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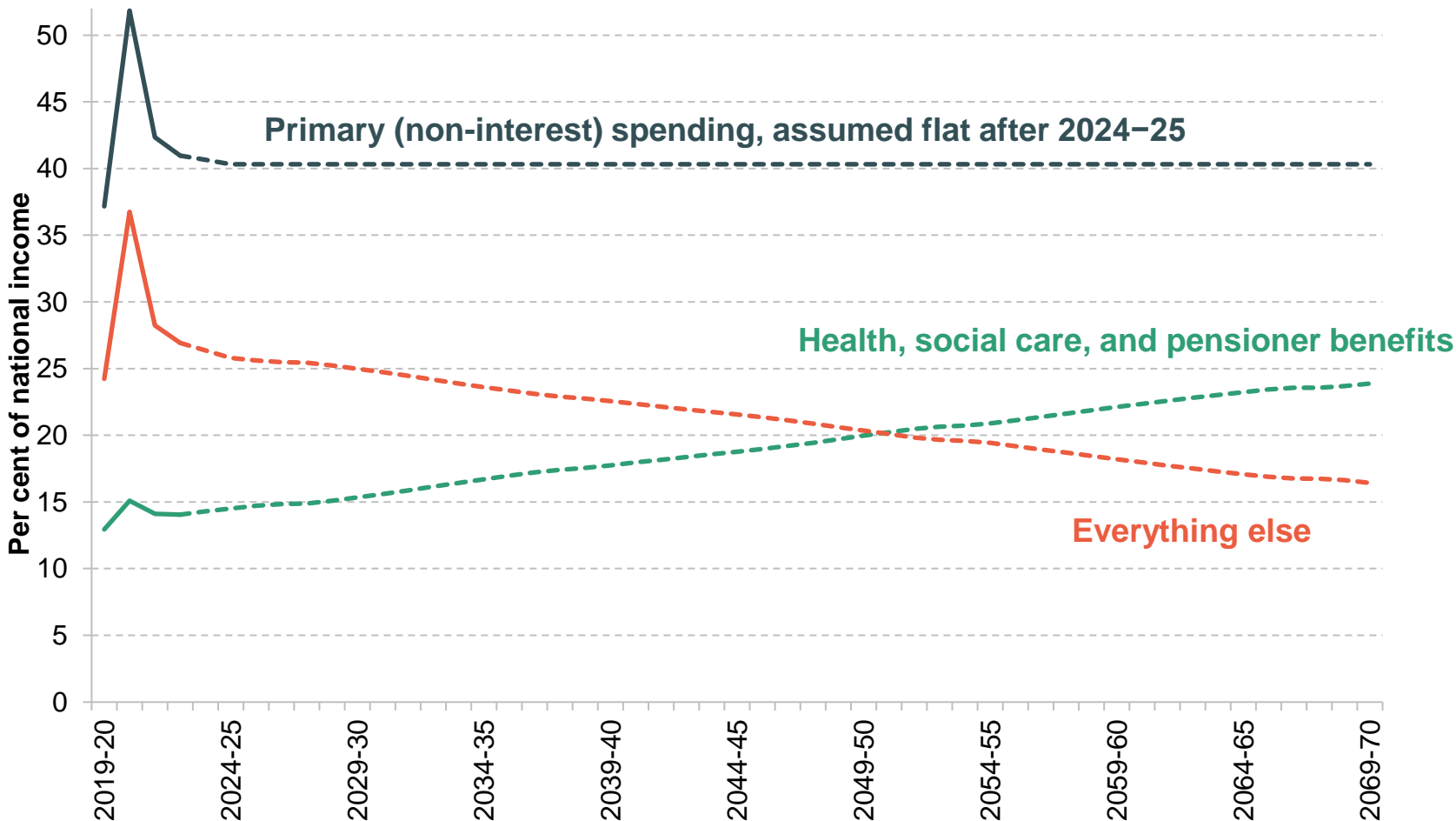
# Pensions and the welfare state



Economic  
and Social  
Research Council

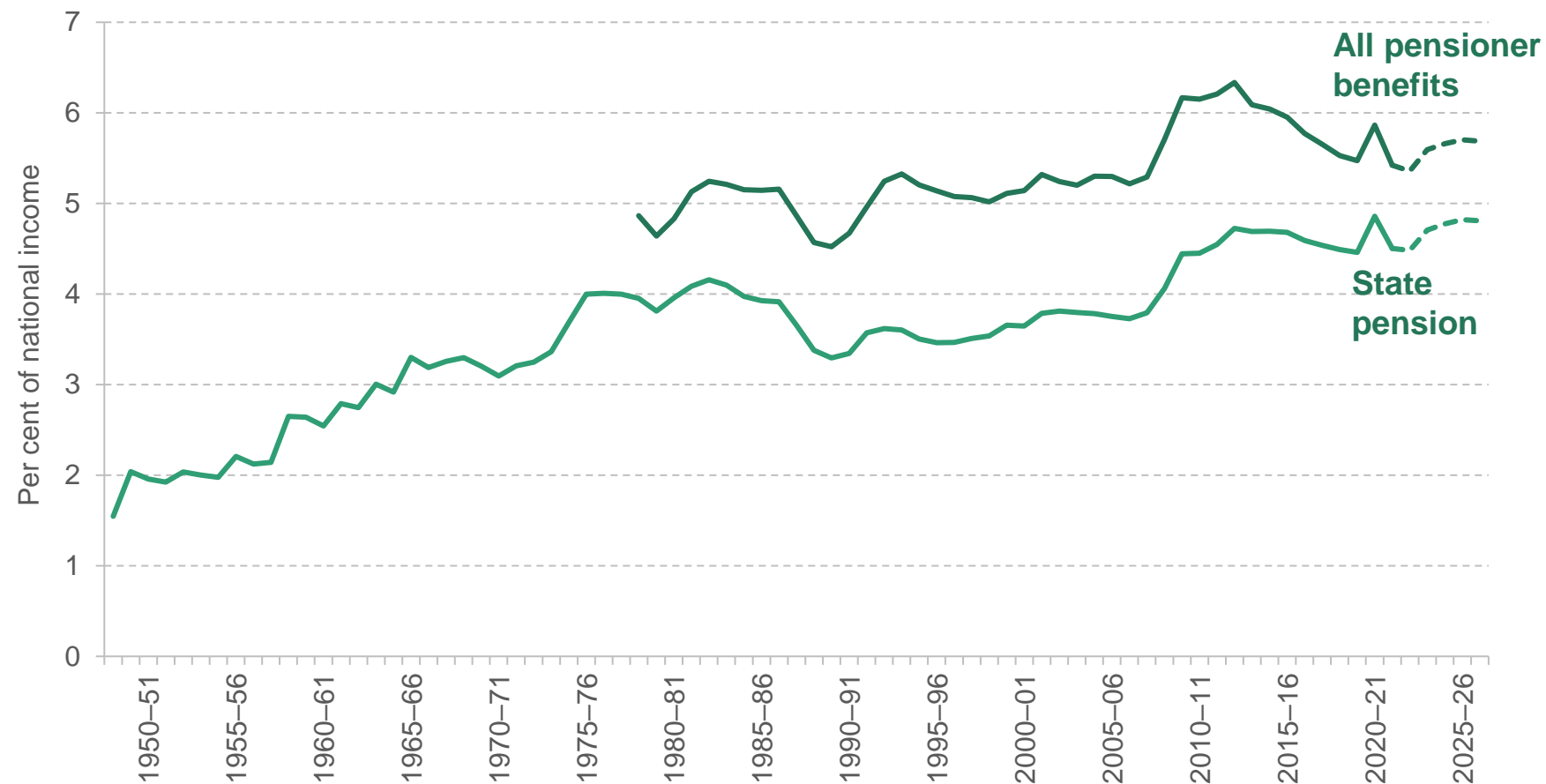
# The 'graph of doom'

