutory requirement to index at least in line with earnings. The legislative requirement is that the standard minimum guarantee in the means-tested PC is increased at least in line with earnings. However, in recent years when this would have meant that the increase in the standard minimum guarantee would have been less than the cash increase in the full rate of the bSP, there has been an above-indexation increase to meet that instead. In their 2017 election manifesto, the Conservatives promised to maintain the triple lock until 2020 and then replace it with a double lock (prices or earnings rises). However, the 26 June 2017 agreement between the Conservative and Democratic Unionist Parties said that both parties had agreed there would be 'no change to the pension triple lock'. The House of Commons Library estimates[32] that in 2015/2016 the bSP was 14% higher in nominal terms than in 2011/2012, and by 2022/2023 it might be 39% higher, as a result of the triple

[29] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/theeffectsoftaxesandbenefitsonhouseholdincomefinancialyearending2014 Table 21

[30] This is the first step in a government pledge to raise the NI threshold to £12,500 per year

[31] http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05649

[32] http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7812#fullreport.

lock. The triple lock ensures adequacy; but it comes at some cost and may not be sustainable.[33] [34] [35]

3.3 Challenges for future adequacy

The OECD report *Preventing Ageing Unequally*[36] highlighted three main challenges for the future adequacy of UK pensions. First, lower-educated 50- to 64-year-olds are much less likely to be in work, especially women. Second, bad health and obesity[37] are major reasons why people leave the labour market early.[38] Third, many older people with long-term care needs have to pay high costs.

The NICs scheme allows for contributions to be credited for people outside the labour market and in receipt of disability, unemployment and carers' benefits. In addition, if someone is caring for a child under 12, they are awarded credits so that their childcare responsibilities do not prevent them from accessing a full nSP in future (though the eligible age for a child has been reduced in recent years). Removing the additional pension makes private pensions the only means of securing wage replacement. Ginn[39] has suggested that consideration should be given to subsidised care credits within NEST, or retaining a state earnings-related pension with care credits as a voluntary auto-enrolment option; otherwise, care responsibilities will not be recognised in provision above the nSP.

Part of the redesign of pension provision was prompted by low pension savings by many employees, especially because of the decline in DB pension schemes. The replacement of state earnings-related provision entirely by auto-enrolment into personal pension provision, for those not already in an occupational scheme, is likely to mean less redistribution towards the low paid in future; and employers are not obliged to offer auto-enrolment to part-time workers who earn under the qualifying threshold - though, as highlighted above, those workers can choose to opt in and will receive a mandatory employer contribution if they earn over the lower earnings limit. The recent review of automatic enrolment considered this issue and concluded that the qualifying earnings threshold continues to strike the right balance between managing affordability for employers and ensuring that those enrolled are people for whom it would make most economic sense to save. It was retained at £10,000 (€11,300) for the 2020/21 tax year and this threshold is subject to annual review. However, as a result of the review *Maintaining the Momentum* (2017), the government has proposed to remove the lower earnings limit so that pension contributions start at the first pound of earnings and everyone can access a workplace pension that would attract an employer contribution.

[33] http://budgetresponsibility.org.uk/fsr/fiscal-sustainability-report-january-2017/

[34] http://www.pensionspolicyinstitute.org.uk/press/press-releases/what-level-of-pension-contribution-is-needed-to-obtain-an-adequate-retirement-income

[35] https://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/news-parliament-2015/triple-lock-withdrawal-comment-16-17/

[36] http://www.oecd.org/unitedkingdom/PAU2017-UK-En.pdf

[37] https://www.health.org.uk/publications/reports/the-marmot-review-10-years-on

[38] https://www.ageing-better.org.uk/news/work-and-health-later-life

[39] Ginn, J. (undated) Gender Effects of the Single Tier Pension and Associated Reforms, Institute of Gerontology

3.4 Solidarity mechanisms

Analysis of EU SILC data shows that since the start of the financial crisis the UK, as with almost all EU countries, has shifted resources away from families with children and towards pensioners.[40] In 2009/2010, pensioners in the UK had 75% of the net income of families with children. By 2015/2016, this ratio had increased to 85.6% and pensioners have been largely protected from the austerity cuts since 2010.[41] The Eurostat figures also show that replacement rates have improved since 2008.

We have seen in the previous sections that pensions have been uprated much more generously than working age benefits since the recession (and before); that pensioner poverty has tended to fall, while that of families with children has continued to increase; and that there remains a gap between the living standards of men and women in old age. This is most obvious in the gender differences in pensioner poverty referred to in Section 3.1 and also in the Eurostat data in Section 5.

