

Pension Reform Fact Sheet

Updating estimates of outcomes for individuals under pension reform, and projections of spending on pensioner benefits

Introduction

This note sets out updated:

- estimates of outcomes for individuals under pension reform, that is the pension income someone retiring in the future can expect;
- projections of total spending on pensioner benefits to 2050 under the current uprating system and under pension reform; and
- estimates of the additional costs state pension reform measures incur through changed spending on state benefits.

Estimates of the costs and outcomes of pension reform were originally published in the White Paper – *Security in retirement* - and the Pensions Bill Regulatory Impact Assessment (RIA). As with other projections of spending and estimates of outcomes they need to be updated regularly for a number of reasons:

- to take into account new data, for example on earnings and inflation;
- to take account of new assumptions on future rates of economic and price growth published in the Budget;
- to put the estimates in terms of the most recent year's prices or earnings terms - outcomes in the Pensions Bill RIA were presented in 2005/06 earnings terms, costs in 2006/07 prices - updating to current prices and earnings terms will make it easier to compare statistics on pension reform with statistics about the current system;
- to take account of benefit rates announced in the annual uprating statement; and
- to incorporate improvements in modelling.

The main differences are in the table below – more details are set out in the rest of the note.

	Previous estimates	Revised estimates in most recent price or earnings terms
State Second Pension flat rate accrual	£1.40 a week in 2005/06 earnings terms	£1.50 a week in 2007/08 earnings terms
State Pension (BSP and S2P) for a median earner retiring in 2053	£138 a week in 2005/06 earnings terms	£151 a week in 2007/08 earnings terms
Total pensions spending under reform in 2050	£218 billion in 2006/07 prices, or 6.5% of GDP	£220 billion in 2007/08 prices, or 6.4% of GDP
Additional spending on top of current system due to reform in 2050	£84 billion in 2006/07 prices or 2.4% of GDP	£85 billion in 2007/08 prices or 2.4% of GDP

Summary of the fact sheet

Pension outcomes in 2007/08 earnings terms (more detail page 5).

The main change to the outcomes figures is to present them in 2007/08 earnings terms - this makes it easier to compare outcomes to current benefit rates and earnings. For example, the Standard Minimum Guarantee level in the future will be £119 in 2007/08 earnings terms. Annex A contains a more detailed explanation of earnings terms, and why we chose to present outcomes in earnings terms.

The two most often quoted figures that will change from updating to 2007/08 earnings terms are:

- Someone with a good contribution record – through working or caring – will get £145 in 2007/08 earnings terms from the State Pension when they retire in 2053. In 2005/06 earnings terms this was £135 a week.
- The State Second Pension flat rate accrual is £1.50 a week for every year of qualification in 2007/08 earnings terms. This was £1.40 a week in 2005/06 earnings terms.

The change is to the presentation of the estimates – putting them in terms of today's earnings rather than 2005/06 earnings – it does not change the Government's assessment of how generous the pension system is. The table below sets out new estimates in 2007/08 earnings terms under reform, compared to estimates in 2005/06 earnings terms.

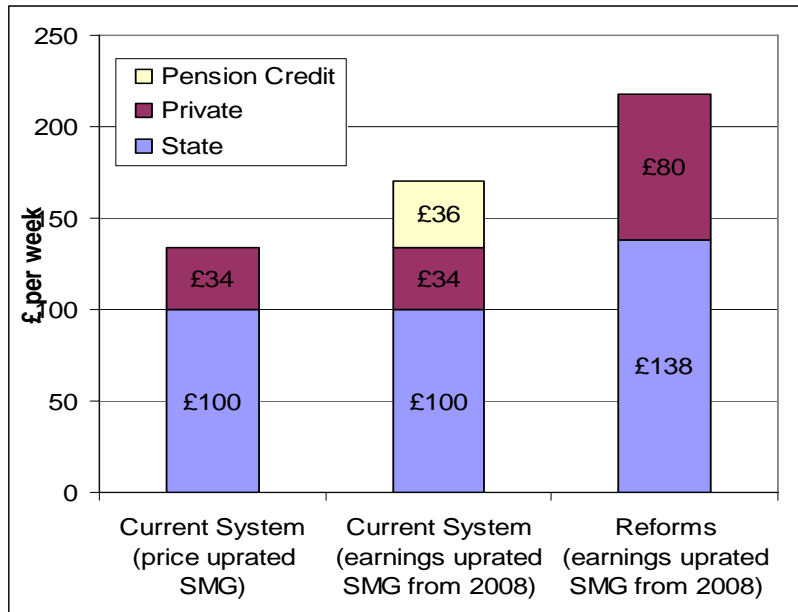
	2005/06 earnings terms	2007/08 earnings terms
Outcome for a low earner under reform retiring in 2053		
Full BSP	£73	£81
State Second Pension weekly payment	£59	£64
Total State Pension	£132	£145
Private Pension	£32	£35
Outcome for a median earner under reform retiring in 2053		
Full BSP	£73	£81
State Second Pension weekly payment	£65	£71
Total State Pension	£138	£151
Private Pension	£80	£86

Note: based on someone working from 25 to State Pension Age – retiring at age 68 in 2053.

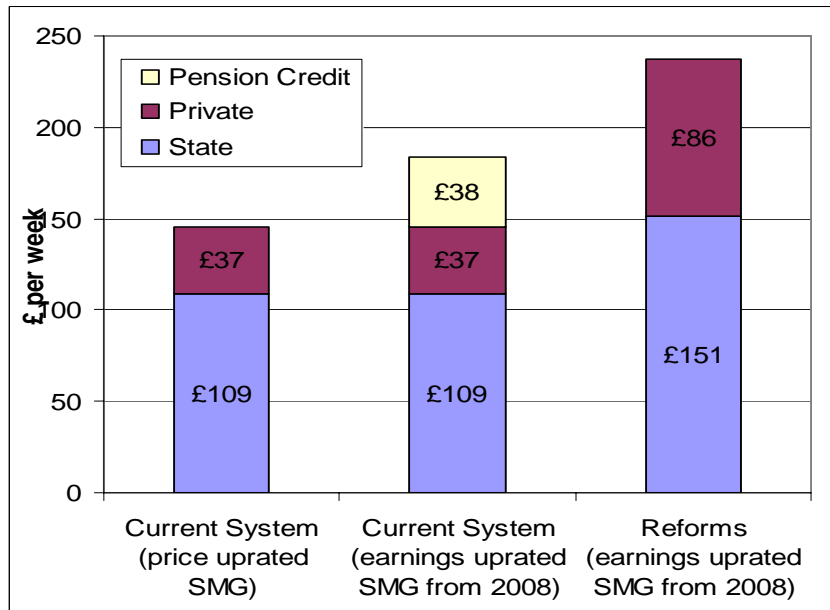
The graphs below show pension outcomes for a median earner in 2005/06 and 2007/08 earnings terms – the broad patterns stay the same.

State Pension for a Median Earner at State pension age (2050 before reform, 2053 with full reform package).

In 05/06 earnings terms



In 07/08 earnings terms



Source: DWP calculations

Notes: income shown before tax. Assumes median earner earns £440 per week in 05/06 terms and £470 in 07/08 terms per week, has a good working life (40 years of saving and working) and reaches SPA in 2050 under the current system or 2053 (43 years of saving and working) after reform due to the pension age rises from 65 to 68. Assumes earnings uprating of the basic State Pension from 2012 under reform. Under the current system it is assumed that saving is 5% of salary between the Primary Threshold and the UEL into a stakeholder pension, with a 1.5% annual management charge. This is equivalent to employee-only contribution rate into the new personal accounts. After reform it is assumed that saving is 8% of salary between the primary threshold and the UEL into a personal account (which includes 3% contribution, and has 0.5% annual management charge).

Revisions and updates to projections of spending (more detail page 14)

Projections of pensions expenditure have been revised following the 2007 Budget. The costs described in this factsheet reflect new medium term economic assumptions, including revisions to GDP, and minor improvements in modelling.

Figures previously presented in 2006/07 price terms are now expressed in 2007/08 price terms. As per the White Paper and the Pensions Bill RIA, costs are also expressed in cash and GDP terms. Updating has changed the following numbers:

- Total spending on pensions under reform in 2050 is now projected to be 6.4% of GDP, where previously it was projected to be 6.5% of GDP.
- Expressed in price terms, spending in 2050 is projected to be £220 in 2007/08 prices. This is £218 billion in 2006/07 price terms.
- Additional spending over and above the current system in 2050 is 2.4% of GDP, unchanged from previous estimates. Expressed in price terms, this is £85.3 billion in 2007/08 prices – it is £84.4 billion in 2006/07 price terms.

