Scotianomics
STRATEGIC | INTELLIGENCE

Investigation into the requirement for and optimum level of a Wellbeing Pension

Niamh McGhee, Ross McAlinden & Gordon MacIntyre-Kemp
February 2023

About Scotianomics

The 21st century is witnessing the emergence of a new wave of socio-economic pressures that have rendered last century's rigid and tribalistic political and economic solutions obsolete.

We face unprecedented threats on a global scale from climate change leading to increasing environmental emergencies, failing crops, rampant food inflation and shortages and forced economic migration. Other geopolitical threats include international and energy security risks, pandemic occurrences and increasing authoritarianism.

Developed nations are not insulated from these pressures. Energy price inflation, rising inequality, and stalling economic growth, coupled with inadequate social protections are creating socio-economic challenges that seem unsurmountable without new thinking.

We need to press the reset-button to redesign our entire socio-economic approach from one based on unsustainable growth to one based on wellbeing.

Scotianomics is the organisation defining the Wellbeing socioeconomic approach and is advising companies, stakeholders and Governments on how the new principles of Wellbeing economics can build a better, fairer, greener, wealthier, healthier, happier more entrepreneurial and more successful society and economy.

Nowadays data is everywhere but it is analysis that transforms data into the valuable, actionable knowledge that is the key to designing new solutions. Organisations, in both Scotland's private and public sectors, lack access to useful, reliable data and real value-added analysis of the kind that many advanced countries take for granted. This creates a hidden but real disadvantage for Scottish business, limits public policy, disrupts the pursuit of shared prosperity and threatens the nations socioeconomic and environmental Wellbeing.

Scotianomics aims to spark a Wellbeing-economy knowledge revolution, inform, educate and engage the decision-makers on Scotland's economy.

Executive summary:

- Pensioners in the UK suffer from a high degree of inequality. The way that pensions are managed in the UK discriminates against the low-paid, people who work part-time, are disabled or whom on occasion have been absent from the workforce.
- This report argues that the current system does not provide enough support for pensioners in their retirement and is especially unfair to those who have been retired for longer and are on the Basic State Pension and living as a couple.
- This report presents the concept of a Wellbeing Pension, calculating the amount required to act as a starting point (as base level of public pension) to ensure that all pensioners receive an adequate income throughout retirement to live with dignity and end the pensioner poverty levels caused by the inadequacies of the current UK pension system.
- This report builds upon and updates the original analysis carried out in 2019 by Scotianomics (Emma MacPharlane/ Gordon MacIntyre-Kemp) for the campaigning Scottish business network 'Business for Scotland'. To calculate a Wellbeing Pension, we also draw upon the subsequent analysis of the Minimum Income Standard for pensioners from the University of Loughborough and the Joseph Rowntree Foundation, as well as statistics on average expenditure. Using this research, the report sets out case studies of particularly vulnerable groups of people in retirement.
- Our analysis suggests that the Wellbeing Pension should start at £225 per week to build a pension scheme that meets just the basic needs of pensioners.
- Before calculating the Wellbeing Pension, this study examines the UK's state pension, recognising that the UK Government's nomenclature of the "new" state pension disguises the fact that the vast majority of pensioners today continue to receive the "old" or "basic" rate - which continues to be the one of the worst state pensions in the developed world.
- The UK Government's suspension of the Triple Lock Guarantee in the spring of 2022 not only broke a Conservative Party Manifesto commitment but meant that pensions suffered a real-terms income cut of up to 6 percent. Even a subsequent rise at the same rate as inflation in future budgets will not restore the buying power pensioners possessed prior to the breaking of the triple lock.
- Pension policy is reserved to the UK Government. We recommend that the UK Government adopts the Wellbeing Pension and show that this increase in the pension can be funded through current National Insurance Contributions.
- The Scottish Government has no power to alter pensions policy. However, it has shown a desire (were it to gain those powers) to improve the state pension and adopt a wellbeing economic approach. Therefore, we recommend that this concept of a Wellbeing Pension is incorporated into both the Scottish Government's recommendations to the UK Government on UK pensions, as well as any future manifesto commitment to pensions levels in an independent Scotland.

Introduction

Ending pensioner poverty in Scotland must sit at the heart of the Scottish Government's development of a wellbeing-focused economic approach and its response to the current cost of living crisis. The grave combination of Brexit and the fallout from the COVID-19 pandemic has severely damaged the UK economy overall, as well as the economies of each of the four nations to varying degrees. Brexit has also damaged Scotland's economy to a greater extent than the rest of the UK and has contributed the slow growth and rising inflation experienced by the UK. However, the governments of the four nations cannot simply steer things back to normal after the pandemic, as normal was not working. Indeed, UK pensions policy should be considered the policy area that most urgently requires addressing in the face of rampant fuel and food cost inflation that is intensifying pensioner poverty.

The current UK Basic State Pension, which is set by the UK Government, continues to be substantially lower than the OECD and European averages. Indeed, in 2018, the OECD correctly stated that the UK Basic State Pension was worth only 28.4% of individuals' average income at retirement, which was the worst replacement rates in the developed world.

In the UK, as we write this report in Winter 2023 there are two rates of state pension:

- The Basic State Pension (£141.85 a week)
- The Newly Retired State Pension which provides a flat-rate pension worth up to £185.15.

Note: This report has elected to use the term 'Newly Retired State Pension' to refer to what the UK Government calls the 'New State Pension'. The latter terminology has been proven to be misleading, with cases of newspaper editors and fact checking services assuming the 'New' pension entirely replaces the previous 'Basic' system, which is not the case.

The Newly Retired State Pension does represent an improved offer to pensioners. However, it still leaves a huge majority of pensioners on the lower Basic State Pension of £141.85 per week. This is because qualification for the Newly Retired State Pension for individuals requires them to have been born after the April 6th, 1951, for men and April 6th, 1953, for women.

Any comprehensive analysis of pensions policy must take into consideration the fact that the improved Newly Retired State Pension does not simply replace the Basic State Pension. Indeed, the Newly Retired State Pension can only be claimed if you reached retirement age after 6th April 2016, leaving the vast majority of UK pensioners on the much lower Basic State Pension.[1] In February 2021, there were only 1.9 million people receiving the Newly Retired State Pension. This represents only 15% of the 12.4 million[2] currently receiving a state pension.

1 Gov.UK, 2016; gov.uk/new-state-pension
2 Department for Work and Pensions, 2021; gov.uk/government/statistics/dwp-benefits-statistics-august-2021/dwp-benefits-statistics-august-2021

The UK pensions system is a pay-as-you-go system whereby National Insurance Contributions (NICs) paid by those in work one month, pay the state pension the next month. Thus, the system relies on the working population being large enough to contribute more in NICs than the amount of state pension that is paid out. For clarity, this means that there is no 'pension pot' or fund that pensions are paid out of, rather current National Insurance Contributions pay for pensions in real time.

Furthermore, under the current law, the State Pension Age (SPA) is due to increase to 68 between 2037 and 2039, having been brought forward by the 2014 Pension Act.[3] Proposals from the Centre for Social Justice (CSJ), a right-wing pressure group founded by former Conservative leader Iain Duncan Smith, have advised that the SPA should rise to 75 by 2035. Ultimately, such a change to the SPA would mean that, at 75, the UK would have the highest retirement age in the world and the influence of the CSJ indicates the direction of travel of current UK gov thinking. Given that life expectancy for men in Scotland at birth from 2018 to 2020 was 76.8 years, with men in the most deprived areas only having a life expectancy of 68.6 years[4], many people born in Scotland would barely live long enough to claim a state pension at that retirement age. This change would most severely affect manual workers who tend to have a shorter healthy working life expectancy[5]. For example, firefighters, construction workers, carers and cleaners, may not be able to work to the same age as someone working in a non-manual job, thus leading them to retire before they reach the proposed state pension age.

As a result of both the low value of the state pension and the increasing age of retirement, pensioner poverty has become a pressing issue across the UK. Statistics published in March 2021 presented a very grim picture for pensioners in the UK. Indeed, the figures demonstrated that pensioner poverty levels are rising, with 18% (the equivalent of 2.1 million pensioners) currently living in poverty after housing costs.[6] Alarmingly, this new data highlights that an additional 200,000 pensioners were living in poverty from the previous year. Moreover, this is the greatest number of pensioners that have been recorded to be living in poverty for over 15 years.

It is also the case that 8% of pensioners, approximately 900,000 retired individuals, would be unable to pay an unexpected bill. These recent figures present a stark picture of the gloomy reality that many old age pensioners currently face in the UK. In Scotland in particular, more than 120,000 pensioners live in persistent poverty. This demonstrates the damaging impact the UK Government's pension provision has across the four nations.[7]

3 Gov.UK, 2017; gov.uk/government/news/proposed-new-timetable-for-state-pension-age-increases]
4 NRS, 2022; nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/life-expectancy/life-expectancy-in-scotland/2019-2021
5 The Lancet, 2020; thelancet.com/pdfs/journals/lanpub/PIIS2468-2667(20)30114-6.pdf
6 Age UK, 2021; ageuk.org.uk/latest-press/articles/2021/age-uk-responds-to-new-government-pensioner-poverty-figures/
7 Age UK, 2021; ageuk.org.uk/scotland/latest-news/2021/april/levels-of-pensioner-poverty-a-national-scandal/

This report will propose the adoption of a 'Wellbeing Pension' to tackle the issue of pensioner poverty, building upon and updating research conducted in 2019 by Scotianomics for the campaigning business network 'Business for Scotland'. It will make the case that the current British state pensions system is insufficient to cover the rising costs of living and will calculate a financial baseline which will create a safety net for the most vulnerable, preventing them from falling through the cracks of the state pension system. The calculations to derive this Wellbeing Pension are also drawn from a similar model to the calculation of the Real Living Wage and Minimum Income Standard for pensioners carried out in research done by the Joseph Rowntree Foundation.