The increase in pensionable age led the Trades Union Congress General Secretary to respond:[42] 'Hiking the state pension age risks creating second-class citizens. In large parts of the country, the state pension age will be higher than healthy life expectancy. And low-paid workers at risk of insecurity in their working lives will now face greater insecurity in old age too'. The Institute for Fiscal Studies estimates that women affected by the delays in receiving state pension will lose £32 (€36) per week on average and that these reductions in income lead to the absolute poverty rate of women aged 60-62 who are now under pensionable age increasing by 6.4 percentage points.[43]

The Financial Lives survey of 13,000 consumers by the FCA, the biggest of its kind, found that 31% of UK adults have no private pension provision and will have to rely entirely on the state in their retirement. Of particular concern is the group aged over 50 who are not paying into a pension and have few years left to build one up before their 60s. When the FCA asked why they had made no provision, 32% said it was too late to set up a pension, 26% said they could not afford it and 12% said they were relying on their partner's pension. Auto-enrolment has brought millions of people into pension saving for the first time, but millions of self-employed and part-time workers are not in the scheme. The figures also reveal a big gap between men and women: 33% of men expect to retire with just the statutory pension provision, but that rises to 53% among women.[44]

The UK does not have and has never had retirement regimes for workers in arduous or hazardous jobs, although individual employers may offer early retirement.[45] Some public occupational pension schemes for the armed forces, police and firemen have earlier retirement ages, which may be related to the nature of these jobs. Employees too sick to work may be able to claim statutory sick pay (SSP) via their employers. Workers who become unemployed may claim contributory and/or income-based jobseeker's allowance (JSA). People who are disabled or long-term sick and unable to work may claim

[40] Bradshaw, J. & Chzhen, Y. (2015). The outcome of the crisis for pensioners and children, Belgisch tijdschrift voor Sociale Zekerheid 1, 37-49:
http://socialsecurity.fgov.be/docs/nl/publicaties/btsz/2015/btsz-1-2015-bradshaw-chzhen-nl.pdf

[41] Bradshaw, J. (2017) 'Trends in pensioner incomes', Blog: http://jonathanbradshaw.blogspot.co.uk/2017/12/trends-in-pensioner-poverty.html

[42] https://www.tuc.org.uk/economic-issues/pensions-and-retirement/pension-age-hike-risks-creating-second-class-citizens-says

[43] https://www.ifs.org.uk/publications/9565

[44] https://www.theguardian.com/money/2017/oct/21/uk-retirees-state-pension-financial-future

[45] Bradshaw, J. (2016). *ESPN Thematic Report on Retirement regimes for workers in arduous or hazardous jobs: United Kingdom* 10.13140/RG.2.2.10187.59681: http://ec.€opa.eu/social/keyDocuments.jsp?pager.offset=0&langId=en&mode=advancedSubmit&year=0&country=0&type=0&advSearchKey=ESPNwahj

contributory and/or income-related employment and support allowance (ESA). But these are not retirement schemes; they involve tests of willingness or limited capacity to work.

Increasing longevity and the large cohort of baby boomers reaching retirement have been the causes of increasing concern about generational equity.[46] The Intergenerational Foundation has recently updated the analysis by John Hills on life-cycle welfare transfers between generations.[47] This is relevant not only to pensions but also to the extent to which past and future cohorts contribute to the welfare state via taxation and withdraw from its core pillars – education, health and social security – over the course of lifetimes.

The study concluded (page 4):

> "While the precise path of future welfare spending remains hugely uncertain, it is clear that successive governments have so far failed to adjust either the UK's tax-raising potential, or its welfare promise for current and future generations, to account for future fiscal pressures. Managing this trade-off is key to finding an equitable distribution of resources across generations and to maintaining the inter-generational contract.
>
> What is certain is that of generations alive today, so far the baby boomers have been the winners and the silent generation the losers from generational burden-sharing as the welfare state has expanded and matured. The outcome is less clear for younger generations, their fate will ultimately be decided by future policy choices. As policymakers wrestle with big questions about the future path of tax and spend we should remember the significant implications for generational living standards and equity."

4 Recommendations

The first recommendations below are chosen because they present the proposals that already exist that might be best for reducing poverty in old age in the short term. We add proposals to improve income maintenance and the structure of the pensions system.

***Pay the nSP rate to all pensioners*.** From 2016, with the end of the contracting out of occupational pensions which could meet certain tests imposed by the government, everybody under pension age pays the full rate of NICs, which has resulted in a big increase in contribution income for the NI Fund. The probable net cost to the NI Fund of paying the nSP to those already over pension age would be between £1 and 2 billion (€1.14-2.28 billion) per year, reducing year by year as a new generation of workers reaches pension age. This sum does not take into account the administrative savings from no longer having to means test a diminishing group of elderly pensioners.

