Expenditure on the basic State Pension as a result of the triple guarantee

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DWP Department for Work and Pensions

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Background

1. Expenditure Forecasts

This note looks at cumulative expenditure on the basic State Pension and the current uprating policy of the triple guarantee. This is against a baseline of RPI uprating.

The expenditure data is for the United Kingdom and for people living abroad whose benefits are paid for by DWP. The costs of administering benefits are excluded.

Figures are from DWP Forecasting Division expenditure projections, consistent with the latest July 2011 OBR long term projections and demographic and economic assumptions as presented in OBR's Fiscal Sustainability Report. The figures will be affected by future changes in projections and assumptions.

2. Changes to the uprating of basic State Pension

The weekly full rate of the basic State Pension was formerly uprated each April by the 12-month percentage increase of the Retail Prices Index (RPI), recorded in the September of the previous year.

The basic State Pension was increased in April 2011 by RPI. From April 2012 onwards, the basic State Pension will be increased by the highest of the growth in average earnings, as measured by the Average Weekly Earnings statistic (AWE), price increases as measured by the Consumer Prices Index (CPI), or 2.5%. This policy is called the 'triple guarantee'.

Methodology

DWP's basic State Pension long-term model[1] projects expenditure using assumptions on the pensioner population (provided by the Office for Budget Responsibility, but based on the ONS 2008-based projections), changes to state pension age, benefit uprating, the proportions of new retirees with different entitlements to state pension, and the numbers of overseas pensioners residing in countries where their pension in payment is either uprated annually, or frozen. 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 March 2020. Subsequently pension age is assumed to increase further to 67 between 2034 and 2036, and 68 between 2044 and 2046.

Starting from 2011/12, year by year expenditure on the basic State Pension under the current policy of the triple guarantee is compared to expenditure under RPI uprating.

The difference in expenditure is deflated to 2011/12 price terms using the forecast financial year GDP deflator series consistent with OBR forecasts[2]. The GDP deflator series is extended in the long term by assuming annual percentage increases of 2.70%.

From 2011/12, these year by year difference forecasts are added consecutively to give cumulative expenditure on the basic State Pension under the triple guarantee compared to RPI uprating by 2020/21 and 2025/26.

[1] Produced by DWP forecasting Division

[2] The GDP deflator series consistent with the OBR's Fiscal Sustainability Report Forecasts, July 2011

Results

Following the methodology laid out above, the cumulative expenditure on the basic State Pension as a result of the triple guarantee will be over £5bn more by 2020/21, compared to the previous policy of RPI uprating, growing to £45bn over the next 15 years (i.e. by 2025/26).

These figures only show the impact of the triple guarantee uprating policy on basic State Pension expenditure. They do not include the impacts of uprating policies applied to other benefits, including income related benefits and disability benefits.

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