Our research suggests that the Wellbeing Pension should provide at least £225 weekly to meet the basic standards of Wellbeing necessary for pensioners in the UK. This would act as a 'starting point' to ensure that all pensioners receive an adequate income throughout their retirement and can be adjusted according to changing large-scale economic factors over time. These recommendations are made at a UK-wide level, although particular attention will be paid to how pensioners experience poverty in Scotland. While powers over pensions are not currently under Scottish control, due to the particular focus of this research organisation on economic issues in Scotland, this report will examine the Scottish case in detail.

There have been several studies conducted into improving the UK state pension system and making it more fit for purpose, most notably the Resolution Foundation's plan to measure pensions by a Living Pension standard[8] (which was published between our first and second Wellbeing Pensions calculations). What distinguishes this report however is that it considers what living standards are for pensioners right now, rather than calculating savings in the future. Scotianomics believes this is crucial, as the UK experiences a cost-of-living crisis that requires addressing immediately.

Elaborating further on the structure of this report, it will first examine the current status of the UK pensions system. From there, it will turn to the issue of pensioner poverty, examining how the system incentivises investing in private pensions, as well as causing gender and social inequality. Analysis will also consider recent events, looking at the suspension of guarantees to safeguard pensions such as the triple lock and how the UK Government plans to tackle increased costs of living in the case of pensions. The report will then compare the UK case to other countries, using the OECD classification of pension systems. From there, we will examine data on average expenditure of pensioners in the UK to calculate the minimum amount required under a Wellbeing Pension system. Case studies will be developed to compare individuals and couples receiving the Basic and Newly Retired State Pension respectively. Finally, Scotianomics will consider how the UK Government could fund such a proposal and what the economic impact of the Wellbeing Pension would be.

8 Resolution Foundation, 2021; resolutionfoundation.org/publications/building-a-living-pension/

Pensioner poverty

This section of the report will detail the issue of pensioner poverty, concentrating particularly on the case of Scotland, to explain how the current UK pensions system has become unfit for purpose. It will first explain how the UK pension system works and recent reforms that have been put in place by the government, though these will not affect those over a certain age who are currently receiving a state pension. It will then discuss how the UK government incentivises investment in private pension schemes, leading to some of the most vulnerable retirees 'falling through the cracks' and receiving an insufficient state pension.

The issue of inequality between those receiving the state pension, particularly relating to gender inequality will also be considered. Finally, this section will consider some recent developments in UK pensions policy, including the scrapping of the Triple Lock Guarantee as well as plans to tackle the cost-of-living crisis for pensioners.

UK pensions system

As mentioned in the introduction, the current UK state pension system is split between two categories - the 'Basic' and the 'Newly Retired' pension. As of June 2022, the full 'Basic' state pension is £141.85 per week, or £7,376 per year. The full 'Newly Retired' pension is 28% higher at £185.15 per week, or £9,420 per year[9]. When looking at average earnings in the UK, we can see that the 'Basic' pension represents a net pension replacement rate (NPRR) of 25.5% and the 'Newly Retired' an NPRR of 32% (assuming a UK average wage of £29,000). The net pension replacement rate is the percentage of pre-retirement earnings that are accounted for by the individuals' state pension once they retire. Given that the majority of Scottish pensioners are still recipients of the 'Basic' pension, this higher NPRR only applies to 22% of this demographic.

There is also a difference between total payments across the four nations of the UK due to varying life expectancies. The current state pension age (SPA) is 66 across the UK and it is due to increase to 68 years between 2037 and 2039 according to the 2014 Pension Act[10]. Government reviews of pension age still base their analysis on life expectancy at 65 however, excluding those who have died before they reach pensionable age. Given the changes to the SPA, this seems somewhat outdated. Male life expectancy at birth in Scotland is 76.8, two and a half years shorter than in England, where it is 79.3 years[11]. This means that Scottish pensioners will receive slightly less in state pensions over time owing to lower life expectancy. This scenario is reflected, though slightly less sharply, in Wales and Northern Ireland. Furthermore, while the SPA could be raised further as it is kept under review, recent stagnation and declines in life expectancy would make this more difficult to justify. The current

9 Gov.UK, 2021; gov.uk/state-pension

10 Gov.UK, 2017; gov.uk/government/news/proposed-new-timetable-for-state-pension-age-increases

11 ONS, 2021; ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2018to2020

structure also relies on the working population being larger and contributing more than the amount of state pension withdrawn.

Note: The Additional State Pension (a.k.a. Second State Pension or SERPS) was omitted from this report. It represents multiple systems- the pre 2002 SERPS which covered those who worked and S2P which accounted for those unable to work or had caring responsibilities. The maximum Second State Pension in 2022-23 is £185.90 per week.[12] However, entitlement varies and calculations have frequently changed. Individuals who were part of a pension scheme at work were often contracted out of the Additional State Pension so coverage was far from universal.[13] Therefore, as we aimed to be as broad as possible to establish a minimum income standard, the system was too complex to incorporate into our calculations of what the average individual dependent on the state pension would receive.

Additionally, given the maximum entitlement is £185.90 per week, the value of the Additional State Pension is roughly around the same as the Newly Retired State Pension, which is £185.15 per week. Our proposed Wellbeing Pension is valued at significantly more regardless.

Private pensions

As a result of both the low-value state pension and the increasing age of retirement, pensioner poverty has become a pressing issue across the UK and is particularly prevalent in Scotland. Age Scotland calculates that 14% of Scottish pensioners are already living in relative poverty. The charity has found that the poorest older households will need to drastically increase the percentage of their net income spent on essential goods and services from 70% in 2021-22 to 87% in 2022-23 due to higher costs of living[14]. Without major interventions, Age Scotland warns that rising bills, surging inflation and increased costs of living will continue to push older households into poverty, poorer health, and financial insecurity.

It is important to note, however, that such hardship is not shared proportionately. The UK encourages people to make private provision for their old age and many people do just that. But this option is not available to large sections of society, especially for the group known as the 'precariat'. The rise of what is called the gig economy has led to an increase in workers employed under temporary, short-term or zero hours contracts, as well as those who are self-employed or work for small businesses. In 1975, 8% of workers were self-employed; by 2019, this had increased to more than 14%[15]. Most of these people are not eligible for the UK's mandated stakeholder pension schemes.

---

12 Which (2022) https://www.which.co.uk/money/pensions-and-retirement/state-pension/your-state-pension-and-benefits/state-second-pension-and-serps-ad9mc1v6fq6t

13 Department for Work and Pensions (2014) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/312134/dwp040-may-14.pdf/

14 Age UK, 2022; ageuk.org.uk/scotland/latest-news/2022/may/220000-older-scottish-households-will-struggle-to-cover-essential-spending-this-year-warns-age-scotland/

15 IFS, 2020; ifs.org.uk/publications/15182

Due to a reliance on private provision, the UK has the largest pensions sector in the EU and pensioners receive half their income from private pension investments[16]. This is due to the UK's wealthier individuals both being able to and needing to save for their retirement. For example, total private pension wealth in the UK was £6.1 trillion in April 2016 to March 2018. This rose from £3.6 trillion in July 2006 to June 2008 (after adjusting for inflation)[17]. It is important to note however that this is not an option that is open to everyone. Indeed, many individuals have a low or modest income and limited private resources. In fact, in a report from Age UK, it was highlighted that across the UK around 61% of pensioner households receive more than half of their income from state pension and benefit income[18]. This shows huge inequality in the system, with most pensioners relying on the British state pension, which, as this report will demonstrate, is inadequate for the current cost of living.

This disparity in the UK pension scheme is further accentuated by the existing pension tax relief system. Indeed, when an individual saves into a pension, the government also adds a contribution to their savings in the form of tax relief. When an individual earns tax relief on their pension, a share of the money that they would have paid in tax on their earnings goes into their pension rather than to the government. Importantly, however, this is based on the rate of income tax that you pay. This system ultimately favours and benefits the wealthier workers in society. Furthermore, these wealthier workers are less likely to be engaged in manual labour or physical work and therefore, are more likely to be able to work until they reach retirement age, which could result in overall larger pensions savings.

Gender inequality

Another issue relating to pension inequality is that of gender inequality among pensioners. Women often spend longer periods out of the workforce due to caring responsibilities and tend to have amassed fewer savings for retirement. According to a survey conducted by Profile Pensions of their customer base (aged 22-66), the pension gender gap is widest in Northern Scotland, where men's pension pots are almost 50% bigger than those belonging to women. On average, men in Northern Scotland have an average pension value of £41,603, nearly double the size of the average value for women surveyed in the same region, at £20,978. The gap is also wide in Southern Scotland, where the average value of men's pensions is £36,259, compared to £22,194, a difference of 39%[19]. This disparity arises for several reasons - for example, women are more likely to hold a position in which it is difficult to build a private pension. Of the 6.5 million unpaid carers across the UK, 58% (3.3 million) are women[20]. Consequently, many of

16 UK Parliament, 2022; commonslibrary.parliament.uk/research-briefings/sn00290/

17 ONS, 2019; ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/pensionwealthingreatbritain/april2016tomarch2018

18 Age UK, 2019; ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/money-matters/lr-6064-age-uk-financial-hardship-final_v1.pdf

19 ProfilePensions, 2021; profilepensions.co.uk/blogs/pension-gender-gap

20 CarersUK; carersuk.org/news-and-campaigns/features/10-facts-about-women-and-caring-in-the-uk-on-international-women-s-day

these women rely solely on the inadequate state pension throughout their retirement.

Pensioner poverty is also rising higher among women than it is among men. Research by the Joseph Rowntree Foundation found that poverty for female pensioners rose from 14 to 20% between 2013/14 to 2019/20, compared to an increase from 12 to 16% for men. They argue that one of the main reasons for this, aside from the fact that women tend to live longer, is that they have a less complete history of National Insurance contributions[21].