Costs of Reform in 2050

£ billion / Per cent of GDP, United Kingdom

	Pensions Bill RIA		Updated estimates	
	2006/07 prices	% of GDP	2007/08 prices	% of GDP
Total pensions spending under reform	218	6.5%	220	6.4%
Additional spending on top of the current system	84.4	2.4%	85.3	2.4%

Note: additional expenditure includes extra spending on working-age benefits as a result of SPA increases.

Section 1 – Pension Outcomes in 2007/08 earnings terms

The White Paper *Security in retirement: towards a new pensions system* and the Pensions Bill Regulatory Impact Assessment (RIA) both set out a number of statistics and charts showing estimates of pension income in the future under pension reform. The most often quoted figure is that someone with a good contribution record – through working or caring – will get £135 from the State Pension when they retire in 2053. This figure is £145 in 2007/08 earnings terms.

This section of the factsheet contains charts and tables from the Pensions Bill RIA (from chapter 2 and Annex B) updated to 2007/08 earnings terms. Table numbers in the RIA are quoted here for convenience.

Rebased numbers from 2005/06 to 2007/08

Numbers are presented here in 2007/08 earnings terms. This means estimates of outcomes will be comparable with average earnings in 2007/08 rather than in 2005/06. It means outcomes can be easily compared with 2007/08 benefit rates. For example, a low earner with a good working life will get a total State Pension of £145 (in 2007/08 earnings terms) and so will have income significantly above the £119 standard minimum guarantee level, which remains constant at £119 in 2007/08 earnings terms in future

Figures 1 and 2 present the basic State Pension and Standard Minimum Guarantee in both prices and earnings terms.

Figure 1 shows the value of the basic State Pension in earnings and prices terms under two scenarios: if it continued to be uprated by prices; and if it is earnings uprated from 2012. Earnings uprating the basic State Pension ensures it keeps its value in comparison to working age incomes and more than doubles its value in real or price terms by 2050.

Figure 1 (figure 2.7 in the RIA): Weekly full basic State Pension (BSP) entitlement, prices and earnings terms

	2007/08 Earnings terms		2007/08 Price terms	
	Price uprated BSP	Earnings uprated BSP	Price uprated BSP	Earnings uprated BSP
2012	£79	£81	£87	£89
2020	£67	£81	£87	£104
2030	£55	£81	£87	£127
2040	£45	£81	£87	£155
2050	£37	£81	£87	£189

Figure 2 compares the value of the Standard Minimum Guarantee (SMG) uprated by prices or earnings from 2008. Over time, relative to earnings, the value of the Standard Minimum Guarantee would fall if it were uprated by prices (see first

column). Earnings uprating maintains the Standard Minimum Guarantee value in earnings terms, and more than doubles its value in prices terms by 2050.

Figure 2 (figure 2.9 in the RIA): Weekly values for the pension credit Standard Minimum Guarantee (SMG)

	In 07/08 Earning Terms		In 07/08 Price Terms	
	SMG uprated by prices from 2008	SMG uprated by earnings from 2008	SMG uprated by prices from 2008	SMG uprated by earnings from 2008
2010	114	119	119	124
2020	94	119	119	151
2030	77	119	119	184
2040	63	119	119	224
2050	52	119	119	273

Figures 3 to 5 show that under reform people reaching State Pension age receive more contributory state pension than they would under the current system rolled forward due to earnings uprating the basic State Pension. The low earner also benefits from flat rating of the State Second Pension.

Before the White Paper was published the Government had committed to uprate the Standard Minimum Guarantee in line with earnings until 2008. The White Paper included a commitment to continue this uprating policy in the long term. Figures 3 to 8 show outcomes for the current (pre-reform) system assuming both the Standard Minimum Guarantee uprated in line with prices from 2008, and uprated in line with earnings from 2008.

The high income example (figure 5) is based on someone earning at the Upper Earnings Limit. Someone with an income greater than this high earner example will get the same income from their State Pension, any additional income would have to come from additional private saving.

Figure 3 (figure B.2 in the RIA annex): Low earner's weekly gross income at State Pension Age. Current system with SMG uprated by prices or earnings and under reform in 07/08 earnings terms

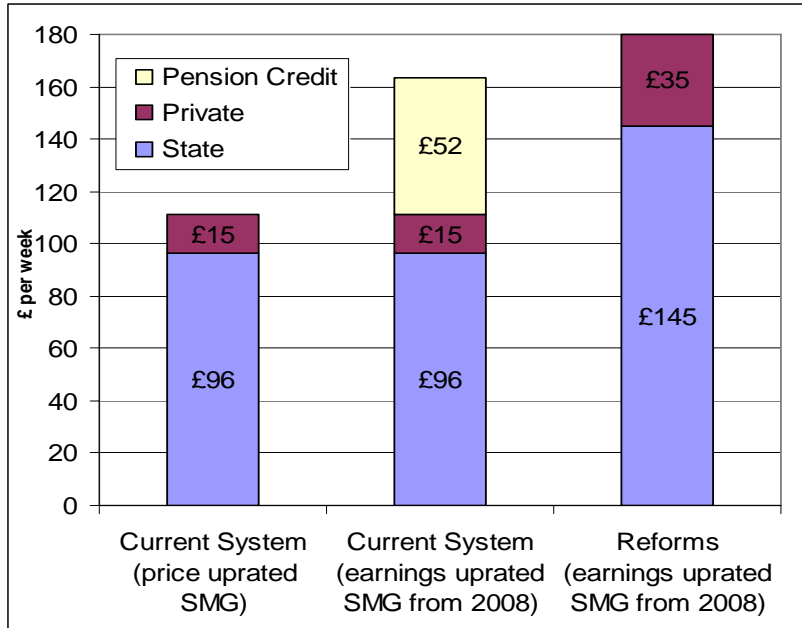


Figure 4 (figure 1.5 in the RIA annex): State Pension for a Median earner at State pension age (2050 before reform, 2053 with full reform package), in 07/08 earnings terms

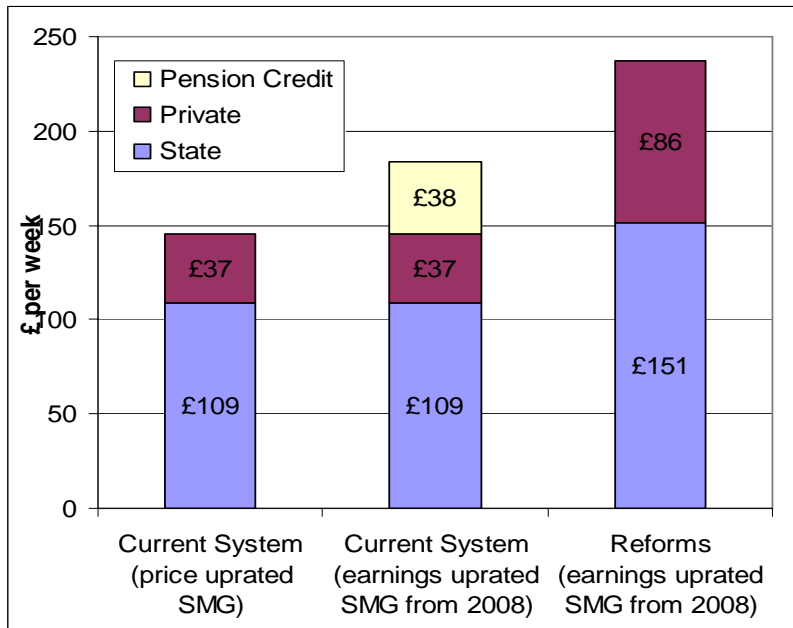
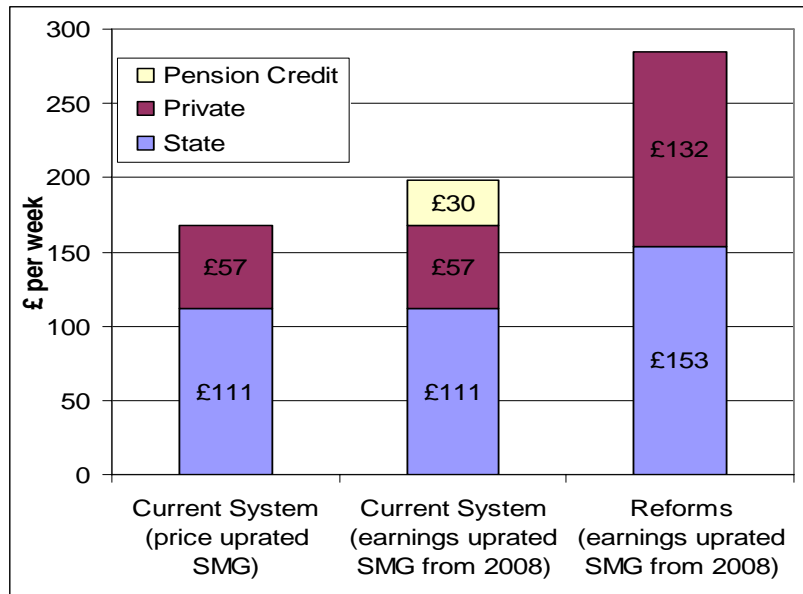