OBR long-term projections of public spending (as of July 2020)



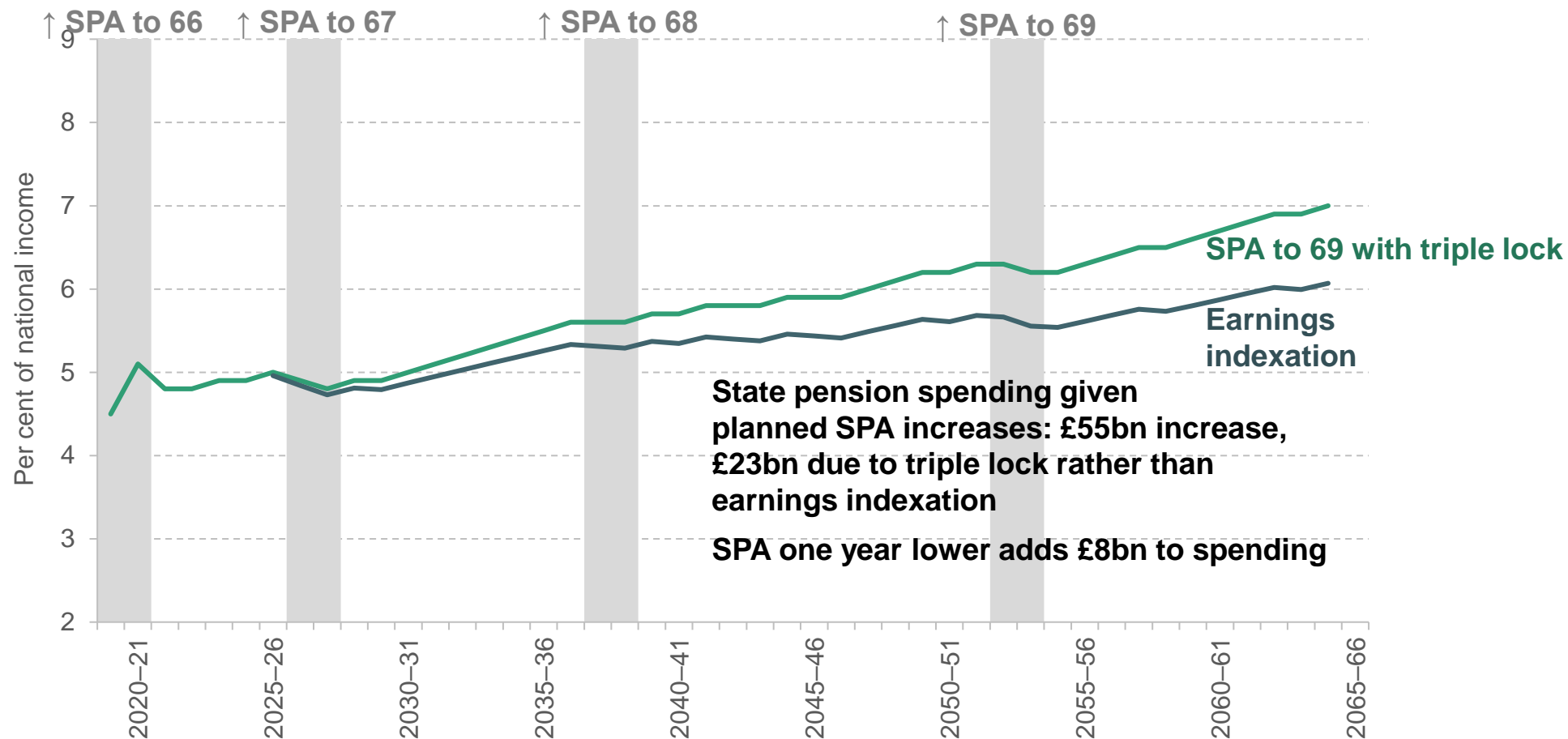
Source: Author's calculations using Office for Budget Responsibility, Fiscal Sustainability Report, July 2020.

# State pension spending rising, but modestly



Source: IFS calculations from Department for Work and Pensions (2022).