It appears that women are often neglected during retirement. The Women Against State Pension Inequality (WASPI) group campaign against the hardship that many women face during retirement. For example, the 1995 Conservative Government's State Pension Act raised women's state pension age from 60 to 65 with little notice, resulting in hundreds of thousands of women facing financial hardship with not enough time to re-plan their retirements[22]. Indeed, a report from the National Audit Office recently revealed a £1bn scandal involving underpayments to pensioners stretching over decades. This scandal robbed 134,000 pensioners – most of them women – of their money after an outdated computer system led to underpayments. The mistakes go back to 1985[23]. This treatment of pensioners, particularly women, demonstrates the insufficient attention and urgency that is being given to the growing issue of pensioner poverty.

The triple lock

This growing issue of pensioner deprivation is likely to be exacerbated by the UK Government's recent policy decisions regarding pensions. Indeed, despite these alarming figures, the UK Government is not implementing policies to tackle pensioner poverty and is in fact, reversing some of the progress that has previously been made. For example, the triple lock policy that was introduced in 2010, and reinforced in the Conservative Party's 2019 General Election manifesto pledged that the state pension would increase each year in line with whichever of the following was highest:

- Inflation, as measured by the Consumer Prices Index
- The average increase in wages that year
- A flat 2.5% increase if neither of the other two were higher

During the early stages of the COVID-19 pandemic, a large contingent of workers' earnings decreased as a result of being made redundant or put on the government furlough scheme. As the economy reopened, a large rise in average earnings, estimated at 8% from May to July 2021, was recorded[24]. Following the rules of the triple lock,

21 JRF, 2022; jrf.org.uk/data/pensioner-poverty-rates
22 WASPI.co.uk; waspi.co.uk/background-information/
23 National Audit Office, 2021; nao.org.uk/report/investigation-into-underpayment-of-state-pension/
24 BBC News, 2021; bbc.co.uk/news/business-53082530

the state pension should have risen by a similar percentage. Instead of adhering to the promise of the triple lock however, the UK government suspended it. Charities have raised concerns about how long this suspension will last, arguing that it will reduce the incomes of not only current retirees but also future pensioners, especially younger workers on a low income.[25] For the tax year 2022/23, the earnings element of the triple lock was discarded, with pensions instead increasing by 3.1%, with the UK government claiming that it would be reinstated the following year.[26] Following significant pressure from charities and the fear of angering a large section of the Tory voter base, Chancellor Jeremy Hunt announced in his Autumn statement that the State Pension would rise by 10.1% (in line with the CPI) in April 2023.[27] However, the lack of a compensation period covering from when the triple lock was suspended means that pensions, in real terms, have faced a cut compared to the scenarios where the manifesto commitment to the triple lock was honoured.

The ultimate decision to break the triple lock has meant that pensioners in the UK are suffering worse than other groups from inflationary pressures - by mid-2022 they were approximately 6% behind the curve of rising prices 27. The Consumer Prices Index (CPI) rose by 10.1% in the 12 months to July 2022, up from 7.0% in March25. This is the highest CPI 12-month inflation rate in the National Statistics series, which began in January 1997. It is also the highest recorded rate in the constructed historical series, which began in January 1989. The UK is expected to have the highest inflation in the G7 not just this year but also in 2023 and 2024, according to economists. A Financial Times analysis of the causes of price increases across the world's leading economies shows that Britain combines the worst aspects of other G7 countries 26.

Current government approaches to pensioner poverty

The cost-of-living crisis will hit pensioners particularly hard. As we continue through the winter months the rising cost of fuel and food will become stark issues for many who are already struggling. It is no surprise then that the cost-of-living crisis has been at the forefront of UK politics in recent months. It was a central issue during the short tenure of Liz Truss as Prime Minister, who claimed she would tackle the crisis in a "conservative way", by this she meant there would be "no more government handouts".[28] Following her disastrous mini-budget, Truss was forced to resign after only 44 days in office, making her the shortest serving Prime Minister in UK history.

The crisis has continued to overshadow the premiership of her replacement, Rishi Sunak. After successive u-turns on the issue of the triple lock and State Pension increases across consecutive conservative governments, the Chancellor Jeremy Hunt announced that the State Pension would increase in April 2023, in line with the CPI inflation at 10.1%.[29] However, as previously stated, this does not take into consideration

25 Age UK, 2021; ageuk.org.uk/discover/2021/august/the-state-pension-triple-lock/
26 Gov UK, 2022; gov.uk/government/news/state-pension-and-benefit-rates-for-2022-to-2023-confirmed
27 BBC (2022): https://www.bbc.co.uk/news/business-53082530
28 Financial Times, 2022; ft.com/content/152398c4-490a-4376-a695-d0d347e44ab0
29 BBC (2022): https://www.bbc.co.uk/news/business-53082530

the value lost in the State Pension during the time the triple lock was suspended. This means that, due to the continued suspension and flip-flopping on the issue of the triple lock, low-income pensioners have lost out on a 5% increase in their income, which could have aided them through winter and will not be made up by this most recent increase.

This increase is also not scheduled to take place until April, meaning that at the time of writing the full amount of financial support that will be offered to pensioners in the UK to cope with rising bills in the upcoming months remains unknown. A £650 support scheme is being made available to help benefit recipients with rising energy bills, but this will only apply to pensioners eligible for – or receiving – Pension Credit. This leaves pensioners currently struggling under the highest recorded inflation rate in the G7 to suffer through the cost of living crisis with a pension that is wholly inadequate to meet the current challenges. In the following section we will compare the current UK pension system to its international counterparts and show how the UK currently has one of the worst state pension systems in the developed world.

International comparisons: OECD

In order to compare state pension systems across countries worldwide, the OECD measures what is known as the Net Pension Replacement Rate (NPRR). The OECD describes it as: "the individual net pension entitlement divided by net pre-retirement earnings, taking into account personal income taxes and social security contributions paid by workers and pensioners". In other words, it is a measure of how much of an individual's pre-retirement income is covered by their pension once they retire.

In the OECD's 2021 'Pensions at a Glance' report, the UK jumped from having the 2nd lowest NPRR of any country examined in 2018 at 28.4%, to being just below the OECD average, to 58% in 2021.[30] In this report, the OECD conducted analysis on a cohort of full time UK workers born in 1998 and modelled a future projection of how adequately the UK pension system would meet their needs when they reached the State Retirement age. The jump of around 30% in the valuing of the UK's pension system can be attributed to the inclusion of the Workplace Pension in the calculation. It is also important to emphasise that the figures are projections rather than a representation of the current reality of an individual receiving state pension in the UK.

When contacted for comment, a spokesperson for the OECD informed us:

> 'Our "Pensions at a Glance" publication is and always has been forward looking, as is explained on several occasions throughout the publication where we clearly state that we are referring to someone starting their career now. As indicated in the opening to the indicator chapter it is stated that individuals modelled start their career at age 22 in 2020, so the 1998 birth cohort. This is the same for all countries. The figures are projections and not current.
>
> Within the publication we are modelling those who are full-time workers earning between 50% and 300% of the average earnings, all of whom are therefore well above the threshold for the auto-enrolment scheme. The publication is pension based and is designed to compare future entitlements for full-career workers across countries, under common economic assumptions so that the outcomes of the pension systems can be compared rather than economic or labour market issues.
>
> So, within these parameters, 88% of employees, aged 22 and earning GBP 10,000 or more are enrolled in a workplace-based pension, as shown in DWP statistics, therefore under our remit this applies as a quasi-mandatory scheme and should be included in the projections.'

30 OECD, 2021; oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm

This response is important as it outlines that the pension statistics for 2021 are based on what a current 24-year-old enrolled into a workplace pension scheme would receive once they reach retirement age. It is clear therefore that the OECD has based this increase in the UK's pension quality on the notion that the system is an all-encompassing and mandatory system based on a sample of 22-year-olds. However, data suggests that in the UK, only 22.6 million people across all age groups are currently enrolled in a workplace pension from a working-age population of 41.5 million[31]. That is just over 54%.

Figures from the ONS also show that the number enrolled is no more than half amongst the lowest paid and those in the hospitality sector. In April 2021, workplace pension participation was the lowest for private sector full-time employees earning £100 to £199 per week (43%), likely influenced by average expected earnings and age eligibility criterion. Participation in the scheme was 88% for equivalent earners in the public sector. [32] Given that lower earners are more likely to be reliant on state pension for post-retirement income, these figures demonstrate how the true situation is more complex.