Figure 5 (figure B.4 in the RIA annex): High earner’s weekly gross income at State Pension Age – current system with SMG uprated by prices or earnings and under reform, in 07/08 earnings terms



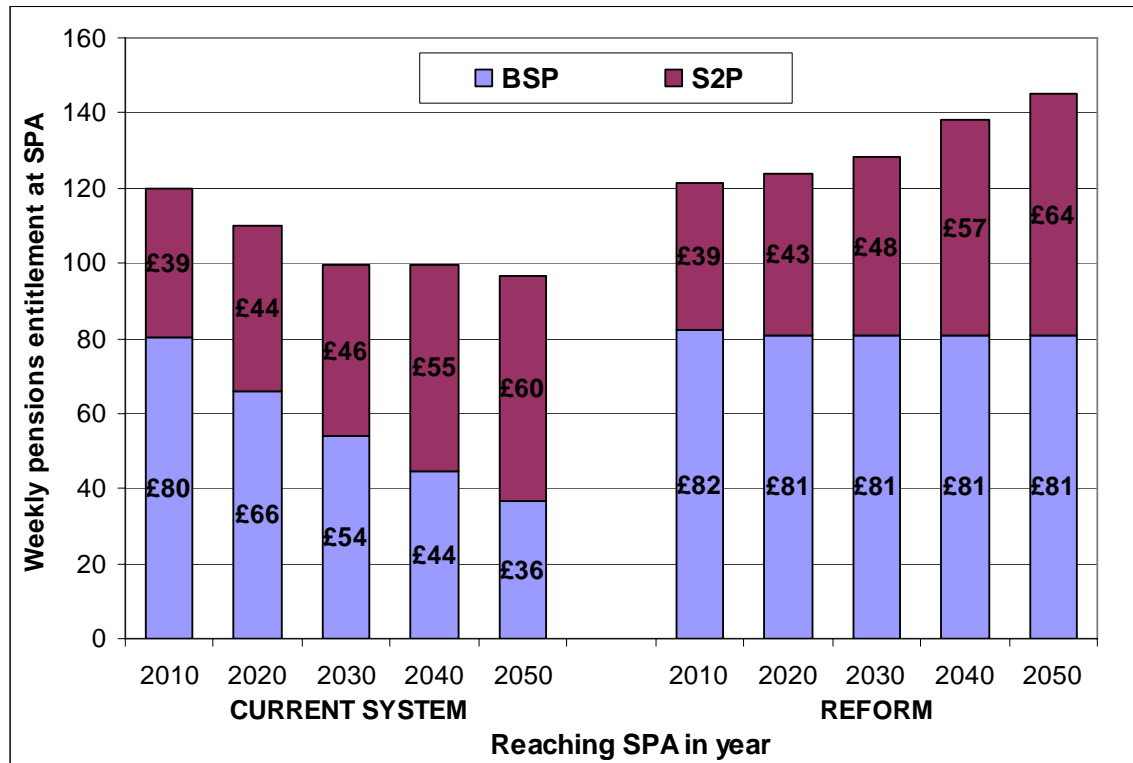
Source: DWP calculations

Notes: In 2007/08 earnings terms, income shown before tax. Assumes low earner earns £250, median earner £470 and a high earner earns £670 in 07/08 terms per week, has a good working life (40 years of saving and working) and reaches SPA in 2050 under the current system or 2053 (43 years of saving and working) after reform due to the pension age rises from 65 to 68.

Under the current system it is assumed that saving is 5% of salary between the Primary Threshold and the UEL into a stakeholder pension, with a 1.5% annual management charge. This is equivalent to employee-only contribution rate into the new personal accounts. After reform it is assumed that saving is 8% of salary between the primary threshold and the UEL into a personal account (which includes 3% contribution, and has 0.5% annual management charge).

Figure 6 shows the value of the State Pension (both the basic State Pension and additional State Pension) at State Pension Age for a low earner from 2010 to 2050 under both the current system and reform. Under reform the basic State Pension remains constant in earnings terms, with the State Second Pension becoming increasingly flat rate – with each year of work or caring entitling them an extra £1.50 a week in retirement. The result is that individuals would increasingly move towards an underpin of around £145 a week of state pension. These numbers are in constant earnings terms – showing changes relative to earnings overall.

Figure 6 (figure 2.8 in the RIA): Basic State Pension and State Second Pension for a low earner (£250 per week) – reform compared to current system in 2007/08 earnings terms



Source: DWP calculations

Notes: Assumes that a person is a man with a good working life (works from age 25 to SPA). Under the current system they will not get full BSP as they have worked 40 out of the 44 years needed.

Figures 7 and 8 are similar to Figure 6, presenting results for median and high earners. They show that median and high earners receive more from the State Pension than they would have, had the current system rolled forward – this is due to earnings uprating of the basic State Pension. Reforms to State Second Pension essentially speed up a process of flat-rating that was already occurring.

Figure 7 (figure B.8 in RIA annex B): Basic State Pension and State Second Pension for median earner (£470 per week) – reform compared to current system, in 07/08 earnings terms

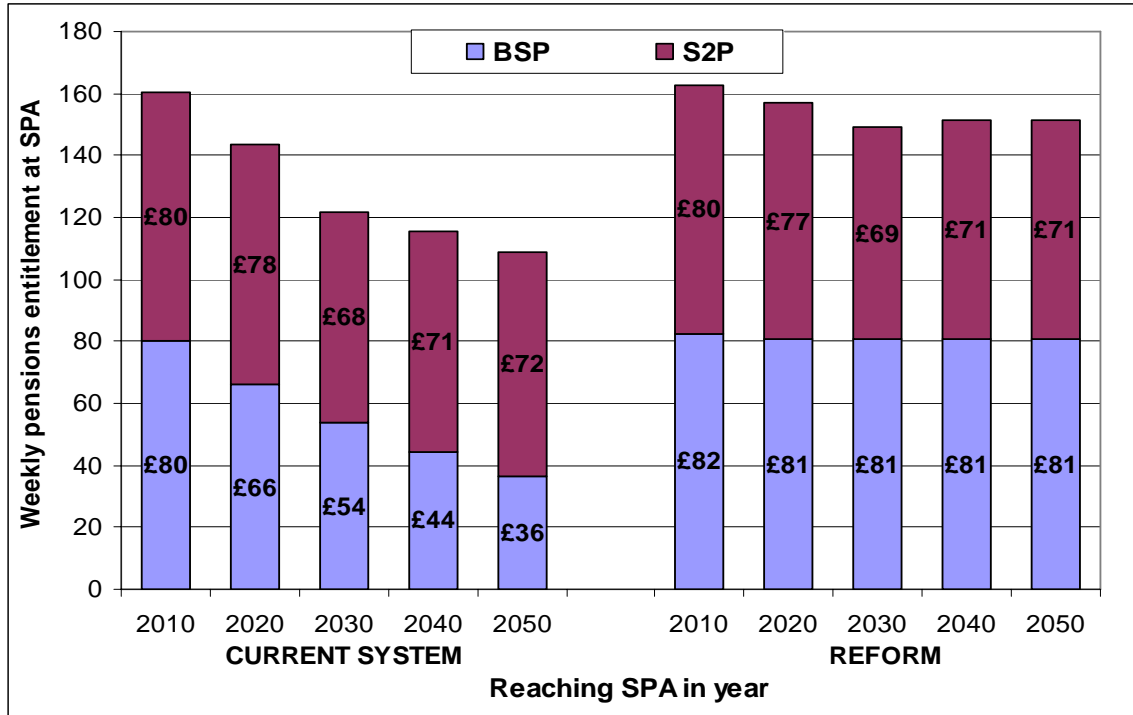
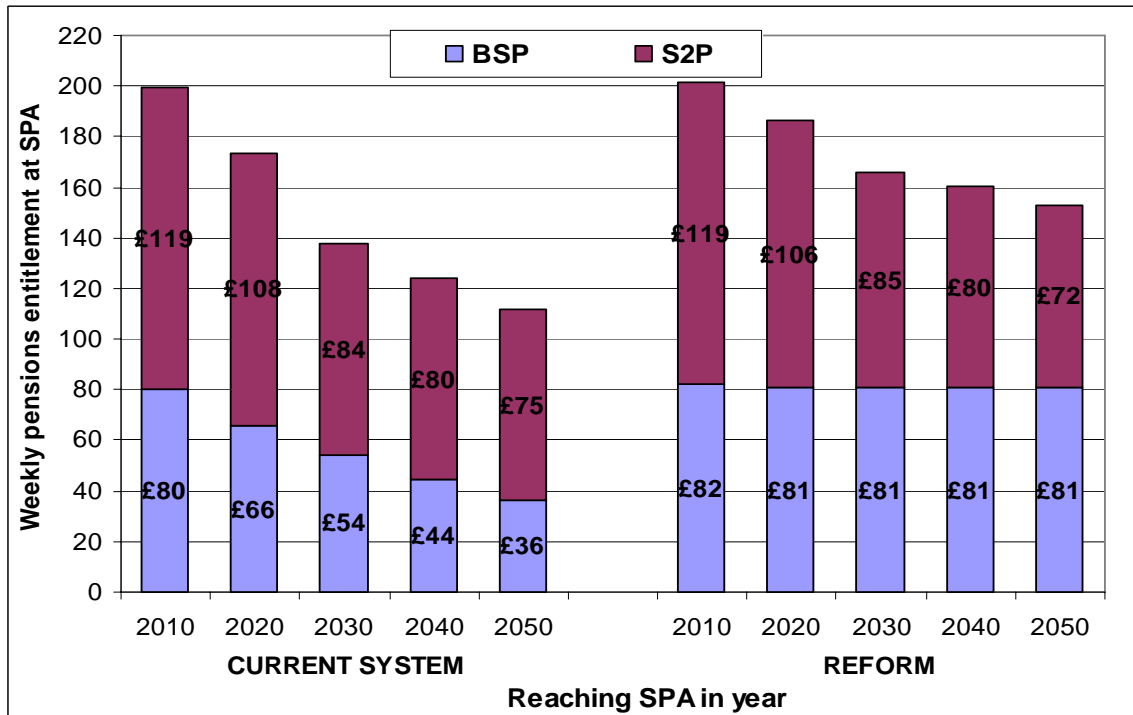