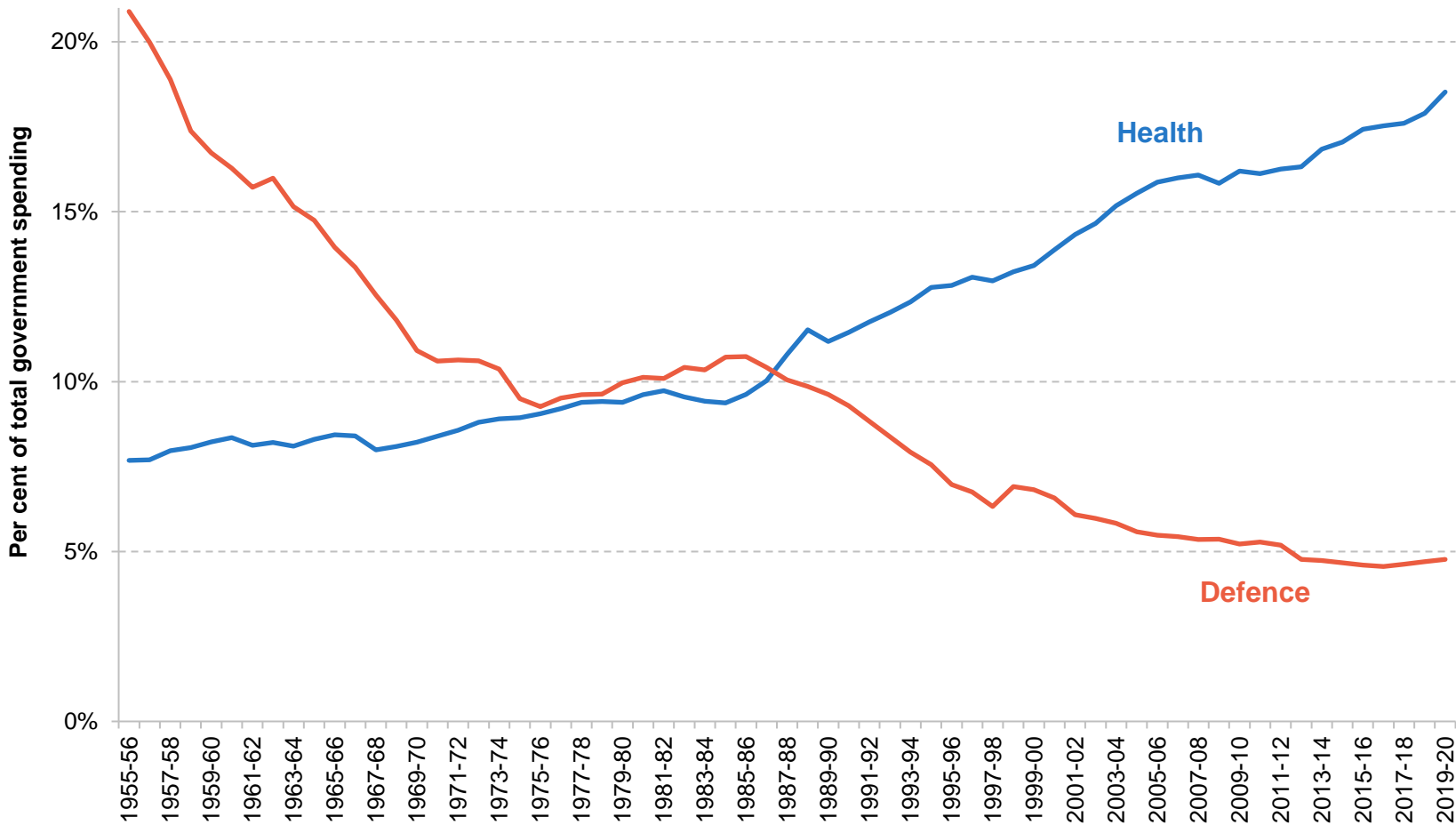
# Future spending depends on policy



Source: IFS calculations using data from OBR (2018; 2020); assumes cost of triple lock and savings from SPA increase unchanged since 2018.

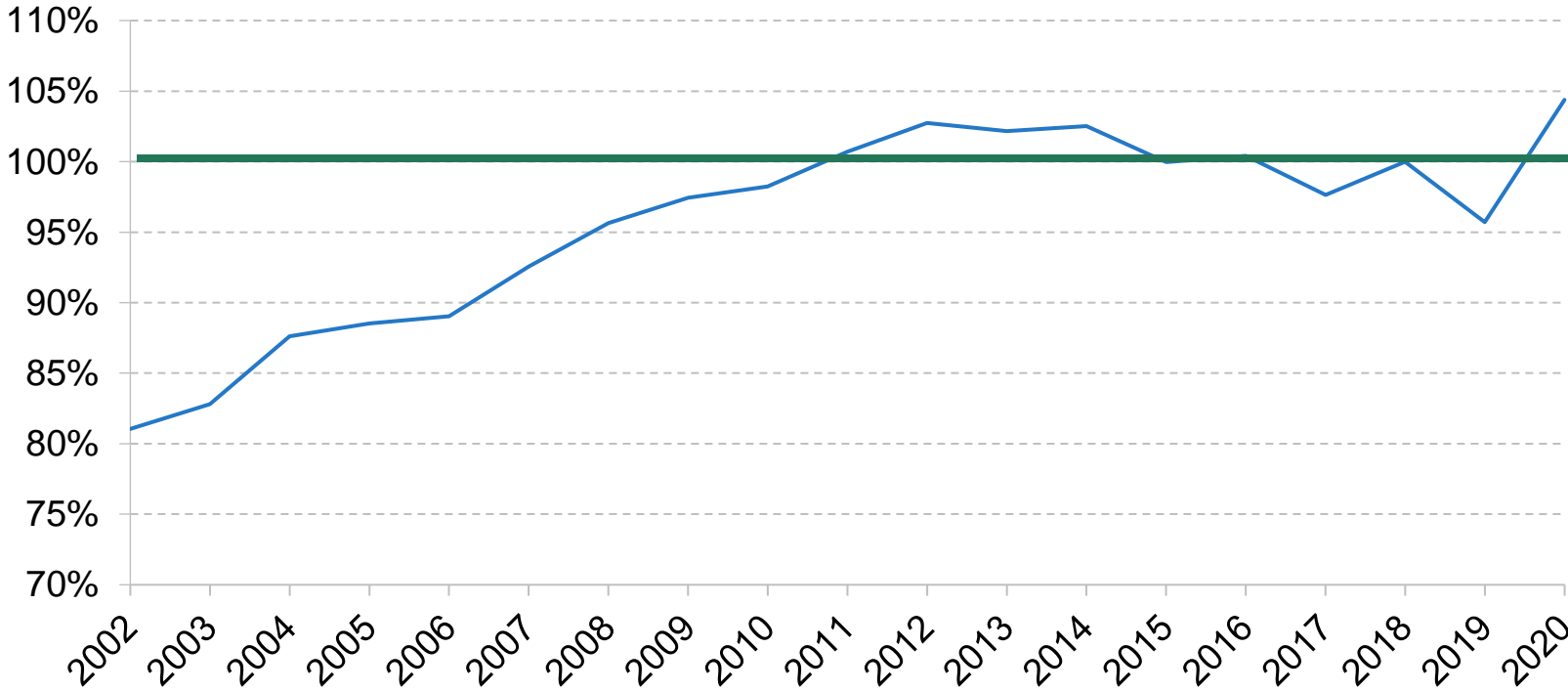
# We can't carry off this trick again

Health and defence as % of total UK government spending



# Pensioner vs non pensioner incomes

Median pensioner income as a percentage of median non-pensioner income, after deducting housing costs