Based on the information provided above, we can clearly argue that the OECD reports methodology fails to adequately capture the current state of the UK's pension system. It is therefore unreasonable and misleading to suggest that the UK's situation has improved so dramatically since the OECD's previous review. We therefore state that the OECD's 2018 review which excluded projections of future voluntary contributions and portrayed the UK Basic State pension as the worst in the developed world, offers a more accurate indication of the current situation for the vast majority of UK pensioners

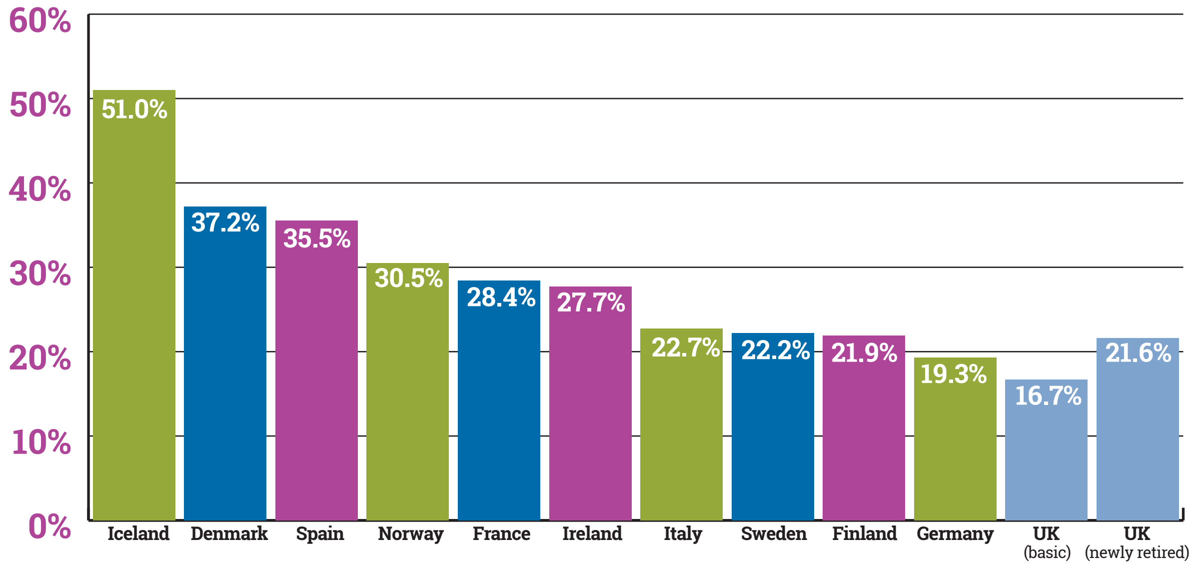
To give a more concrete picture of the current failure of the UK's pension system, we can present the NPRR for OECD nations from the 2021 'Pensions at a Glance Report' which more accurately represents the current situations of pensions throughout OECD nations.[33] The figure below highlights many European nations as well as the United States to give a comparison of the UK against other developed nations. In its calculations of the NPRR of each nation, the OECD omitted any additional means tested benefits and thus we get the raw replacement of just the state pension of each of the nations.

31 ONS, 2022; ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/march2022

32 ONS, 2022; ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2021provisionaland2020finalresults

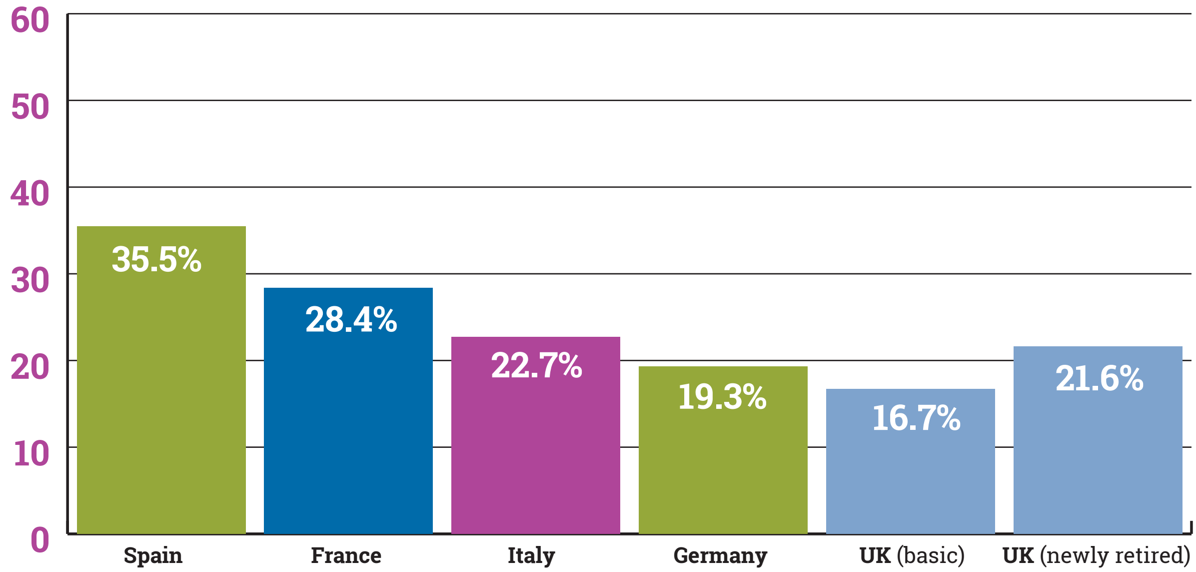
33 OECD, 2021; oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm

Figure 1a: Net pension replacement rate by country 2021



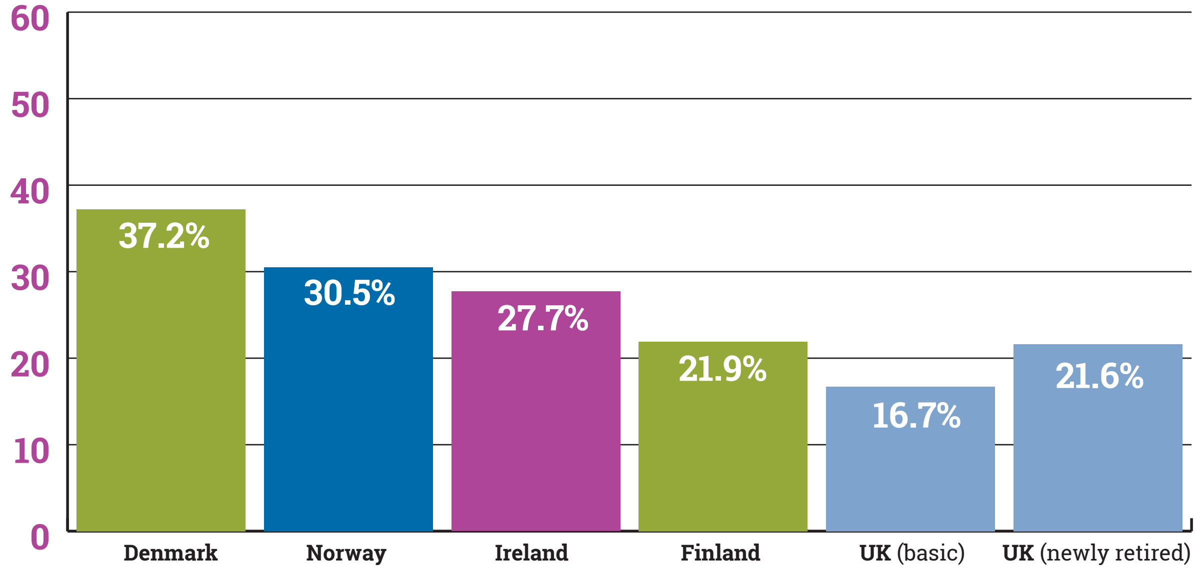
The figure above includes the NPRR for the UK for both the Newly Retired State Pension (21.6%) and the Basic State Pension (16.7%). Given that the vast majority of pensioners in the UK are on the Basic State Pension this is the bar by which we shall measure the effectiveness of the UK's pension system. With a value of just 16.7% we can clearly see that the UK has the worst NPRR of any developed country in Europe, being less than half of that of Iceland with an NPRR of 51% and is only slightly better than the United States. Besting the US on an economic measure would usually be cause for celebration. However, the US is not known for having a significant social safety net despite being the world's largest economy, so this does not stand the UK in good stead.

Figure 1b: UK vs. major European nations with similar population size to the UK



When the UK's projected NPRR is compared to the western European 'Big 5' nations with a similar size in terms of population (France, Germany, Italy, and Spain), we can see a stark difference compared to France and Spain. Italy also struggling with a stagnating economy still manages to provide a basic pension 6% points above the UK's Basic State Pension.

Figure 1c: UK (Scotland) vs. smaller European benchmark nations with similar population size to Scotland

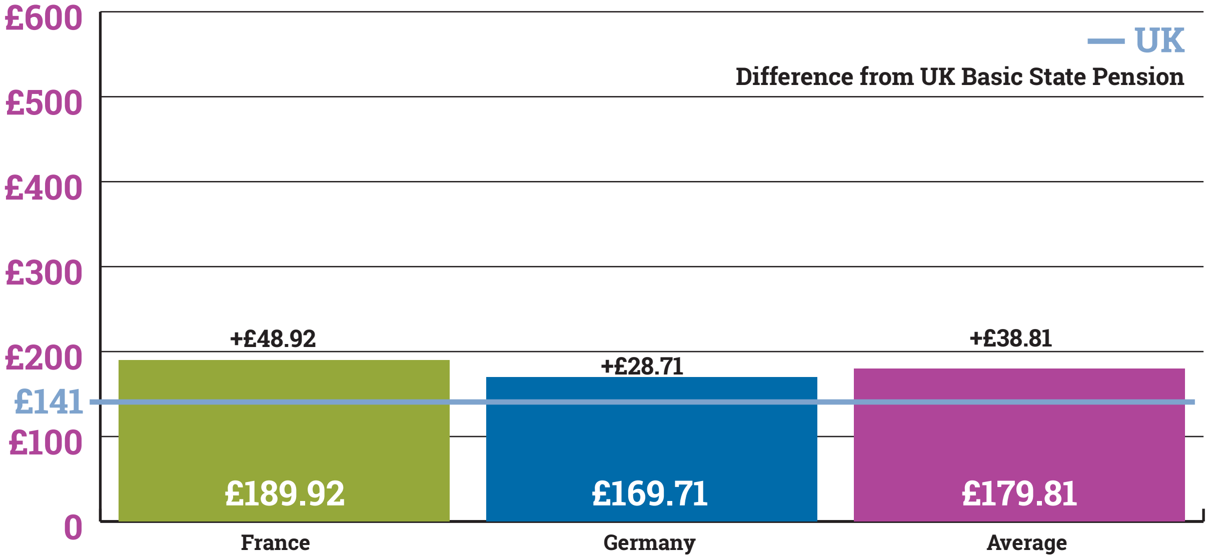


As Scotianomics is a Scotland-focused think tank, it is also useful for our analysis to compare the state pension system in Scotland to other nations of a similar population size. As it is not currently possible to establish a distinct Scottish NPRR, as pensions are not a devolved matter, we have compared the UK rate to Western European countries with the closest population size to Scotland. Once again, we can see that the UK, and Scotland by extension, lags smaller western European nations in terms of Net Pension Replacement Rate.