Figure 8 (figure B.8 in RIA annex B): Basic State Pension and State Second Pension for high earner (£670 per week) – reform compared to current system, in 07/08 earnings terms

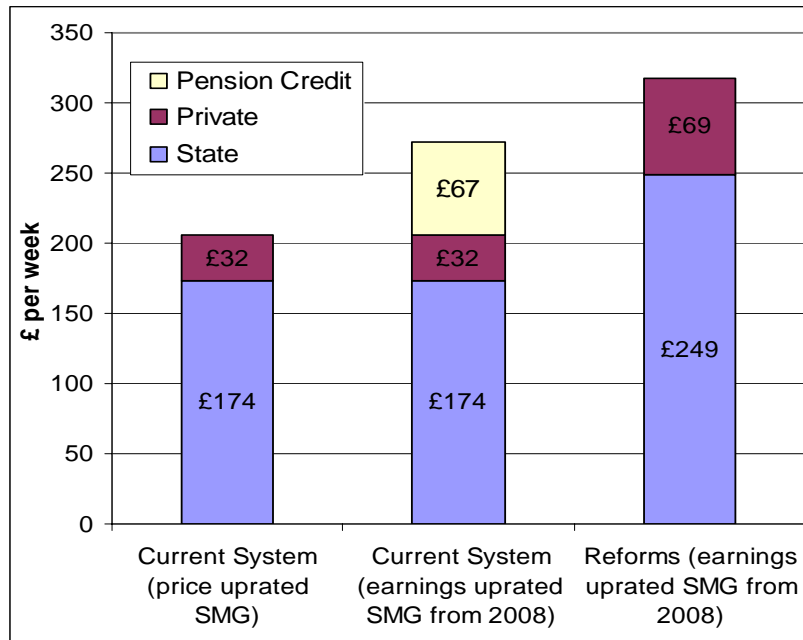


Source: DWP calculations

Notes: Assumes that a person has a good working life (works from age 25 to SPA). Under the current system they will not get full BSP as working 40 out of the 44 years needed.

Figures 9 to 11 show three hypothetical couples. Each of these receives an increasing amount of income from contributory State Pension, due to improved crediting arrangements for the basic State Pension and State Second Pension.

Figure 9 (figure B.5 in RIA annex B): Low income couple – broken work history and career break, in 07/08 earnings terms



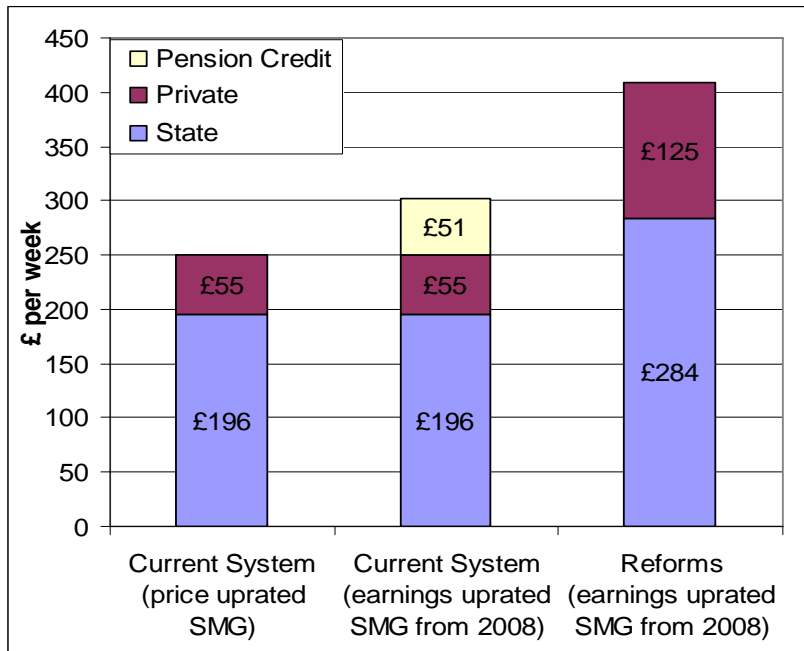
Source: DWP calculations

Notes: In 2007/08 earnings terms, income shown before tax. Assumes one person with a broken work history and one with an 11 year career break (See assumptions table in RIA page 105 for full breakdown). They reach state pension age in 2050 under the current system or 2053 after reform due to the pension age rises from 65 to 68.

Under the current system it is assumed that saving is 5% of salary between the Primary Threshold and UEL into a stakeholder pension, with a 1.5% annual management charge. This is equivalent to the employee-only contribution rate into the new personal accounts.

After reform it is assumed that saving is 8% of salary between the Primary Threshold and the UEL into a personal account (which includes 3% employer contribution, and has 0.5% annual management charge).

Figure 10 (figure B.6 in RIA annex B): Moderate income couple – median earner and uncredited carer, in 07/08 earnings terms



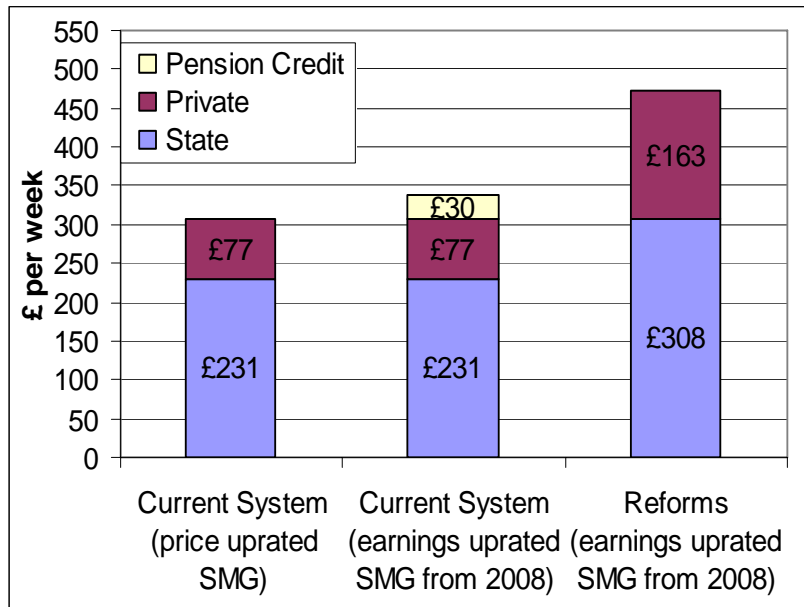
Source: DWP calculations

Notes: In 2007/08 earnings terms, income shown before tax. Assumes one person is a median earner and one is an uncredited carer (See assumptions table in RIA page 105 for full breakdown). They reach state pension age in 2050 under the current system or 2053 after reform due to the pension age rises from 65 to 68.