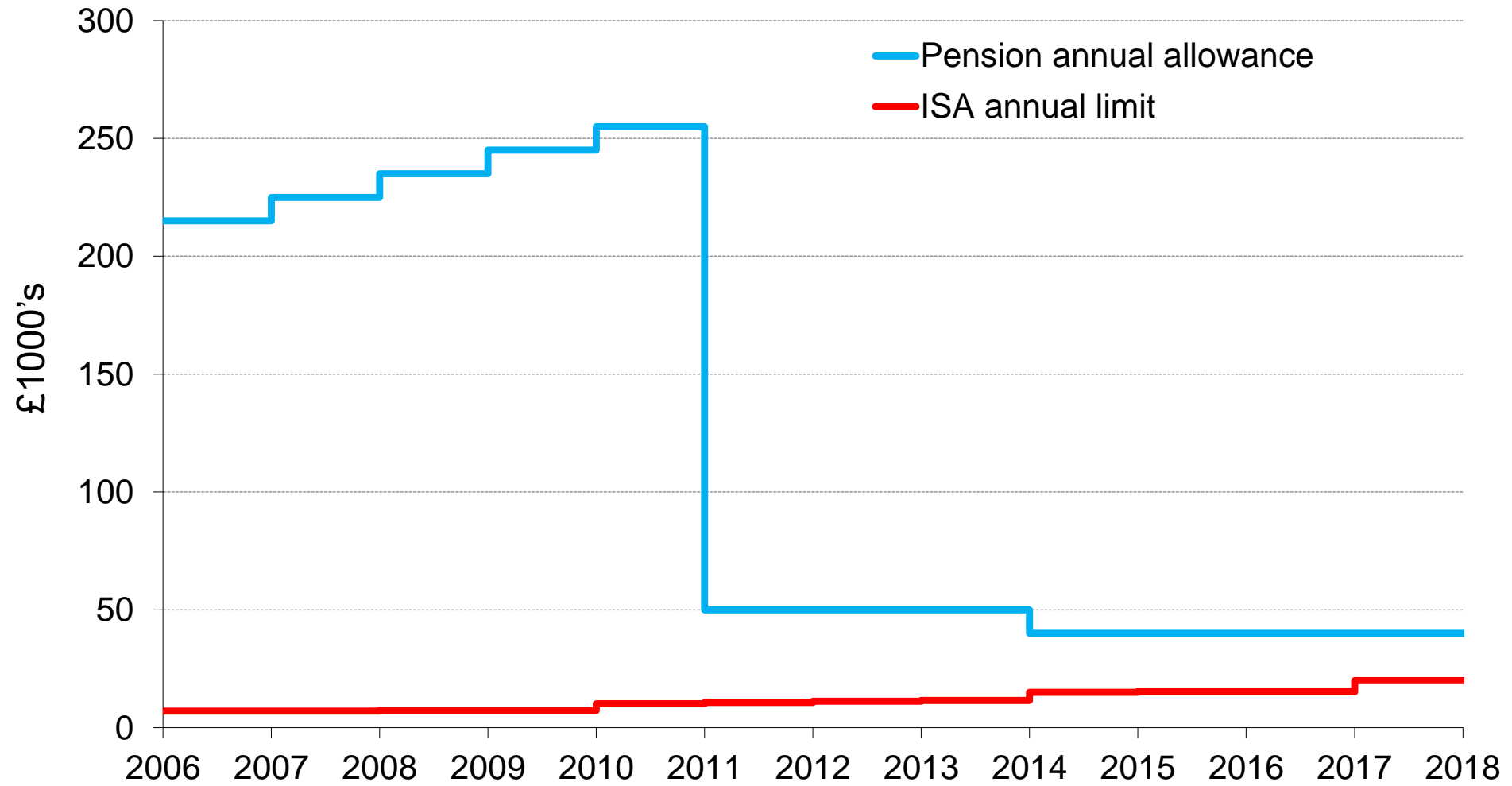
Note: Pensioners defined as being over the state pension age, which rose for women from 60 to 66 from 2010 to 2020 and for men from 65 to 66 from 2018 to 2020. Using fixed age definitions of pensioner (at the pre-2010 or current state pension ages) makes essentially no difference to the result.

Source: IFS calculation using Family Resources Survey

# Features of current policy

- Rising state pension age
- Triple lock and single tier pension
- Success of auto enrolment
- Reduced tax relief