International pensions comparisons in pounds sterling

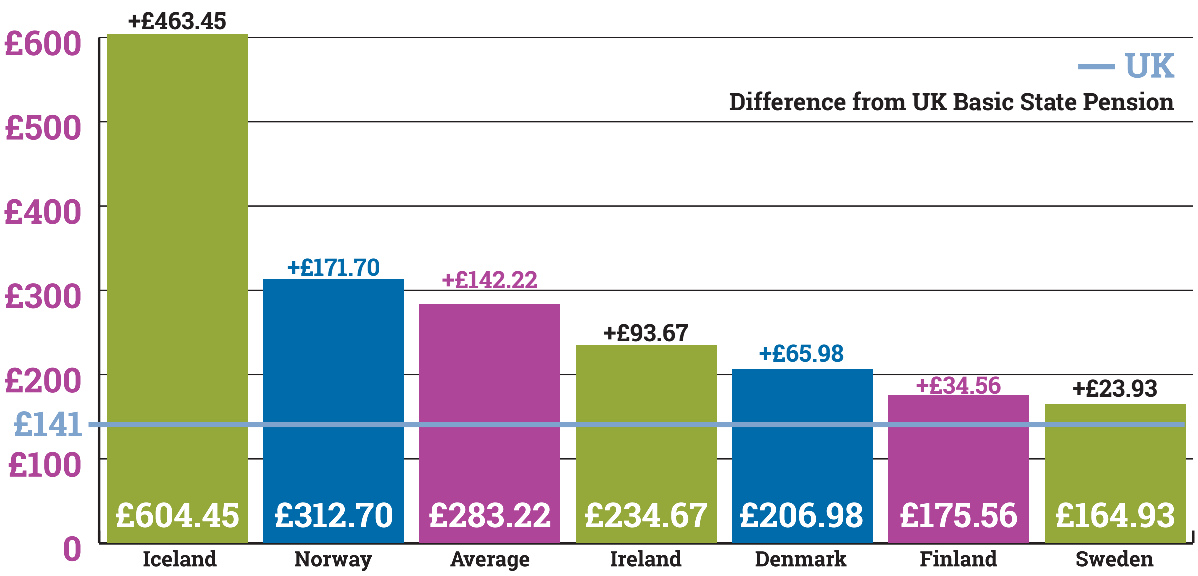
Scotianomics, using the NPRR provided by the OECD's analysis has calculated the real value of pensions (absent from any additional benefits) in major developed nations in Europe (and the US) in Pounds Sterling, using this we can easily compare the purchasing power of the UK pension system against other developed nations. The figure below shows this comparison.

Figure 1d: Purchasing power parity comparison of international pensions systems in Pounds Sterling: large north western nations



(Calculated using exchange rates from 3rd October 2022)

Figure 1e: Purchasing power parity comparison of international pensions systems in pounds sterling: other northern European nations



(Calculated using exchange rates from 3rd October 2022)

The figures above show the extent to which the UK's pension system is falling behind the rest of Europe. Converting each nation's state pensions into pounds and comparing them to the UK pension amount, we can see that for the Basic State Pension, which most of the UK's current population are on, is bested by all other pensions across Europe. The figures above also show that the state pension provided in the Northern European nations are significantly ahead of larger nations and are considerably better than that offered in the UK. This is most notable when looking at Iceland, where pensioners receive a massive £463.45 more per week than in the UK on the Basic State pension. Even if we consider Iceland to be an outlier due to its small population, if we compare the UK's pension to that of the smaller European nations it still falls significantly short of the Northern European average of £218.97 per week. On average, pensioners in the Northern European nations receive £77.96 per week or £4,053.92 per year more than their UK counterparts. In the subsequent sections we shall begin to lay out how we envisage the UK's pension system might be improved and how this will bring about improved wellbeing for many low-income pensioners.

The Wellbeing Pension

Having examined the UK state pension system in detail and conducted comparisons with other OECD countries, we now turn to developing a solution to remedy its flaws in the form of the 'Wellbeing Pension'. This is intended to provide all pensioners in the UK enough to guarantee a decent standard of living, with some targeted supplementary interventions where necessary. We will first calculate what the minimum standard of living in the UK would be, building upon original research previously conducted by Scotianomics and subsequent studies from the Joseph Rowntree Foundation, as well as British Government statistics measuring weekly expenditure. From there, our analysis will elaborate upon a number of case studies of retired single pensioners and pensioner couples who receive the Basic or Newly Retired State Pension in order to demonstrate how the current UK pensions system is insufficient to provide a minimum standard of income. Finally, we will use these case studies and derived minimum income standard to develop how much the proposed Wellbeing Pension would provide in terms of income.

Creating a Wellbeing Pension

The Minimum Income Standard calculated in this report is based on formation of a basket of goods and services that collectively represent an acceptable standard of living[34]. Our methodology to calculate this is similar to the calculations of the Real Living Wage as conducted by the Joseph Rowntree Foundation and University of Loughborough. For the Real Living wage, this basket is derived via public consultation and then taking a weighted average of the earnings required to afford it. This study will consider the types of goods and services on which the population of the UK spends its money. To do this, we will consider ONS reports on family spending in the UK, in particular expenditure by income. This report includes a dataset of average family expenditure by income group (as well as age group) from 2019 to 2021[35]. This dataset can be used to calculate an updated budget for pensioners with prices updated for 2022. For this calculation, our analysis concentrates on expenditure for 60 to 75-year-olds on the lowest 20% of income in the UK. This allows for a higher level of accuracy in determining what pensioners in the lowest quintile of income (largely those dependent only upon the UK Basic State Pension) specifically are spending their money on. By examining the lowest quintile of income, it allows for a comparison of the minimum offered by the state pension and how much pensioners on lower incomes actually need to get by. To update these statistics for 2022 prices, we have taken an average of inflation for three years and updated them up to the end of September 2022, with a forecasted inflation rate of 9%.

34 JRF, 2021; jrf.org.uk/report/minimum-income-standard-uk-2021

35 ONS, 2022; ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook2expenditurebyincome

Table 1a: Household expenditure by gross income quintile group, where the household referenced person is aged 65 to 74

Based on UK Minimum Income Standard for 2019-21, updated to current prices (September 2022)

Minimum Income Standard Budget	Average Household Expenditure (1.2 people)	Average Household Expenditure (Couple)
Food & non-alcoholic drinks	42.31	76.16
Alcoholic drinks, tobacco & narcotics	10.30	18.54
Clothing & footwear	7.75	15.51
Housing (net)*, fuel & power	54.27	59.70
Household goods & services	17.50	26.25
Health	3.65	7.31
Transport	24.59	36.88
Communication	12.85	19.27
Recreation & culture	32.34	64.68
Education	N/A	N/A
Restaurants & hotels	13.40	26.80
Miscellaneous goods & services	18.61	33.49
Above groups	237.57	384.59
Other expenditure items	27.80	50.04
Total expenditure	265.37**	434.63
Difference between HH and single person	44.20	
Average weekly expenditure per person (£)	**221.14**	**217.32**

*Excluding mortgage interest payments, council tax and Northern Ireland rates
**(Weighted average- no. of persons per household= 1.2)

The table above considers the average expenditure of the lowest quintile of households aged 50-75 by income, demonstrating that average weekly expenditure per person is £221.14 for single dwellers and £217.32 per person for those living as a couple. This was based on ONS statistics for a three-year period between 2019 and 2021[36] and has been updated to current prices as of September 2022.

36 ONS, 2022; ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook2expenditurebyincome

As the table 1a above shows, both the Basic State Pension of £141.85 per week and the Newly Retired State Pension of £185.15 per week would fail to cover the basic necessities of a single pensioner, even at current prices, before the coming increase in the energy price cap in October. This table fully illustrates the difficulties that will be facing many pensioners in the coming months as fuel inflation will cause their expenditure to vastly outstrip their income.

Based on the figures calculated above, Scotianomics would recommend the adoption of a Wellbeing Pension worth at least £225, per person, per week, in order to meet the Minimum Income Standard.

A report from the Resolution Foundation has suggested that on average, an individual working in the UK in 2020 would need to save £3,000 a year to meet the Minimum Income Standard in retirement (based on an average across three age cohorts of 25, 35 and 45 years old respectively). This is £1,500 more than the current minimum auto-enrolment requirements.[37] However, we believe that instead of individuals having to contribute an additional 8% into their private pension each year, the state pension should be increased to help those that need it most.

37 Resolution Foundation, 2022; resolutionfoundation.org/publications/building-a-living-pension/

Case studies

In this section, we will provide case studies that show how the current state pension system in the UK measures up to the derived weekly expenditure of those in the bottom quintile of income.