Maintain efforts to increase the take-up of means-tested PC. Pensioner poverty is mainly driven by the non-take-up of PC. If every pensioner eligible claimed PC, it would close a substantial proportion of the pensioner poverty gap and lift many above the AROP threshold. Non-take-up is an enduring problem of means-tested benefits. Much effort was made to increase the take-up of PC after it began in 2001, with varying degrees of success; but those funded efforts have since dissipated, to be replaced with low-cost activity such as local press articles, and the latest estimates are that nearly two-fifths (39%) of those eligible are failing to claim. A report from the Joseph Rowntree Foundation sets out recommendations for increasing take-up.[48]

[46] Willetts, D. (2015) The Pinch: How the Baby Boomers Took Their Children's Future - And Why They Should Give It Back, Atlantic Books

[47] https://www.resolutionfoundation.org/app/uploads/2018/02/Generational-welfare.pdf

[48] Finn, D. and Goodship, J. (2014) *Take-up of benefits and poverty: an evidence and policy review:* www.cesi.org.uk/publications/take-benefits-and-poverty-evidence-and-policy-review

Discuss the replacement of private earnings-related provision with a statutory equivalent: as noted, the reliance on solely private pensions for any provision above the basic minimum means a lack of redistribution towards low earners and/or those with caring responsibilities within earnings-related elements. Such redistribution would be possible within a state scheme. (Potentially it would also be feasible via regulation of private provision, but probably only with some state subsidy.) This is especially important for gender equality.

Consider the tax treatment of pensions and pensioners to ensure fairness: the tax treatment of pensions and pensioners has a range of purposes. But it has become over-complex over recent years and would benefit from a comprehensive review. Self-employed people should pay a higher rate of contributions for their statutory pension provision.

Statistical Annex

Table A.1 Relative incomes of older people

Indicator	2018			Change 2008-2018		
	Total	Men	Women	Total	Men	Women
Relative median income ratio, 65+	0.9	0.93	0.87	0.16	0.17	0.14
Income quintile share ratio (S80/S20), 65+	4.74	4.82	4.60	0.01	0.09	0.23
Income quintile share ratio (S80/S20), less than 65	6.24	6.29	6.10	0.55	0.47	0.55
Aggregate replacement ratio (ARR)	0.56	0.59	0.59	0.08	0.12	0.12

Table A.2 Poverty and material deprivation

Indicator	2018			Change 2008-2018		
	Total	Men	Women	Total	Men	Women
At-risk-of-poverty or social exclusion (AROPE), 65+ (%)	20.2	17.3	19.2	-8.3	-8.1	-1.6
At-risk-of-poverty (AROP), 65+ (%)	19.2	16.6	21.7	-8.1	-7.8	-8.0
Severe material deprivation (SMD), 65+ (%)	1.4	1.3	1.5	0	0	-0.1
At-risk-of-poverty or social exclusion (AROPE), 75+ (%)	24.4	20.4	27.5	-7.8	-9.1	-6.6
At-risk-of-poverty (AROP), 75+ (%)	31.2	28.6	33.1	-7.1	-8.7	-5.7
Severe material deprivation (SMD), 75+ (%)	0.9	0.8	0.9	-0.2	-0.4	0.2
Relative poverty gap, 65+ (%)	20.7	21.1	20.4	1.5	4.3	-0.3
At-risk-of-poverty (AROP), 65+: 50% threshold (%)	11.4	9.9	12.7	-3.9	-2.4	-5.0
At-risk-of-poverty (AROP), 65+: 70% threshold (%)	40.0	36.9	42.5	-11.1	-11.2	-10.8
				Change 2014-2016		
Material and social deprivation, age 65+ (%)	3.7	2.7	3.4	-2.6	-3.2	-3.2

Table A.3 Gender differences

Indicator	2018	Change 2008-2018
	Total	Total
Gender gap in pension income (65-79) (%)	34..4	-7.8
Gender gap in non-coverage (W-M in p.p.) (65-79)	-0.3	-0.3

Table A.4 Housing and health situation of older people

Indicator	2018			Change 2008-2018		
	Total	Men	Women	Total	Men	Women
Housing cost overburden, 65+ (%)	13.7	12.1	15.2	-2.8	-1.2	-3.9
No unmet needs for medical care 65+ (%)	92.4	93.9	91.5	5.6	4.5	6.1
Healthy life years at age 65 (years) *		10.2	10.7		-0.6	-1.1

Table A.5 Sustainability and context

Indicator	2017			Change 2008-2017		
	Total	Men	Women	Total	Men	Women
Life expectancy at 65 (years)	20	18.8	21.1	1.0	1.2	0.9
Old-age dependency ratio (20-64) (%)	30.6	27.9	33.3	46.2	42.4	50.1
Economic old-age dependency ratio (15-64) (%)						
Employment rate, age group 55-64 (%)	65.3	70.3	60.6	15.3	3.1	11.6
Pension expenditure as % of GDP (ESSPROS)	11.3			0.9		

Data sources: Eurostat database extracted by the authors

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