# Annual limits on saving in pensions and ISAs





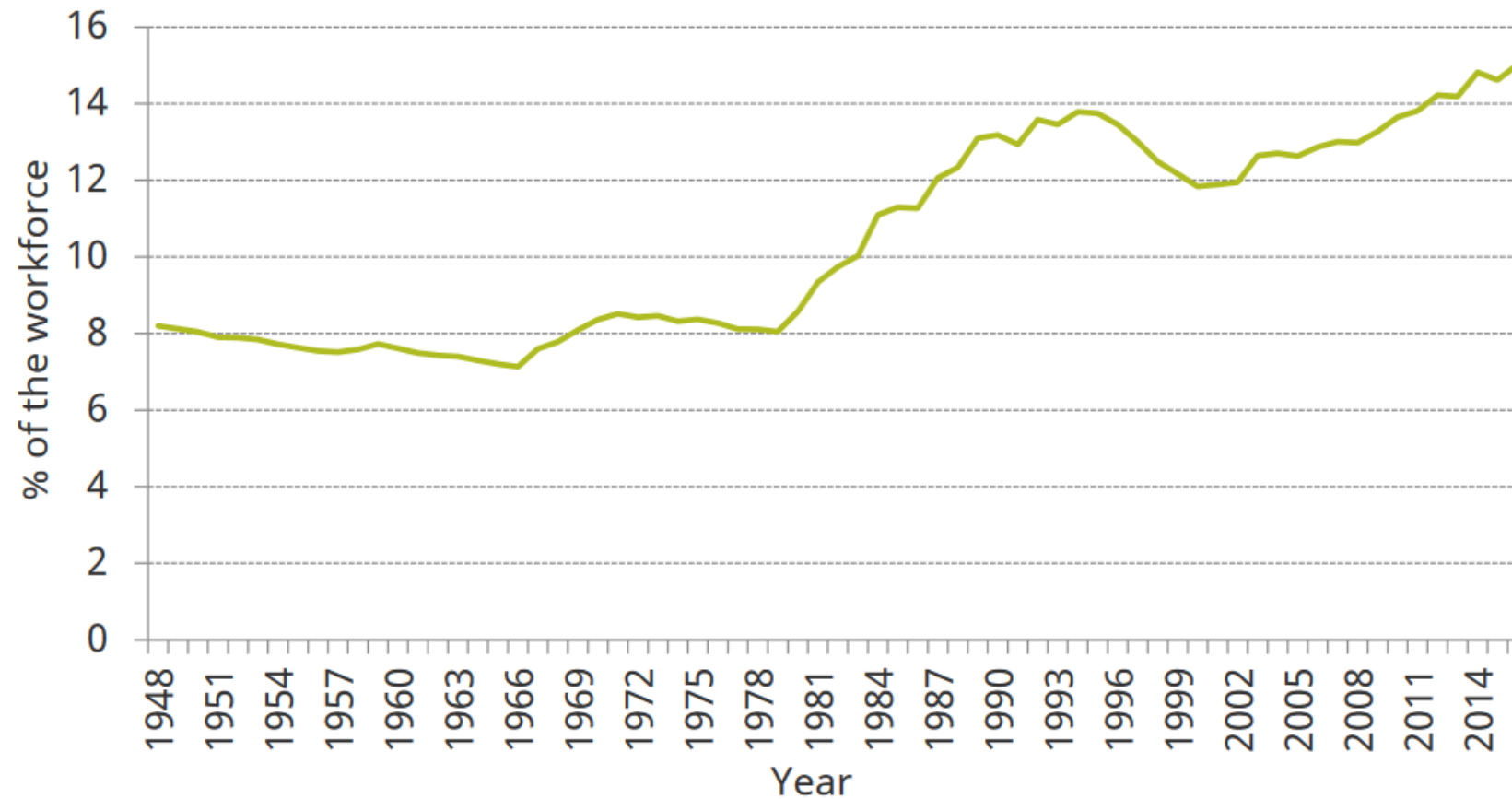
# Challenges relative to Turner period



- Pension freedoms
- Ultra low interest rates (for now at least)
- Navigating pensions freedoms
- Growth in self-employment

# Big rise in self employment

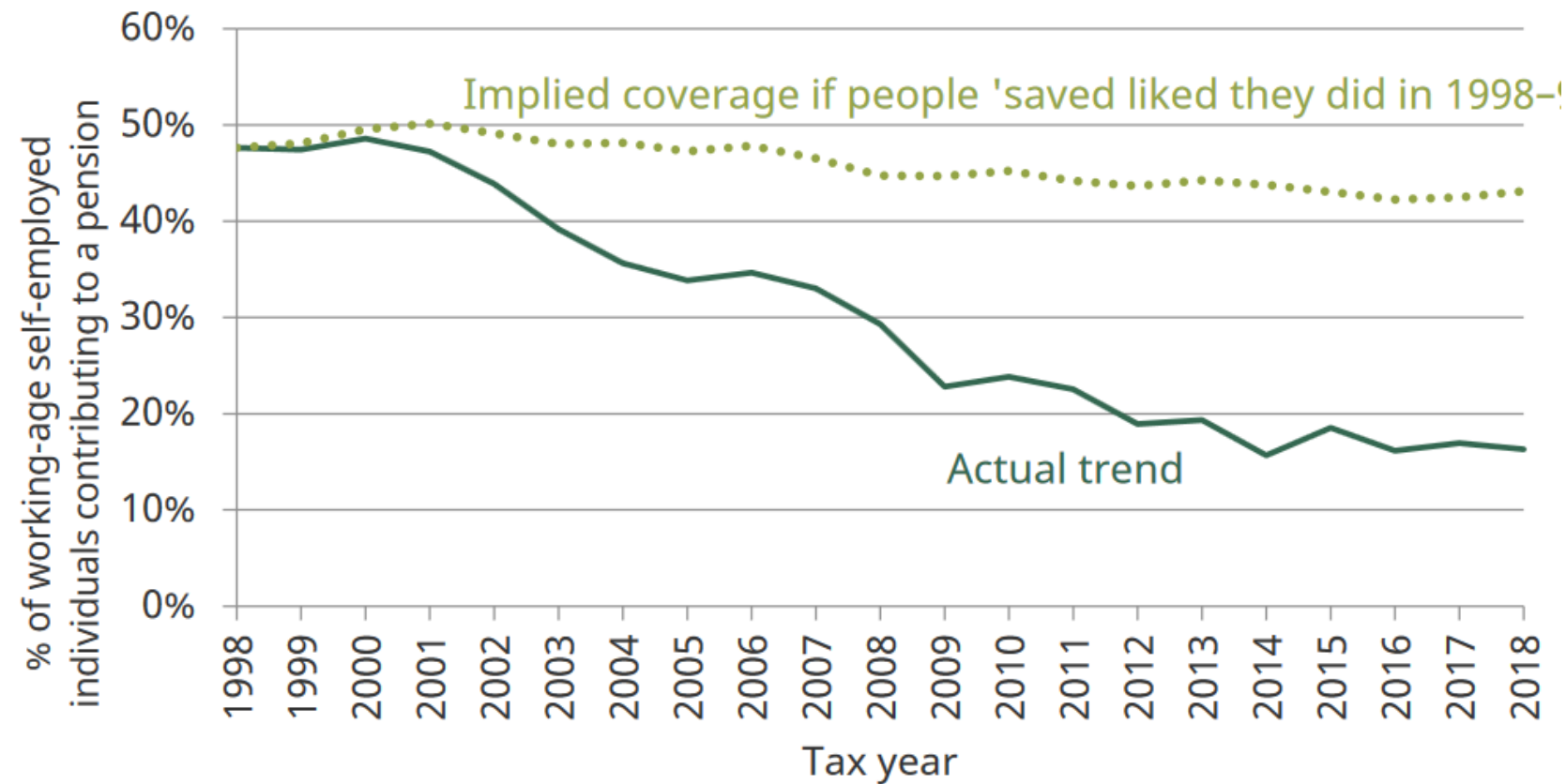
% of the workforce that are self-employed



Source: Bank of England (2018)