Single pensioners

Basic State Pension

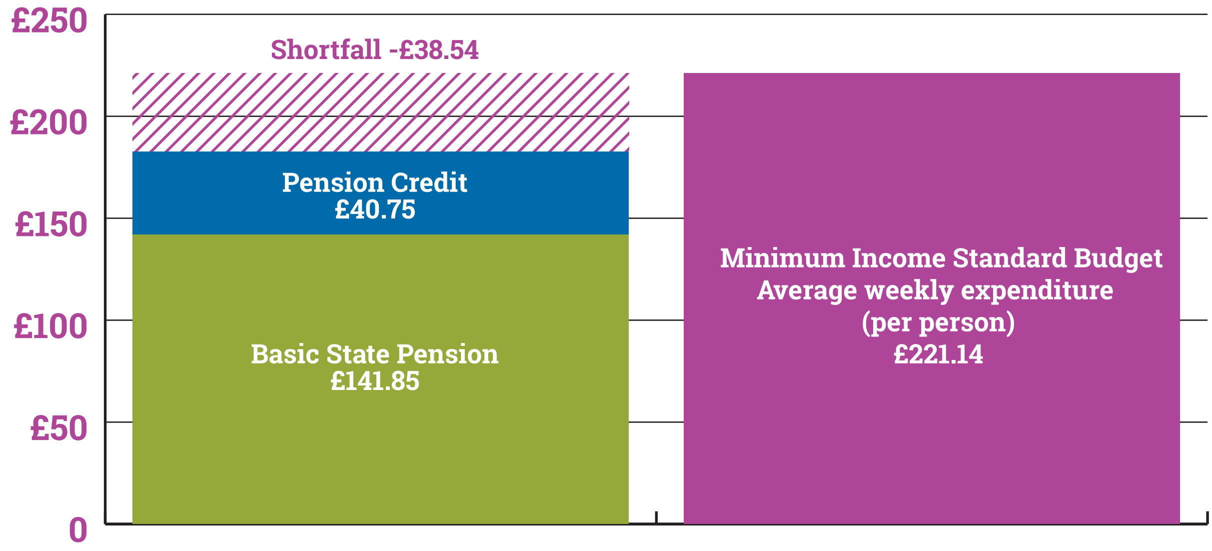
Our first case study provides us with what the absolute bare minimum standard of income would be for a pensioner in the UK today. Firstly, we shall consider the pension received by an individual eligible for the Basic State Pension who was unable to save or build a private pension before retirement. Research suggests that in early 2020, 9.6 million adults, or 24% of the non-retired adult population, did not have a private pension.[38] Although auto-enrollment will improve pension saving rates, it has zero impact on those reaching retirement age, hence the requirement to raise the Basic State Pension to the new Wellbeing Pension level. Many people are still unable to save before retirement, particularly women and workers in low paid roles.[39] As a result, 31% of current pensioners do not receive any income from a private pension.

In this case study, we will assume that:

- The individual has been unable to work throughout most of their life, due to caring responsibilities and as a result, does not have a private pension pot.
- Their responsibility as a carer ended as they reached retirement age. However, because the individual claimed Carer's Allowance throughout their working life, they are eligible for National Insurance Credits. This means that the individual can claim the full state pension, despite not paying National Insurance contributions.
- Due to their low income, the individual is eligible for Guaranteed Pension Credit, topping their pension up to £182.60 per week

38 FCA, 2021; fca.org.uk/publication/research/financial-lives-survey-2020.pdf
39 TFN, 2019; tfn.scot/news/raising-state-pension-means-many-scots-will-never-retire

Figure 2a: Single pensioner receiving Basic State Pension

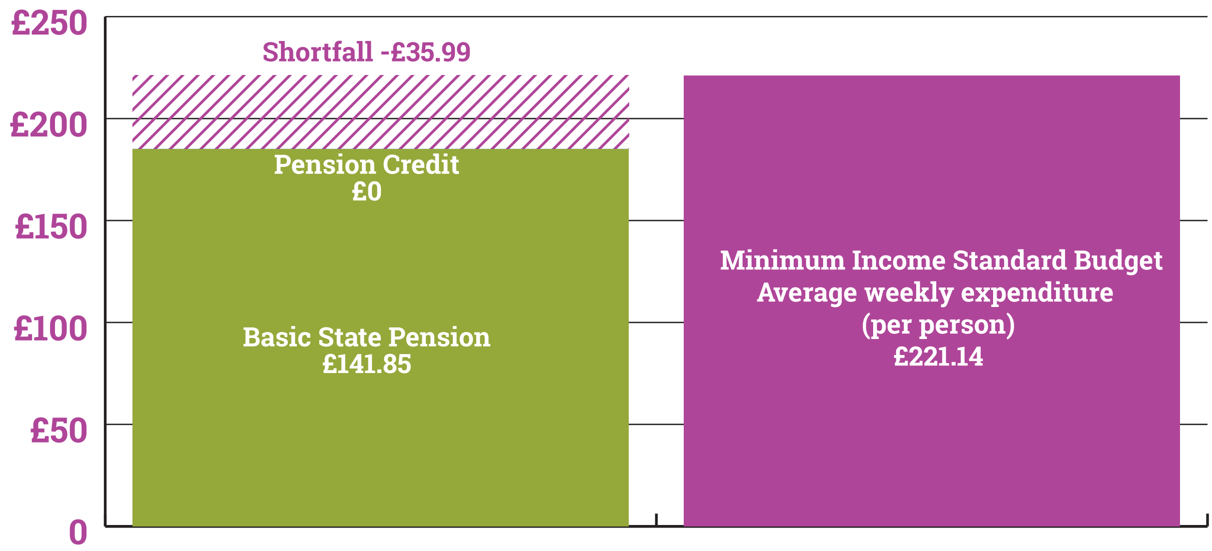


We can therefore see that, currently pensions coverage would be £38.54 per week below the minimum income standard for one person according to average expenditure of the lowest income quintile. Over a year, this works out at a shortfall of £2,004.08.

Newly Retired State Pension

Our second case study will consider the situation for a pensioner receiving the Newly Retired State Pension. Remember that this system was intended to provide a more streamlined approach to benefits, merging the old pensions credit system with the state pension, similar to the implementation of Universal Credit. The same assumptions made for the previous case study apply, except for eligibility for Pension Credit.

Fibure 2b: Single pensioner receiving Newly Retired State Pension



From here we can observe that despite the Newly Retired State Pension being positioned as an 'improvement' on the Basic State Pension, retirees would fall almost equally far from the MIS under the latter, before benefits than they are under the former system.

Pensioner couples

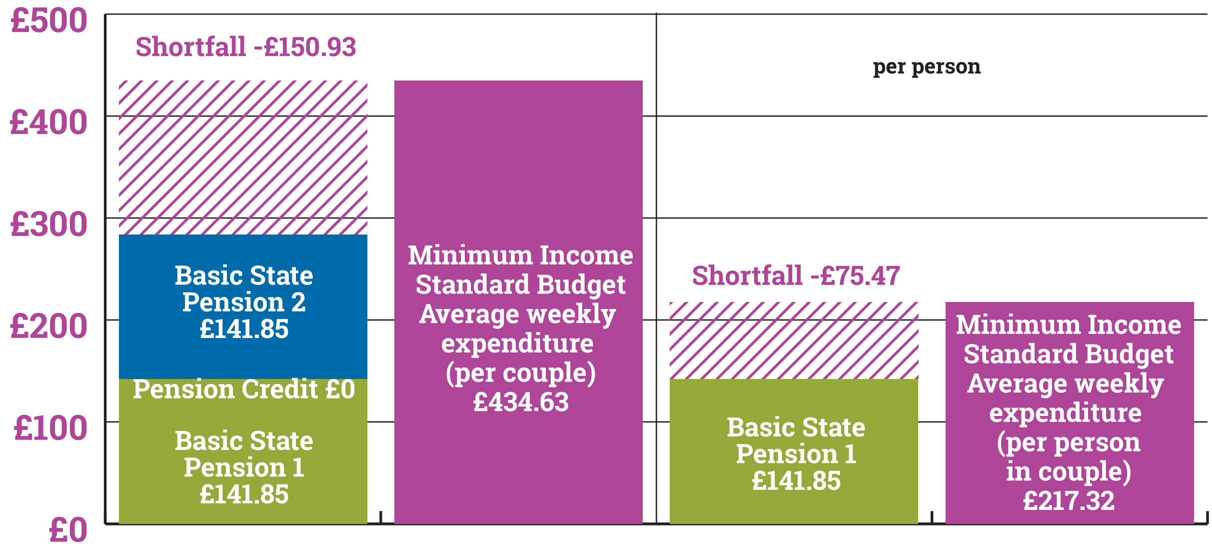
Basic State Pension

We must also consider what both systems of the UK state pension would look like for a retired couple. First, we will consider a case of a couple who were both eligible for the Basic State Pension.

In this case study, we will assume that:

- This couple is married and consists of two individuals who were born before 1951
- Both individuals contributed 30 years of National Insurance Credits, qualifying them for the full Basic State Pension
- Neither of them contributed to a private pension pot and have no other combined savings above £10,000.

Figure 2c: Pensioner couple receiving Basic State Pension



As we can see from the results displayed above, this couple would be almost twice as badly off than a single pensioner receiving the Basic State Pension. This adds up to a shortfall of £3,924.44 per person per year.

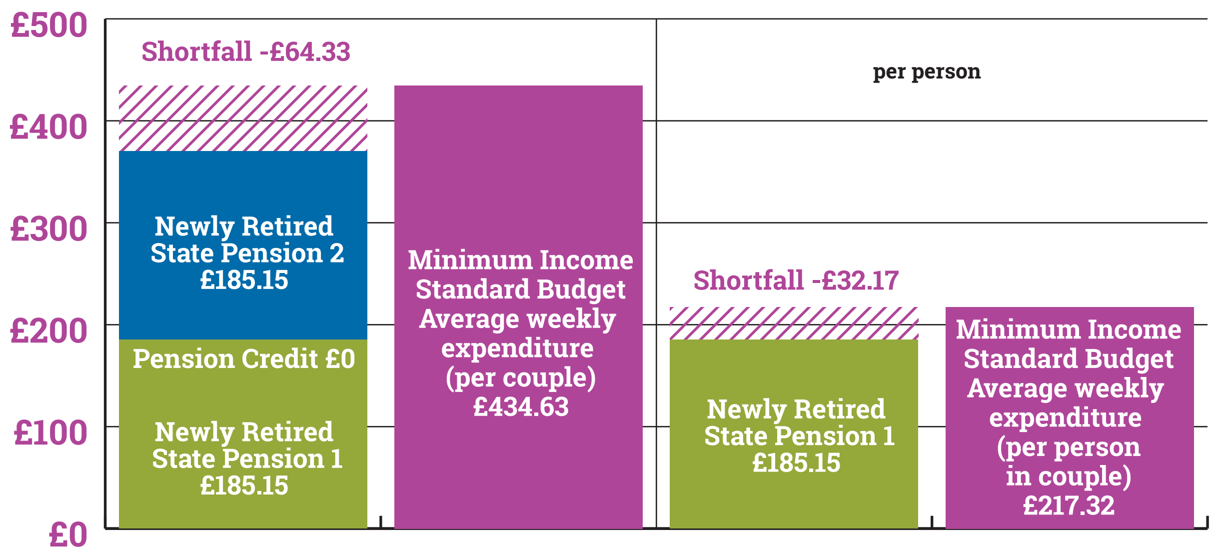
It is important to note however that this case study assumes that both individuals received the full pension, which would not necessarily always be the case. This couple would not be eligible for Pension Credit as their combined income would be above the threshold of £278.60. This does not make much of a difference to their total income however, as it is only £5.10 more in total than it would be under Pension Credit. Thus, it can be observed that the Basic State Pension system is particularly bad for couples at reaching a Minimum Income Standard without other forms of financial support.