Under the current system it is assumed that saving is 5% of salary between the Primary Threshold and UEL into a stakeholder pension, with a 1.5% annual management charge. This is equivalent to the employee-only contribution rate into the new personal accounts.

After reform it is assumed that saving is 8% of salary between the Primary Threshold and the UEL into a personal account (which includes 3% employer contribution, and has 0.5% annual management charge).

Figure 11 (B.7 in RIA annex B): High income couple – high earner and career break, in 07/08 earnings terms



Source: DWP calculations

Notes: In 2007/08 earnings terms, income shown before tax. Assumes one person is a high earner and one has a career break (See assumptions table in RIA page105 for full breakdown). They reach state pension age in 2050 under the current system or 2053 after reform due to the pension age rises from 65 to 68.

Under the current system it is assumed that saving is 5% of salary between the Primary Threshold and UEL into a stakeholder pension, with a 1.5% annual management charge. This is equivalent to the employee-only contribution rate into the new personal accounts.

After reform it is assumed that saving is 8% of salary between the Primary Threshold and the UEL into a personal account (which includes 3% employer contribution, and has 0.5% annual management charge).

Section 2 – Revised projections of pensions expenditure

The costs of pensioner benefits, and methodology used in their estimation were set out in detail in Annex A of the RIA. This section presents estimates of the costs, revised to take account of new economic assumptions at the time of the Budget, and minor modelling improvements. Where relevant, costs are expressed in 2007/08 price terms (previously presented in 2006/07 prices). Again the table numbers that are in the RIA are also quoted for easy comparison.

Figures 12 to 14 set out spending based on:

- a) no reform, assuming a price uprated Standard Minimum Guarantee;
- b) an earning uprated Standard Minimum Guarantee but no other reform, where only the items which differ from a) are presented; and
- c) the full reform package.

Figure 12 (figure 2.1 in the RIA): Total expenditure on pensioner benefits, cash, £ billion

	2010	2020	2030	2040	2050
a) without reform:					
Basic State Pension	56.3	85.0	138.5	205.5	286.3
SERPS / S2P	13.5	25.6	49.5	92.4	186.7
Pension Credit	7.3	5.9	4.6	3.2	2.1
Other Pension Benefits	2.9	3.3	4.9	7.0	10.1
Total pensions spending	80	120	197	308	485
Housing and Council Tax Benefits	8.2	6.6	7.5	9.3	14.5
Attendance Allowance & Disability Living Allowance	9.8	15.1	25.3	39.2	56.4
Total Pensioner Benefits	98	142	230	357	556
b) with an earnings-indexed Standard Minimum Guarantee:					
Pension Credit	9.5	16.7	35.4	74.5	141.0
Total pensions spending	82	131	228	380	624
Housing and Council Tax Benefits	8.7	10.9	18.2	31.8	62.5
Total Pensioner Benefits	101	157	272	450	743
c) with other reforms:					
Basic State Pension	56.3	98.6	186.5	329.6	522.5
SERPS / S2P	13.5	25.7	49.9	96.9	186.6
Pension Credit	8.9	10.4	12.0	13.6	15.3
Other Pension Benefits	2.9	3.3	4.7	6.8	9.7
Total pensions spending	82	138	253	447	734
Housing and Council Tax Benefits	8.7	10.2	14.5	22.0	40.3
Attendance Allowance & Disability Living Allowance	9.8	15.1	24.5	37.8	53.5
Total Pensioner Benefits	100	163	292	507	828

Figure 13 (figure 2.2 in the RIA): Total expenditure on pensioner benefits, 07/08 prices, £ billion

	2010	2020	2030	2040	2050
a) without reform:					
Basic State Pension	51.9	59.5	73.0	81.7	85.7
SERPS / S2P	12.5	17.9	26.1	36.7	55.9
Pension Credit	6.8	4.1	2.4	1.3	0.6
Other Pension Benefits	2.7	2.3	2.6	2.8	3.0
Total pensions spending	74	84	104	122	145
Housing and Council Tax Benefits	7.5	4.7	4.0	3.7	4.3
Attendance Allowance & Disability Living Allowance	9.0	10.6	13.3	15.6	16.9
Total Pensioner Benefits	90	99	121	142	166
b) with an earnings-indexed Standard Minimum Guarantee:					
Pension Credit	8.8	11.7	18.7	29.6	42.2
Total pensions spending	76	91	120	151	187
Housing and Council Tax Benefits	8.1	7.6	9.6	12.6	18.7
Total Pensioner Benefits	93	110	143	179	222
c) with other reforms:					
Basic State Pension	52.0	69.0	98.3	131.0	156.4
SERPS / S2P	12.5	17.9	26.3	38.5	55.9
Pension Credit	8.2	7.3	6.3	5.4	4.6
Other Pension Benefits	2.7	2.3	2.5	2.7	2.9
Total pensions spending	75	96	133	178	220
Housing and Council Tax Benefits	8.1	7.2	7.6	8.8	12.1
Attendance Allowance & Disability Living Allowance	9.0	10.6	12.9	15.0	16.0
Total Pensioner Benefits	92	114	154	201	248

Figures 15 to 23 give more detail showing projected expenditure on pension benefits; additional benefit spending due to the reform package; and the financial effect of contracting out rebates on National Insurance Contributions:

- Figures 15 to 17 show the results in cash terms:
- Figures 18 to 20 show the results in 2007/08 prices (where previously they have been presented in 2006/07 prices); and
- Figures 21 to 23 show the results as a percentage of GDP.

Figure 14 (figure 2.3 in the RIA): Total expenditure on pensioner benefits, per cent of GDP

	2010	2020	2030	2040	2050
a) without reform:					
Basic State Pension	3.5	3.2	3.2	2.9	2.5
SERPS / S2P	0.8	1.0	1.2	1.3	1.6
Pension Credit	0.5	0.2	0.1	0.0	0.0
Other Pension Benefits	0.2	0.1	0.1	0.1	0.1
Total pensions spending	5.0	4.5	4.6	4.4	4.3
Housing and Council Tax Benefits	0.5	0.3	0.2	0.1	0.1
Attendance Allowance & Disability Living Allowance	0.6	0.6	0.6	0.6	0.5
Total Pensioner Benefits	6.1	5.3	5.4	5.1	4.9
b) with an earnings-indexed Standard Minimum Guarantee:					
Pension Credit	0.6	0.6	0.8	1.1	1.2
Total pensions spending	5.1	4.9	5.3	5.4	5.5
Housing and Council Tax Benefits	0.5	0.4	0.4	0.5	0.6
Total Pensioner Benefits	6.3	5.9	6.3	6.5	6.6
c) with other reforms:					
Basic State Pension	3.5	3.7	4.3	4.7	4.5
SERPS / S2P	0.8	1.0	1.2	1.4	1.6
Pension Credit	0.6	0.4	0.3	0.2	0.1
Other Pension Benefits	0.2	0.1	0.1	0.1	0.1
Total pensions spending	5.1	5.2	5.9	6.3	6.4
Housing and Council Tax Benefits	0.5	0.4	0.3	0.3	0.3
Attendance Allowance & Disability Living Allowance	0.6	0.6	0.6	0.5	0.5
Total Pensioner Benefits	6.2	6.1	6.8	7.2	7.2

Figure 15 (figure A.1 in the RIA): Summary of expenditure on pensioner benefits, cash, £ billion