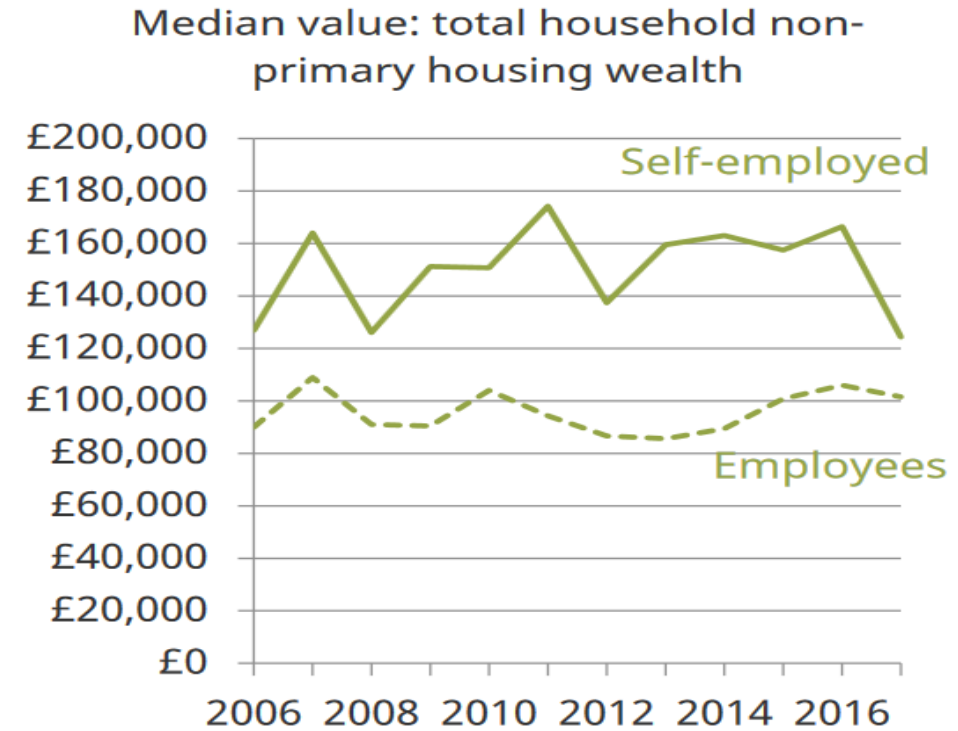
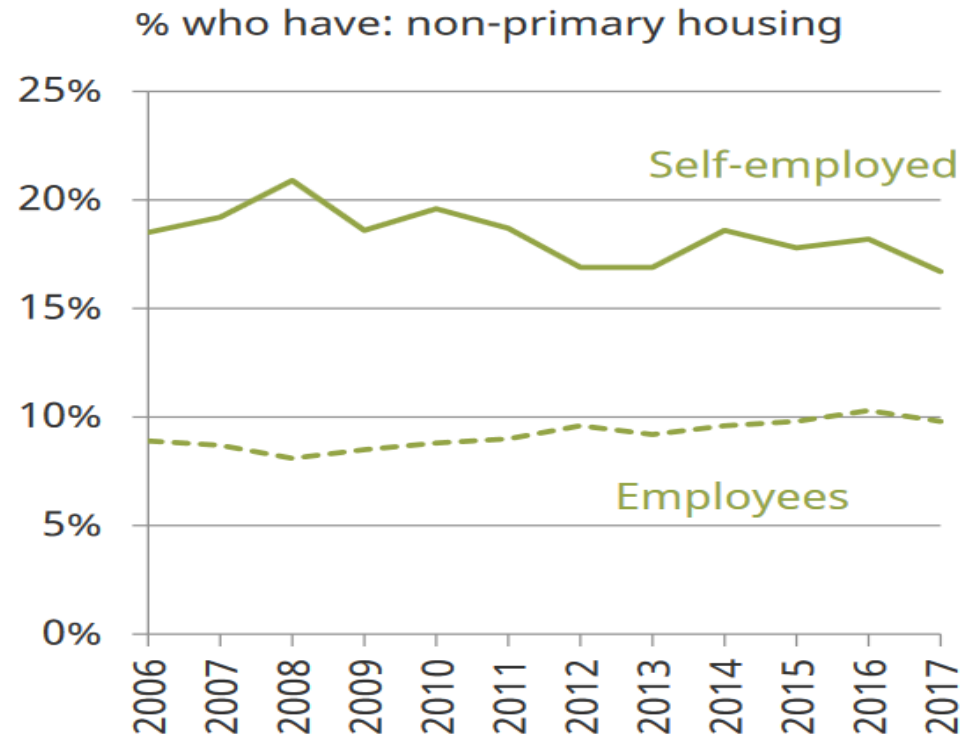
# Big fall in pension coverage for Self employed

% of self-employed contributing to a pension



Source: Crawford and Karjalainen (2020)

# Though they do have more housing



Note: Individuals aged 20–64. Years are financial years.

Source: WAS, waves 1–5 and round 6.

Source: Crawford and Karjalainen (2020)