Newly Retired State Pension

Lastly, we will consider the situation for a retired couple where both are receiving the Newly Retired State Pension. For this case, we shall assume:

- This couple are married and were both born after 1953 and so would receive the Newly Retired State Pension
- Both individuals worked for enough qualifying years to receive the full amount of State Pension (£185.15/week)
- Neither have a private pension pot and their total combined savings equate to less than £10,000 overall.

Figure 2d: Pensioner couple receiving Newly Retired State Pension



Although this is the least drastic of all the situations outlined, the total income of this couple would still fall short of our derived Minimum Income Standard. As with the previous case, this couple would not be entitled to Pension Credit as their combined income is more than £278.60. In this case however, the combined income is £91.70 above the Pension Credit threshold, which is significantly higher than the previous case. Their combined income is still below the Minimum Income Standard however, with a total shortfall of £1,672.84 per person per annum.

These four case studies demonstrate how the current UK state pension system, at a fundamental level, does not provide enough for pensioners to live on, displays a structural unfairness to those who have been retired longer, particularly those on the Basic State Pension living as a couple and those with lower incomes or who have not accumulated sufficient savings into private pension pots. It is important to note that these calculations do not incorporate costs of housing, which would generally be covered by Housing Benefit. Overall, we find that couples would be significantly worse off under the Basic State Pension system and that the introduction of the Newly Retired State Pension represents an improvement for them, although it still falls short of our income standards. For single pensioners, both systems hold a similar deficit against the Minimum Income Standards.

Other benefits

Alongside their state pension many pensioners on the lowest incomes are entitled to receive additional benefits that supplement their income. These benefits come in the form of Housing Benefit and Council Tax Support. These benefits are means tested and are dependent upon many factors such as housing area, council tax band, personal savings, and the number of bedrooms within the property. The amount of Housing Benefit that an individual is eligible to receive can vary widely, where an individual in a 1-bedroom property in Edinburgh can receive as much as £158.79 in benefits per week, or as little as £80.55 per week if they live in Ayrshire. For pensioner couples who live in a shared 1-bedroom property Housing Benefit can range between £94.82 and £59.84 per week respectively[40]. Given that this benefit and Council Tax Support are considered using a plethora of variables, they have been omitted from the case study calculations above. However, they should be kept in mind when considering the impact of the Wellbeing Pension, as it is not our intention to argue that the Wellbeing Pension should in anyway replace Housing Benefit or the Council Tax Support scheme, but it will replace the monies recived via Pension Credit. To ensure that Housing Benefit and Council Tax Support schemes do not impact on our calculations we omitted them from the MIS calculation.

It is also important to consider how the implementation of the Wellbeing Pension could affect entitlement to other benefits. This is particularly relevant in the case of Pension Credit, which acts as a kind of 'gateway' of entitlement to other benefits such as TV license payment, Winter Fuel Allowance, Housing Benefits and some limited Cost of Living support payments in 2022. As raising the UK state pension to £225 would place recipients of Pension Credit above the £182.60/£278.60 threshold, some reform would be required to ensure that the most vulnerable pensioners do not end up worse off in the long term. Scotianomics, in the short term and for administrative purposes only recommend maintaining Pension Credit at a zero-rate and continuing entitlement to the other benefits that it guarantees, with the threshold being somewhere closer to the new £225 Wellbeing Pension. Any potential implementation of the Wellbeing Pension would also have to come with the guarantee that all pensioners would be left either better off, or in the worst case, have their total income unchanged. Implementation also must be designed to benefit the most vulnerable pensioners in particular.

40 gov.scot/publications/local-housing-allowance-rates-2020-2021/

How much would a Wellbeing Pension cost?

Introducing the Wellbeing Pension would naturally come with an associated increase in government expenditure. The state pension is currently funded through National Insurance Contributions and general taxation.[41] The current state pension system costs the UK government £103 billion annually,[42] with Pension Credit adding an additional £5bn in costs per annum.[43] If the Wellbeing Pension was adopted at the level of £225 per week, as we believe is necessary to allow pensioners to meet their basic needs, this would increase the cost to the UK government from £103 billion to £145 billion annually.

Prior to the former Chancellor Kwasi Kwarteng's 'Mini budget' the Office for Budget Responsibility forecast that NICs would be worth £157bn in 2021/22, due to the announced rise in the NIC rate, more than covering the cost of implementing the Wellbeing Pension. However, the newly appointed Chancellor in his first policy address has chosen to reverse this rise. This means that without an updated forecast of NICs revenues we must wait for wage growth forecasts to be released so that we can calculate the future NICs revenue.

It is also important to consider that this increase to the state pension would partly be invested back into the economy. Indeed, the TUC recognises that boosting the incomes of pensioners plays a significant role in reviving local economies, particularly after the devastating impact of COVID-19.[44] In recent years, it has been recorded that retirees are spending more than those aged 50 and under. Indeed, between 2001 and 2018, spending by those aged 65 and over increased by 75%.[45] This suggests that by increasing the state pension, investment in the local economy would also rise. Supporting this is evidence by Mourao and Vilela (2018)[46] which found significant evidence that increasing the value of a state pension would stimulate the income of local areas.

This is due to the multiplier effect, whereby increased incomes for pensioners are dispersed throughout the economy as increased consumption (some of which is returned to the government through increased tax receipts). In addition to this, the adoption of the Wellbeing pension will give pensioners who receive no other form of income an annual income of £11,700 per year. This maintains them below the income tax threshold of £12,571. However, for those pensioners who receive income other than their state pension (perhaps through a private pension) which takes them above the personal allowance threshold, the government will recover some pension expenditure from these individuals through tax.

41 ONS, 2019; ons.gov.uk/aboutus/transparencyandgovernance/freedomofinformationfoi/statepensionfunds
42 DWP, 2022; gov.uk/government/statistics/dwp-benefits-statistics-may-2022
43 OBR, 2022; obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-pensioner-benefits/
44 TUC, 2021; tuc.org.uk/blogs/three-reasons-we-still-need-pensions-triple-lock
45 Guardian, 2020; theguardian.com/society/2020/jan/02/uk-retirees-spending-rockets-as-younger-people-spend-less
46 Maurao and Vilela, 2018; cambridge.org/core/journals/journal-of-pension-economics-and-finance/article/no-country-for-old-men-the-multiplier-effects-of-pensions-in-portuguese-municipalities/B4A4C4C26AB4E64BC5D44EDC33FD31FB

How much would a Wellbeing Pension cost the Scottish government?

According to the most recent GERS, Scotland spent £8.715bn on its State Pension in 2021/22. This is funded through National Insurance Contributions, of which, in 2021/22 Scotland amounted to £12.243bn.[47]

If the Scottish Government was to adopt the Wellbeing Pension, expenditure on State Pensions would increase to £11.6bn.[48] As we can see from above this increase is more than covered by the current NICs. This paints a picture of how the pensions system would function if Scotland achieved full fiscal powers; however, what it does not show is how an independent Scotland would function. In an independent Scotland, we could expect the revenue from NICs to increase, as a major commitment from the Scottish government's economic plan for independence is to remove age brackets on the Minimum Wage and Living Wage. This would see those under 23 move up to the Living Wage and thus increase the amount they contribute to National Insurance.[49]

With full independence, Scotland would take complete control over its economy. Full independence coupled with a commitment to a wellbeing economic approach would see Scotland's economy grow and flourish. With our new fiscal powers Scotland could finally reap the benefits of its natural wealth by properly taxing the revenues from oil and gas extraction in a similar manner to Norway, further increasing available revenues.