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030	2040	2050
(a) without reform																
National Insurance Pension Benefits:																
Basic State Pension	51.1	53.8	56.3	58.6	61.4	64.2	66.9	69.6	72.4	75.3	78.3	81.4	85.0	138.5	205.5	286.3
SERPS / S2P	11.4	12.5	13.5	14.5	15.6	16.8	17.9	19.0	20.2	21.4	22.7	24.0	25.6	49.5	92.4	186.7
Non-National Insurance Pension Benefits:																
Pension Credit	7.6	7.5	7.3	7.3	7.2	7.1	7.0	6.7	6.6	6.3	6.3	6.0	5.9	4.6	3.2	2.1
Other Pension Benefits	2.8	2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.1	3.1	3.2	3.2	3.3	4.9	7.0	10.1
Total Pension Benefits	73	77	80	83	87	91	95	98	102	106	110	115	120	197	308	485
Housing and Council Tax Benefits	7.7	7.9	8.2	8.1	8.0	7.9	7.8	7.7	7.5	7.3	7.1	6.9	6.6	7.5	9.3	14.5
Attendance Allowance & Disability Living Allowance	8.8	9.3	9.8	10.2	10.7	11.2	11.7	12.2	12.7	13.2	13.8	14.5	15.1	25.3	39.2	56.4
Total pensioner benefits	89	94	98	102	106	110	114	118	122	127	131	136	142	230	357	556
(b) with earnings indexed Standard Minimum Guarantee																
Pension Credit	8.2	8.9	9.5	10.1	10.7	11.2	11.9	12.4	13.1	13.7	14.8	15.5	16.7	35.4	74.5	141.0
Total Pension Benefits	74	78	82	86	91	95	100	104	109	114	119	124	131	228	380	624
Housing and Council Tax Benefits	7.9	8.3	8.7	8.9	9.1	9.4	9.6	9.8	10.0	10.2	10.4	10.7	10.9	18.2	31.8	62.5
Total pensioner benefits	90	96	101	105	111	116	121	126	131	137	143	149	157	272	450	743
(c) with other reforms:																
National Insurance Pension Benefits:																
Basic State Pension	51.1	53.8	56.3	58.6	62.5	66.4	70.4	74.5	78.7	83.2	87.8	92.8	98.6	186.5	329.6	522.5
SERPS / S2P	11.4	12.5	13.5	14.5	15.6	16.8	17.9	19.0	20.2	21.5	22.7	24.1	25.7	49.9	96.9	186.6
Non-National Insurance Pension Benefits:																
Pension Credit	8.1	8.5	8.9	9.4	9.6	9.7	10.0	10.0	10.1	10.0	10.2	10.2	10.4	12.0	13.6	15.3
Other Pension Benefits	2.8	2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.1	3.1	3.2	3.2	3.3	4.7	6.8	9.7
Total Pension Benefits	73	78	82	85	91	96	101	107	112	118	124	130	138	253	447	734
Housing and Council Tax Benefits	7.9	8.3	8.7	8.9	9.1	9.3	9.4	9.6	9.7	9.9	10.0	10.1	10.2	14.5	22.0	40.3
Attendance Allowance & Disability Living Allowance	8.8	9.3	9.8	10.2	10.7	11.2	11.7	12.2	12.7	13.2	13.8	14.5	15.1	24.5	37.8	53.5
Total pensioner benefits	90	95	100	105	110	116	122	128	134	141	148	155	163	292	507	828

Figure 16 (table A.2 in the RIA): Detailed additional benefit spend with whole reform package, cash, £ billion

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030	2040	2050
National Insurance Benefit Changes																
Basic State Pension																
- ADIs	0.0	0.0	-0.1	-0.2	-0.4	-0.5	-0.7	-1.0	-1.2	-1.5	-1.9	-2.3	-2.6	-3.5	-3.5	-5.3
- coverage	0.0	0.0	0.1	0.2	0.3	0.4	0.6	0.7	0.9	1.0	1.2	1.3	1.5	4.9	8.9	12.5
- earnings uprating	0.0	0.0	0.0	0.0	1.1	2.3	3.6	5.1	6.7	8.4	10.3	12.3	14.6	57.8	148.7	309.9
- SPA increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-11.2	-30.0	-81.0
Total additional BSP spend	0.0	0.0	0.0	0.0	1.0	2.2	3.5	4.9	6.3	7.9	9.6	11.4	13.6	48.0	124.0	236.2
State Second Pension																
- abolition of contracting out in DC schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	1.8	7.1	14.1
- flat-rating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.2	0.4	2.3	3.3
- coverage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	1.1	4.5	11.9
- SPA increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-2.9	-9.3	-29.4
Total additional S2P spend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.3	4.4	-0.1
Total National Insurance benefits to pensioners	0.0	0.0	0.0	0.0	1.0	2.2	3.5	4.9	6.3	7.9	9.6	11.4	13.7	48.3	128.5	236.1
State Pension Age - increase in working-age spend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	2.0	4.5
Total additional NI benefit spend	0.0	0.0	0.0	0.0	1.0	2.2	3.5	4.9	6.3	7.9	9.6	11.4	13.7	49.2	130.5	240.6
Non- National Insurance Benefits																
Pension Credit																
- earnings uprating Standard Minimum Guarantee	0.7	1.4	2.1	2.6	3.4	4.1	4.8	5.6	6.5	7.3	8.4	9.4	10.7	30.6	70.8	137.7
- offset due to increased BSP & S2P	0.0	0.0	0.0	0.0	-0.3	-0.7	-1.1	-1.6	-2.1	-2.6	-3.3	-4.0	-4.8	-19.4	-51.8	-108.3
- Savings Credit reforms	-0.2	-0.3	-0.6	-0.6	-0.7	-0.7	-0.8	-0.8	-0.9	-1.0	-1.2	-1.3	-1.4	-3.5	-7.6	-14.0
- SPA increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-1.0	-2.3
Total additional Pension Credit spend	0.5	1.1	1.5	2.0	2.4	2.7	3.0	3.2	3.5	3.7	3.9	4.1	4.4	7.3	10.3	13.1
HB/CTB																
- earnings uprating HB/CTB	0.2	0.4	0.6	0.9	1.2	1.5	1.8	2.1	2.5	3.0	3.4	3.8	4.2	10.8	22.5	48.1
- offset due to increased BSP & S2P	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.3	-0.4	-0.5	-0.6	-0.7	-3.0	-8.0	-16.5
- SPA increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.9	-2.1	-6.0
Total additional HB/CTB spend	0.2	0.4	0.6	0.9	1.1	1.4	1.6	1.9	2.2	2.6	2.9	3.2	3.6	6.9	12.4	25.6
Other Non-NI Benefits - reduction due to SPA change	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.8	-1.5	-3.3
Total Non-NI benefits to pensioners	0.7	1.4	2.1	2.9	3.5	4.0	4.6	5.1	5.7	6.2	6.8	7.4	8.0	13.3	21.2	35.3
State Pension Age - increase in working-age spend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	3.3	8.9
Total additional Non-NI benefit spend	0.7	1.4	2.1	2.9	3.5	4.0	4.6	5.1	5.7	6.2	6.8	7.4	8.0	14.6	24.6	44.3
Total benefit spend																
Total additional spend: pensioners	0.7	1.4	2.1	2.9	4.5	6.2	8.1	9.9	12.0	14.1	16.4	18.8	21.6	61.6	149.7	271.4
Total additional spend: pensioners and working-age	0.7	1.4	2.1	2.9	4.5	6.2	8.1	9.9	12.0	14.1	16.4	18.8	21.6	63.8	155.1	284.8

Figure 17 (figure A.3 in the RIA): Financial effect of contracting out rebates on National Insurance contributions, cash, £ billion

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030	2040	2050
Cost of DB rebate	8.1	8.3	8.5	8.8	9.6	9.8	10.1	10.3	10.6	10.7	10.9	11.2	11.5	15.2	22.1	31.4
Cost of DC rebate	1.9	1.9	1.9	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in contracting out rebate:																
- from flat-rating S2P	0.0	0.0	0.0	0.0	0.0	-0.2	-0.3	-0.5	-0.8	-1.0	-1.2	-1.5	-1.8	-5.9	-6.4	-4.3
- SPA change	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.4
Total	10.0	10.2	10.5	10.7	9.6	9.7	9.7	9.8	9.8	9.7	9.7	9.7	9.7	9.3	15.8	27.5

Figure 18 (figure A.4 in the RIA): Summary of expenditure on pensioner benefits, 07/08 prices, £ billion