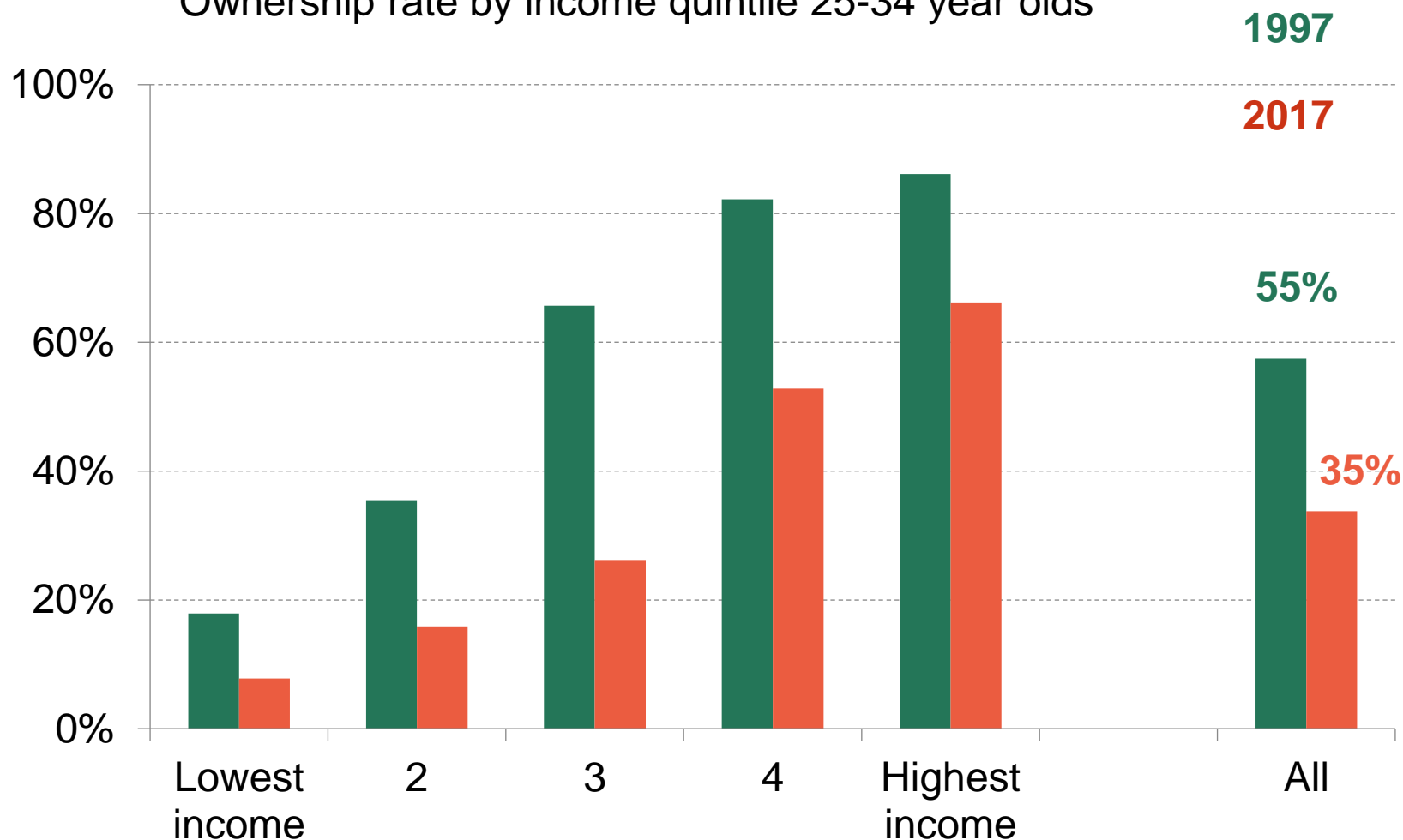
# Challenges relative to Turner period



- Pension freedoms
- Ultra low interest rates (for now at least)
- Navigating pensions freedoms
- Growth in self-employment
- Declining home ownership

# Especially for those on middle incomes

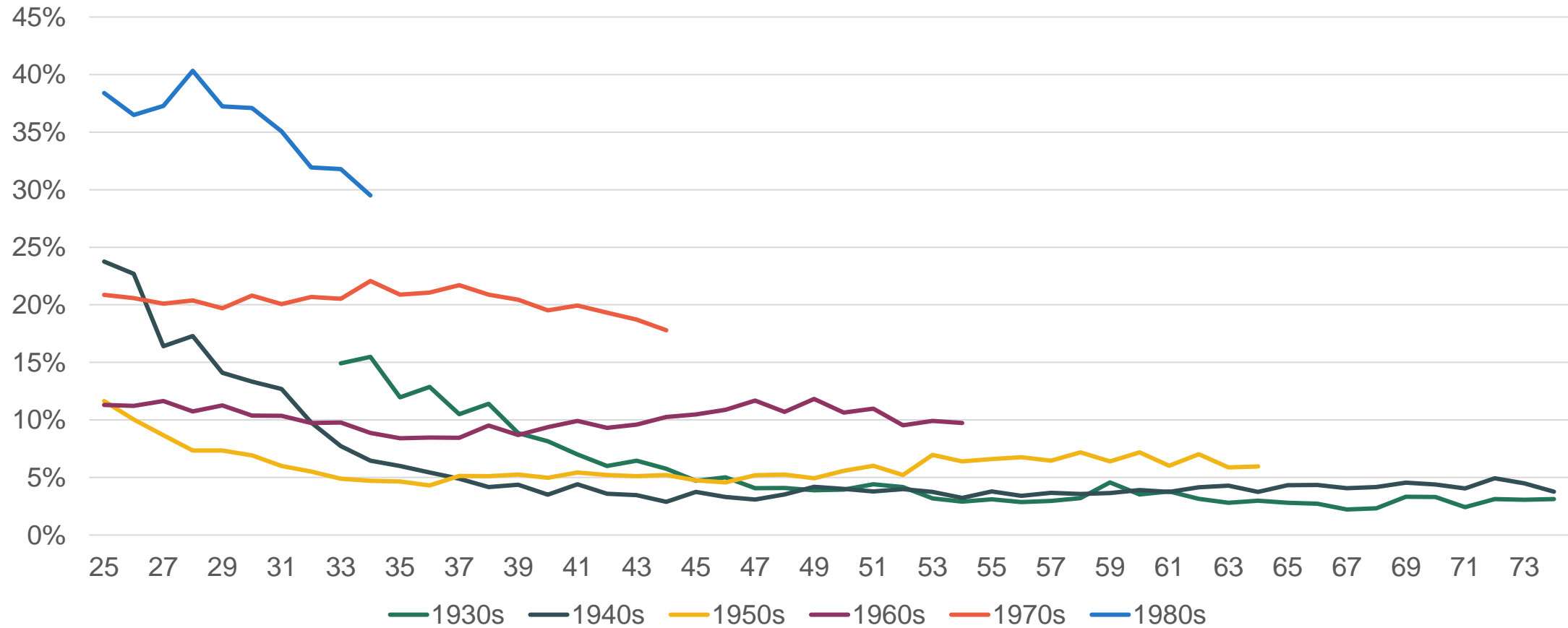
Ownership rate by income quintile 25-34 year olds



# Meanwhile private renting is on the rise



% of people who are private renters by age and cohort



Source: Updated from Cribb (2019).

