Rt Hon Frank Field MP
Chair, Work and Pensions Committee
House of Commons
London
SW1A 0AA

19 July 2019

Dear Mr Field,

IFoA response to Work and Pensions Committee inquiry on DWP Spending Priorities

1. The Institute and Faculty of Actuaries (IFoA) is the UK chartered professional body for actuaries. Members of the IFoA provide rigorous, independent analysis using actuarial science, and as many of our members work in pensions and insurance, we have suggested two considerations pertinent to these areas for inclusion in the Committee's scrutiny of the DWP Spending Review.

The State Pension

2. Government spending on the State Pension and other age-related benefits is influenced by multiple factors. However, as the Government has committed to maintaining the triple lock until 2020, the upcoming Spending Review could be an opportunity to review how the State Pension will be uprated from 2020. A review of spending on the State Pension is important as the Government Actuary's Department's assessment of the Great Britain National Insurance Fund – the financial source for the State Pension – suggests that it is likely to be exhausted by 2032.[1] The removal of the triple lock could extend that timeframe to 2035. Further reform would be required to put the Fund on a sustainable footing, otherwise the government would need to consider alternatives, such as using general taxation, to fund future pension benefits.

3. In addition, the triple lock means that increases in State Pension benefits have exceeded increases in average national earnings and working-age benefits, as the working age population have experienced stagnant wages and benefit freezes whilst the State Pension has been uprated by a minimum of 2.5%. This has led many, including the House of Lords Intergenerational Fairness and Provision Committee, to conclude that the triple lock policy exacerbates issues of intergenerational unfairness.[2]

4. A further consideration is the difference between those pensioners in receipt of the Basic State Pension (BSP) compared with those in receipt of the new State Pension (NSP). The full BSP is £129.90 per week, whereas, the full rate of the NSP is £168.80 per week. Therefore, it may be appropriate to uprate the BSP and NSP differently from one another.

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[1] eNews from GAD (December 2017)
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669536/GAD_E-news_issue_30_Dec_2017.pdf

[2] Select Committee on Intergenerational Fairness and Provision Tackling intergenerational unfairness.
https://publications.parliament.uk/pa/ld201719/ldselect/ldintfair/329/32902.htm

5. Finally, the Spending Review could commit to efforts to increase the proportion of eligible households claiming Pension Credit and other associated benefit entitlements. Nationally it is estimated that 50% of couples (360,000 individuals) and 37% of single pensioners (840,000 individuals) entitled to Pension Credit are not receiving it.[3] This is a concern as those who are entitled to Pension Credit are most likely to be in need of the social safety net that the welfare system provides.

Income protection

6. The Committee could also encourage the Government to re-examine work on *Improving Lives: The Future of Work, Health and Disability*. The IFoA welcomed the Government's acknowledgement that:
    - income protection insurance products provide an effective safety-net for individuals and businesses against loss of earning; and
    - that wider use of income protection could reduce State expenditure on benefits and allow greater support for those in most need.

    The Spending Review provides an opportunity to allocate funds to increasing income protection coverage.

7. In our response to this consultation we recommended that the Government, in partnership with the insurance industry, could do more to increase the uptake of these products, by:
    i. implementing an effective communication strategy that alerts employees to the level of safety net provided by the State and the gap between this and the amount they would need to replace their income from employment;
    ii. exploring the potential benefit of introducing nudges (e.g. opt-out) or incentives (e.g. in relation to tax); and
    iii. reviewing the treatment of income from an income protection insurance product when State benefit entitlement is calculated.

8. Should the IFoA be of further assistance please contact Michael Williams, Public Affairs Manager (michael.williams@actuaries.org.uk / +44 (0) 20 7632 1466).

Yours sincerely,

Rebecca Deegan
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[3] DWP Income-Related Benefits: Estimates of Take-up (2016/17) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/757268/income-related-benefits-estimates-of-take-up-2016-17.pdf