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030	2040	2050
(a) without reform																
National Insurance Pension Benefits:																
Basic State Pension	49.8	51.0	51.9	52.7	53.8	54.7	55.4	56.1	56.7	57.3	58.0	58.6	59.5	73.0	81.7	85.7
SERPS / S2P	11.1	11.9	12.5	13.1	13.7	14.3	14.8	15.3	15.8	16.3	16.8	17.3	17.9	26.1	36.7	55.9
Non-National Insurance Pension Benefits:																
Pension Credit	7.4	7.1	6.8	6.6	6.3	6.0	5.8	5.4	5.2	4.8	4.6	4.3	4.1	2.4	1.3	0.6
Other Pension Benefits	2.7	2.7	2.7	2.6	2.6	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.6	2.8	3.0
Total Pension Benefits	71	73	74	75	76	77	79	79	80	81	82	83	84	104	122	145
Housing and Council Tax Benefits	7.5	7.5	7.5	7.2	7.0	6.7	6.4	6.2	5.9	5.5	5.2	4.9	4.7	4.0	3.7	4.3
Attendance Allowance & Disability Living Allowance	8.5	8.8	9.0	9.2	9.4	9.5	9.7	9.8	9.9	10.1	10.2	10.4	10.6	13.3	15.6	16.9
Total pensioner benefits	87	89	90	91	93	94	95	95	96	96	97	98	99	121	142	166
(b) with earnings indexed Standard Minimum Guarantee																
Pension Credit	8.0	8.4	8.8	9.1	9.3	9.5	9.9	10.0	10.3	10.4	10.9	11.2	11.7	18.7	29.6	42.2
Total Pension Benefits	72	74	76	77	79	81	83	84	85	86	88	89	91	120	151	187
Housing and Council Tax Benefits	7.7	7.9	8.1	8.0	8.0	8.0	7.9	7.9	7.8	7.8	7.7	7.7	7.6	9.6	12.6	18.7
Total pensioner benefits	88	91	93	95	97	98	100	102	103	104	106	107	110	143	179	222
(c) with other reforms:																
National Insurance Pension Benefits:																
Basic State Pension	49.8	51.0	52.0	52.7	54.7	56.5	58.3	60.0	61.7	63.4	65.0	66.8	69.0	98.3	131.0	156.4
SERPS / S2P	11.1	11.9	12.5	13.1	13.7	14.3	14.8	15.3	15.8	16.3	16.8	17.3	17.9	26.3	38.5	55.9
Non-National Insurance Pension Benefits:																
Pension Credit	7.9	8.1	8.2	8.4	8.4	8.3	8.3	8.0	7.9	7.6	7.6	7.3	7.3	6.3	5.4	4.6
Other Pension Benefits	2.7	2.7	2.7	2.6	2.6	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.5	2.7	2.9
Total Pension Benefits	72	74	75	77	79	82	84	86	88	90	92	94	96	133	178	220
Housing and Council Tax Benefits	7.7	7.9	8.1	8.0	8.0	7.9	7.8	7.7	7.6	7.5	7.4	7.3	7.2	7.6	8.8	12.1
Attendance Allowance & Disability Living Allowance	8.5	8.8	9.0	9.2	9.4	9.5	9.7	9.8	9.9	10.1	10.2	10.4	10.6	12.9	15.0	16.0
Total pensioner benefits	88	90	92	94	97	99	101	103	105	107	109	111	114	154	201	248

Figure 19 (figure A.5 in the RIA): Detailed additional benefit spend with whole reform package, 07/08 prices, £ billion

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030	2040	2050
National Insurance (NI) Benefit Changes																
Basic State Pension																
- ADIs	0.0	0.0	-0.1	-0.2	-0.3	-0.5	-0.6	-0.8	-1.0	-1.2	-1.4	-1.7	-1.8	-1.9	-1.4	-1.6
- coverage	0.0	0.0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.1	2.6	3.5	3.7
- earnings uprating	0.0	0.0	0.0	0.0	0.9	2.0	3.0	4.1	5.2	6.4	7.6	8.9	10.2	30.5	59.1	92.8
- SPA increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-5.9	-11.9	-24.2
Total additional BSP spend	0.0	0.0	0.0	0.0	0.9	1.9	2.9	3.9	5.0	6.0	7.1	8.2	9.5	25.3	49.3	70.7
State Second Pension																
- abolition of contracting out in DC schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.9	2.8	4.2
- flat-rating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	0.2	0.9	1.0
- coverage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.6	1.8	3.6
- SPA increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.5	-3.7	-8.8
Total additional S2P spend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	1.8	0.0
Total National Insurance benefits to pensioners	0.0	0.0	0.0	0.0	0.9	1.9	2.9	3.9	5.0	6.0	7.1	8.2	9.6	25.5	51.0	70.7
State Pension Age - increase in working-age spend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.8	1.3
Total additional NI benefit spend	0.0	0.0	0.0	0.0	0.9	1.9	2.9	3.9	5.0	6.0	7.1	8.2	9.6	26.0	51.9	72.0
Non- National Insurance Benefits																
Pension Credit																
- earnings uprating Standard Minimum Guarantee	0.7	1.3	1.9	2.4	3.0	3.5	4.0	4.5	5.1	5.6	6.2	6.8	7.5	16.1	28.1	41.2
- offset due to increased BSP & S2P	0.0	0.0	0.0	0.0	-0.3	-0.6	-0.9	-1.3	-1.6	-2.0	-2.5	-2.9	-3.4	-10.2	-20.6	-32.4
- Savings Credit reforms	-0.2	-0.3	-0.5	-0.6	-0.6	-0.6	-0.6	-0.7	-0.7	-0.8	-0.9	-0.9	-1.0	-1.9	-3.0	-4.2
- SPA increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.4	-0.7
Total additional Pension Credit spend	0.5	1.0	1.4	1.8	2.1	2.3	2.4	2.6	2.7	2.8	2.9	3.0	3.1	3.9	4.1	3.9
HB/CTB																
- earnings uprating HB/CTB	0.2	0.4	0.5	0.8	1.0	1.3	1.5	1.7	2.0	2.3	2.5	2.7	3.0	5.7	8.9	14.4
- offset due to increased BSP & S2P	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.2	-0.3	-0.4	-0.4	-0.5	-1.6	-3.2	-4.9
- SPA increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	-0.8	-1.8
Total additional HB/CTB spend	0.2	0.4	0.5	0.8	1.0	1.2	1.3	1.5	1.7	2.0	2.2	2.3	2.5	3.6	4.9	7.7
Other Non-NI Benefits - reduction due to SPA change	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	-0.6	-1.0
Total Non-NI benefits to pensioners	0.7	1.4	1.9	2.6	3.1	3.4	3.8	4.1	4.5	4.7	5.1	5.3	5.6	7.0	8.4	10.6
State Pension Age - increase in working-age spend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.3	2.7
Total additional Non-NI benefit spend	0.7	1.4	1.9	2.6	3.1	3.4	3.8	4.1	4.5	4.7	5.1	5.3	5.6	7.7	9.8	13.3
Total benefit spend																
Total additional spend: pensioners	0.7	1.4	1.9	2.6	4.0	5.3	6.7	8.0	9.4	10.8	12.2	13.5	15.1	32.5	59.5	81.3
Total additional spend: pensioners and working-age	0.7	1.4	1.9	2.6	4.0	5.3	6.7	8.0	9.4	10.8	12.2	13.5	15.1	33.7	61.6	85.3

Figure 20 (figure A.6 in the RIA): Financial effect of contracting out rebates on National Insurance contributions, 07/08 prices, £ billion

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030	2040	2050
Cost of DB rebate	7.9	7.9	7.9	7.9	8.4	8.4	8.3	8.3	8.3	8.1	8.1	8.1	8.0	8.0	8.8	9.4
Cost of DC rebate	1.9	1.8	1.8	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in contracting out rebate:																
- from flat-rating S2P	0.0	0.0	0.0	0.0	0.0	-0.1	-0.3	-0.4	-0.6	-0.8	-0.9	-1.1	-1.3	-3.1	-2.5	-1.3
- SPA change	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
Total	9.7	9.7	9.7	9.6	8.4	8.2	8.1	7.9	7.7	7.4	7.2	7.0	6.8	4.9	6.3	8.2

Figure 21 (figure A.7 in the RIA): Summary of expenditure on pensioner benefits, per cent of GDP