# Challenges relative to Turner period

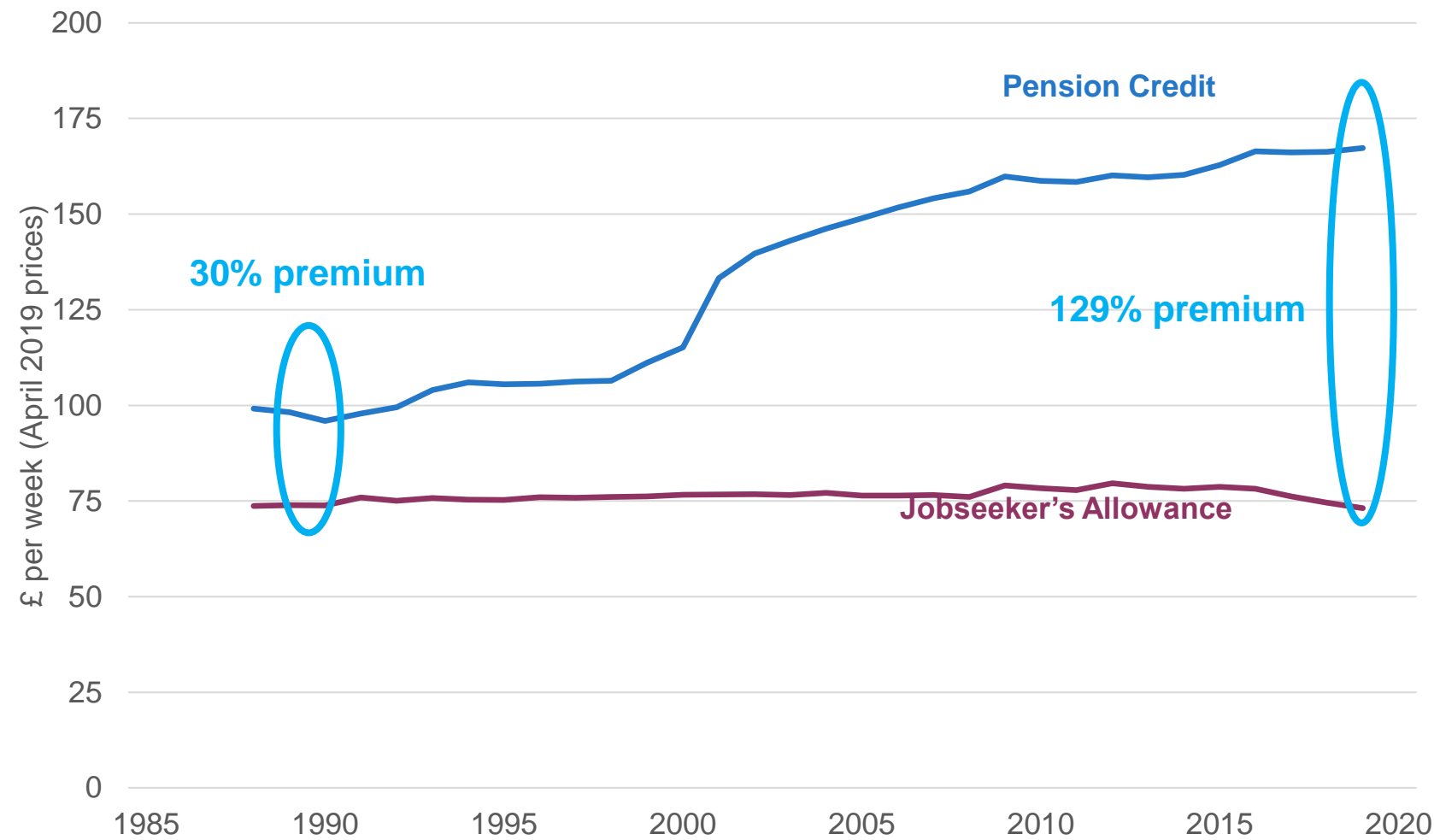


- Ultra low interest rates (for now at least)
- Navigating pensions freedoms
- Growth in self-employment
- Declining home ownership
- Decreasing state support in 60s



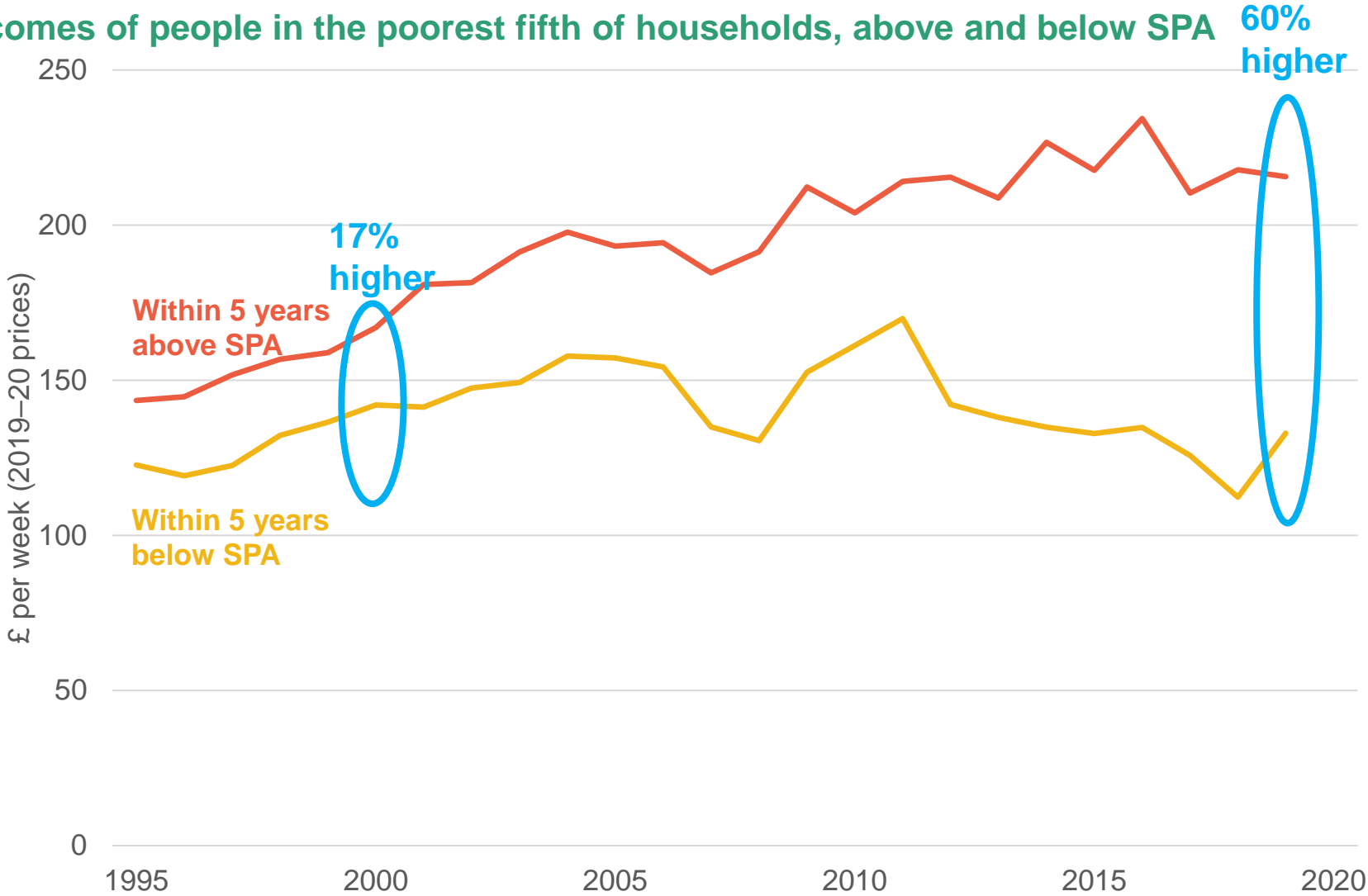
# Rising pension age is leaving some high and dry

Real entitlements to pension credit and job seekers' allowance, 1998-2019



# Left high and dry

Average incomes of people in the poorest fifth of households, above and below SPA



# The pensions job is not done



- No earnings related provision from the state
- In many senses we no longer have a private pension system
  - DB is dead
  - DC is inadequate
  - With pension freedoms no pension and no risk sharing in retirement
- Collapse in home ownership may spell future trouble
- The present is not a guide to the future