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030	2040	2050
(a) without reform)																
National Insurance Pension Benefits:																
Basic State Pension	3.5	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.3	3.3	3.3	3.2	3.2	3.2	2.9	2.5
SERPS / S2P	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.2	1.3	1.6
Non- National Insurance Pension Benefits:																
Pension Credit	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.1	0.0	0.0
Other Pension Benefits	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Pension Benefits	5.0	5.0	5.0	4.9	4.9	4.9	4.8	4.8	4.7	4.6	4.6	4.5	4.5	4.6	4.4	4.3
Housing and Council Tax Benefits	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.1	0.1
Attendance Allowance & Disability Living Allowance	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5
Total pensioner benefits	6.2	6.2	6.1	6.0	6.0	5.9	5.8	5.7	5.6	5.5	5.5	5.4	5.3	5.4	5.1	4.9
(b) with earnings indexed Standard Minimum Guarantee																
Pension Credit	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.8	1.1	1.2
Total Pension Benefits	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.0	5.0	5.0	4.9	4.9	4.9	5.3	5.4	5.5
Housing and Council Tax Benefits	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.6
Total pensioner benefits	6.2	6.3	6.3	6.2	6.2	6.2	6.1	6.1	6.0	6.0	6.0	5.9	5.9	6.3	6.5	6.6
(c) with other reforms:																
National Insurance Pension Benefits:																
Basic State Pension	3.5	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.7	3.7	3.7	4.3	4.7	4.5
SERPS / S2P	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.2	1.4	1.6
Non- National Insurance Pension Benefits:																
Pension Credit	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.2	0.1
Other Pension Benefits	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Pension Benefits	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.2	5.1	5.2	5.9	6.3	6.4
Housing and Council Tax Benefits	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Attendance Allowance & Disability Living Allowance	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Total pensioner benefits	6.2	6.3	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.1	6.1	6.1	6.8	7.2	7.2

Figure 22 (figure A.8 in the RIA): Detailed additional benefit spend with whole reform package, per cent of GDP

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030	2040	2050
National Insurance (NI) Benefit Changes																
Basic State Pension																
- ADIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
- coverage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
- earnings uprating	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.3	0.4	0.4	0.5	0.6	1.3	2.1	2.7
- SPA increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.4	-0.7
Total additional BSP spend	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.5	0.5	1.1	1.8	2.1
State Second Pension																
- abolition of contracting out in DC schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
- flat-rating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- coverage	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
- SPA increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.3
Total additional S2P spend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Total National Insurance benefits to pensioners	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.5	0.5	1.1	1.8	2.1
State Pension Age - increase in working-age spend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total additional NI benefit spend	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.4	0.5	0.5	1.1	1.9	2.1
Non- National Insurance Benefits																
Pension Credit																
- earnings uprating Standard Minimum Guarantee	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.7	1.0	1.2
- offset due to increased BSP & S2P	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.5	-0.7	-1.0
- Savings Credit reforms	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
- SPA increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total additional Pension Credit spend	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
HB/CTB																
- earnings uprating HB/CTB	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.4
- offset due to increased BSP & S2P	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1
- SPA increase	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Total additional HB/CTB spend	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Other Non-NI Benefits - reduction due to SPA change	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Non NI benefits to pensioners	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
State Pension Age - increase in working-age spend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total additional Non-NI benefit spend	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Effect of higher GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
Total benefit spend																
Total additional spend: pensioners	0.0	0.1	0.1	0.2	0.3	0.3	0.4	0.5	0.6	0.6	0.7	0.7	0.8	1.4	2.1	2.3
Total additional spend: pensioners and working-age	0.0	0.1	0.1	0.2	0.3	0.3	0.4	0.5	0.6	0.6	0.7	0.7	0.8	1.5	2.2	2.4

Figure 23 (figure A.9 in the RIA): Financial effect of contracting out rebates on National Insurance contributions, per cent of GDP

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030	2040	2050
Cost of DB rebate	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.3
Cost of DC rebate	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in contracting out rebate:																
- from flat-rating S2P	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
- SPA change	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.7	0.7	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.2	0.2

Annex A – Earnings Terms and rebasing

This Annex explains why earnings terms have been used in the presentation of pension reform outcomes, and what changes to numbers in earnings terms means.

Why are outcomes presented in earnings terms?

It can be difficult to describe levels of income several decades from now, as prices and earnings both tend to rise over time. There are several ways in which numbers can be presented which have their own strengths and weaknesses.

In Cash terms:

This is the actual cash value or physical amount of money that someone will get. For example in 1970 someone with a full basic State Pension (BSP) would get £5, in 2007 they would get £87, and in 2050 we expect them to receive around £625 in cash. But this does not reflect how much someone can buy because the overall level of prices tends to rise (a process known as inflation), and earnings also increase. If the cash amount of the basic State Pension stayed constant in cash terms then the pension would buy less as prices increased. For example, £5 would buy much less now than it did in 1970. Presenting outcome in cash terms does not help to understand how much the state pension can buy in the future.

In Price or Real terms:

Another option - which is often used by Government and economists - is to set out values in price terms. This puts values from other years in terms of the prices of a base year (for example in 2007/08 prices). This enables us to compare how much pensions in 1970, 2005 and 2050 can buy. For example in 2007/08 prices the basic State Pension was worth around £60 in 1970, compared to £87 in 2007 and an expected £189 in 2050 under reform. This means that we think the basic State Pension in 2050 will be able to buy more than twice as much as it could in 2007¹ and over three times as much as the pension in 1970.

However, values in price terms do not tell us whether the value of the pension has kept up with working age incomes. The State Pension may be able to buy more in 2050, but if working age incomes have also increased then pensioners may not feel better off. Newly retired pensioners in 2050 may compare their incomes to their recent incomes while in work, or the incomes of the population as a whole, rather than their incomes and what they could buy in 2010.

In Earnings terms:

Presenting a value in 'earnings terms' relates it to the earnings of a 'base' year - this fact sheet sets out results for a base year of 2007/08, updated from 2005/06.

¹ The BSP buys more in 2050 (2007/08 price terms) because in reform it is being updated in line with earnings which in most years rise faster than prices.

As an example in 2007/08 median earnings are expected to be about £470 a week; when describing incomes in, say 2050, an income of about half the average earnings of 2050 would be £235 (half of £470) in 2007/08 earnings terms, an income of twice the average earnings of 2050 would be about £940 (twice £470) in 2007/08 earnings terms².

Putting outcomes in ‘earnings terms’ give people a better idea of how well off they may feel in the future if they compare their income against the earnings of working age people at the time, rather than against the living standards of today. Figures in earnings terms may be more helpful for long term comparisons of how well pensions compare with working age incomes.

Under reform a low earner with a good working life could receive around £145 of state pension when retiring in 2053, in 2007/08 *earnings* terms. In 2007/08 *price* terms this would be around £360.

The table below is a further example illustrating the value of basic State Pension – assuming earnings uprating from 2012 - in different terms. Under reform the basic State Pension will remain constant in earnings terms as it is being uprated in line with earnings.

Post Reform Weekly full basic State Pensions entitlement comparing 2007/08 cash, price and earnings terms to 2007/08, for those retiring in 2012, 2025 and 2050:

	Cash Terms	2007-8 Terms	
		Real Price Terms	Earnings Terms
2012	£101	£89	£81
2025	£188	£115	£81
2050	£625	£189	£81

Note: Based on earnings uprating the basic State Pension from 2012 by using the BSP value in 2011 and increasing it by earnings.

What do trends in earnings terms figures tell us?

A change in earnings terms provides an indication of whether pensioners’ incomes have risen faster or slower than working age people’s incomes. For example;

- If over time pensioner incomes stay the same in earning terms, it means that their income is rising in line with average earnings.

² This is a slightly simplified assumption. £470 is an assumption of median full-time earnings. It doesn’t reflect the incomes of those people not in full-time employment. When calculating values in earnings terms they are deflated using projections of the Average Earnings Index. The projection is based on the Treasury’s long term economic assumption of earnings growth of 4.93% per year in the long term.

- If a pensioner's income rises in earnings terms this means they may be gaining better off compared to the working age people as their pension has gone up faster than earnings.
- If an income is falling in earnings terms, it means it is not growing as fast as earnings, and the income may be falling behind working age income. However, it may still be rising faster than prices, and it may still be able to buy more in one year than it could in the last.

The table below shows what the value of the basic State Pension, from 2012 onwards would be in 2007/08 earnings terms depending on whether it is price or earnings updated.

- If the basic State Pension continued to be updated by prices then it would fall in 2007/08 earnings terms to £37 by 2050. This is because the basic State Pension would increase in line with inflation but not as fast as the average earnings of the working age, so in 2050 pensioners may feel worse off compared to working age people.
- If the basic State Pension is updated with earnings as in reform, then the value of basic State Pension will stay constant in earnings terms at £81 in 2007/08 terms – pensioners' income generally rises in line with working age incomes.

Weekly full basic State Pensions entitlement updated by prices and earnings, shown in 2007/08 earnings terms:

	2007/08 Earnings terms	
	Price updated BSP	Earnings updated BSP
2012	£79	£81
2020	£67	£81
2030	£55	£81
2040	£45	£81
2050	£37	£81