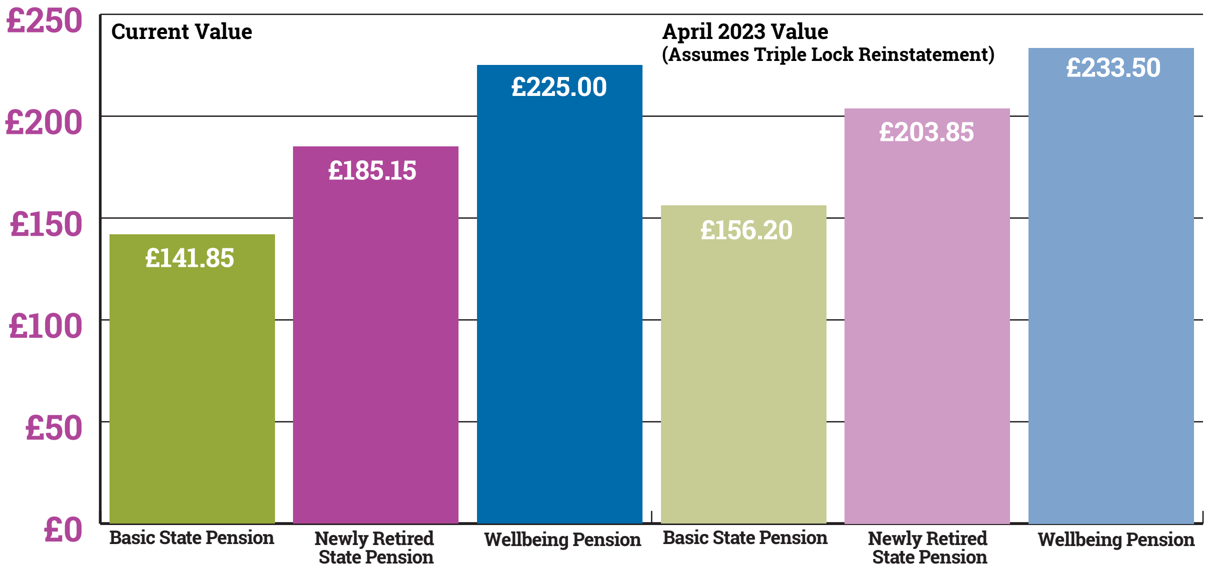
In short, Scotland is currently capable of providing the Wellbeing Pension but with independence we can provide even more.Looking to the future, this report calls for an immediate increase in the state pension to bring the minimum amount available to pensioners to £225 per week. However, Scotianomics recognises the current inflationary pressures facing the UK economy and thus, although we call for the minimum pension amount to be raised to £225, there must be scope for this to increase in line with current inflation levels as decreed under the triple lock agreement (which has yet to be reinstated after its suspension during the COVID-19 pandemic). Although the triple lock has not been officially reinstated, the Chancellor did confirm in his Autumn Statement that the State Pension would rise in line with the CPI, increasing by 10.1%. Given that, the figure below shows the new Basic State and Newly Retired State Pension as of April 2023, it also shows what the Wellbeing Pension would increase to.

47 Scottish Government (2022): "Government Expenditure and Revenue Scotland 2021/22" https://www.gov.scot/publications/government-expenditure-revenue-scotland-gers-2021-22/documents/

48 Department for Work and Pensions (2022): "Benefit Combinations to February 2022" https://www.gov.uk/government/statistics/dwp-benefits-statistics-august-2022

49 Scottish Government (2022): Building a New Scotland" https://www.gov.scot/publications/building-new-scotland-stronger-economy-independence/documents/

Figure 3: Pension values forecast



Other work has been performed on this question. A recent report released by the Pensions and Lifetime Savings Association placed the minimum income for a single pensioner at £12,800 and £19,900 for a pensioner couple annually.[50] This is slightly higher than our findings for a single pensioner and considerably lower than our findings for a pensioner couple. Their findings differed from ours, as did their methodology.

To arrive at their figures the PLSA used online discussion groups with 84 participants split across ten groups. These groups included individuals who were both retired and non-retired over the age of 55. Participants also included those from many different income groups. Participants were then asked to formulate a hypothetical pensioner individual and couple and to discuss what their needs might be in order to develop a picture of a Minimum, Moderate and Comfortable standard of living once you reach retirement age.

This methodology differs significantly from the one carried out in this paper. Here, we made use of ONS data on purchasing habits, broken down by income group and age. This allows us to formulate a more accurate picture of what those in retirement actually spend their money on and what is actually required to meet their minimum standard of living.

It is clear that this increase is not enough to protect the worst off pensioners from the cost-of-living crisis, especially since the rise they are expected to receive in April does not even cover the original Minimum Income Standard set out in this paper. It is clear then that pensioners are being left behind by this Conservative government and that they will continue to receive insufficient aid to see them through this crisis.

50 Pensions and Lifetime Savings Association, 2022: https://www.retirementlivingstandards.org.uk/

Conclusion

This report suggests that an increase to the state pension is essential in targeting pensioner poverty and should be at the heart of the UK Government's approach to pandemic recovery and the rising cost of living.

Our research has demonstrated how the UK Government's approach to pensions has fundamentally failed older people in the UK. The current state pension is insufficient in covering the Minimum Income Standard for retirees in 2022 and concerns over inflation and the rising cost of living will only exacerbate this issue further in the coming months. It is clear that the UK pension system does not provide enough to live on and is systematic in its unfairness towards those who have been retired for longer and are on the Basic State Pension, particularly pensioner couples.

Looking at current international comparison figures, it can be proven that the UK provides one of the poorest state pension services in the developed world. This is particularly relevant when the UK pension is compared to those in other European countries, which on average offer a much higher net pension replacement rate than the UK basic state pension. Instead of the state providing for the needs of older people through a fair pension, the UK Government has encouraged people to save into private pensions, introducing an auto-enrolment policy in recent years. This demonstrates the UK Government's focus on boosting the pension industry and ultimately, sectors such as the private equity and infrastructure industries rather than looking after poorer pensioners' needs.

About 85% of UK pensioners continue to receive the 'basic' pension, which is particularly inadequate at providing a stable income. This inadequate state pension has led to alarming levels of pensioner poverty. The policies of the UK Government, through their suspension of the triple lock, and unwillingness to put forth adequate policy measures to tackle the cost-of-living crisis has condemned many to a life of deprivation during retirement. There are also noticeable inequalities within the current system, with female retirees, as well as those who take on caring roles often being underpaid. There is a clear gap in policy for a more extensive state pensions system which addresses the issue of pensioner poverty and guarantees fair payment for all.

In tandem with its Wellbeing-based approach to social welfare, Scotianomics recommends the adoption of a 'Wellbeing Pension' scheme to address this issue. This was calculated using data on average weekly expenditure by pensioners in the UK, updated to current prices (September 2022). Our research found that pensioners who were unable to save for a pension were consistently falling below the Minimum Income Standard, at the following rates:

- £38.54/week below for single pensioners receiving the Basic State Pension
- £35.99/week below for single pensioners receiving the Newly Retired State Pension
- £75.47/week below for couples on the Basic State Pension (per person)
- £32.17/week below for couples on the Newly Retired State Pension (per person)

With inflation set to reach 13% and fuel poverty expected for millions of homes this winter, this report recommends the adoption of a Wellbeing Pension at a minimum of £225 a week in order to guarantee financial security and stability for all those at pensionable age. This forms a starting point for further development of this policy, in order to address any nuances that may arise with regards to unequal payments and inability to take on paid work. The figure of £225 per week is what we would consider to be the minimum necessary, as many pensioners could do with a much higher pension. If we take the MIS figures used in this report and forecast pension values into April 2023 then in order to meet the MIS a single pensioner's income would have to rise by £3,459 if they are on the Basic State Pension and by £1,005 if they are on the Newly-Retired State Pension. For a pension couple these figures are £6,520 and £1,612 respectively. For the time being the Wellbeing Pension covers the MIS figures by £642 per year for single pensioners and £1,683 per year for pensioner couples. However, given current inflationary pressures there maybe calls for further increases in the future.

The devolved Scottish Government has shown an eagerness to challenge pensioner poverty and put people's well-being at the heart of the economy, by pursuing research around Universal Basic Income and a Minimum Income Guarantee through the Social Justice and Fairness Commission. This report strongly advises the Scottish Government to call upon the UK Government to adopt a Wellbeing Pension scheme to meet the needs of all pensioners in their approach to the pandemic recovery and the current challenges of the cost-of-living crisis. There is also clear scope for implementation under a Scottish Parliament which has the devolved or independent power to administer a state pension system which better provides for all and guarantees wellbeing for all residents of Scotland.

Scotianomics believes that this system can be implemented on a UK-wide level and there is flexibility for others to adapt this system to the needs of the rest of the four constituent nations that form the UK. In the case that the UK Government is unwilling to adopt this approach, we would encourage the current administration to incorporate the Wellbeing Pension into future manifestos for independence.

Appendix: Proposed policies to improve pensioner welfare

The following section will discuss a collection of policy programs that could be targeted towards improving the welfare of citizens once they retire.

The Social Justice and Fairness Commission

In Scotland, there is a clear desire to create a more equal society and challenge poverty. This was established in a previous Scotianomics report on Wellbeing Economics, that discovered an overwhelming support for placing people's wellbeing at the heart of the Scottish economy.

The Social Justice & Fairness Commission was established by First Minister, Nicola Sturgeon, in September 2019. In March 2021, the commission published a route map report on how to create a more socially just Scotland – "one that focuses on how we should make decisions, with illustrative proposals for policy choices that can help us build a wellbeing society."[51] Throughout the report, there is consideration of the goals that can be achieved in the short term, as well as what could be done with the powers of devolution. In a similar manner to our Wellbeing report, the commission highlights the clear difference in values in Scotland from the rest of the UK and the eagerness to create a more equal society.

Universal Basic Income (UBI)

This is demonstrated firstly, by the government's interest in setting a minimum basic income that everyone in Scotland would be guaranteed. The report sets out that a UBI is founded on the principle that the government should provide all individuals across society with a standard minimum income without means-testing. The Scottish Basic Income Steering Group has suggested 5 key principles of a UBI. These principles suggest that a UBI should be universal, unconditional, recurring, individual (not based by household) and cash-based (rather than vouchers, for example).

The commission recognised that creating a UBI would be difficult to implement, costly, and as some argue, may create a 'something for nothing' culture. However, it is emphasised in the report that society must challenge this belief that only two groups of people exist in society: those who 'take' and those who 'give'. For example, a study from Carers UK has recognised that unpaid carers save the country £530 million every single day due to the free care that they provide. Indeed, we are all taxpayers in one way or another. This may be through VAT on goods and services, caring for children or others, or volunteering. Therefore, it is hugely important that everyone has access to an adequate income.

51 Social Justice and Fairness Commission, 2021; socialjustice.scot/wp-content/uploads/2021/07/Social-Justice-Fairness-Commission-Final-Report-.pdf

Minimum Income Guarantee

An alternative to UBI that is also outlined in the commission's report is a Minimum Income Guarantee. This concept was initially presented by the Joseph Rowntree Foundation after working directly with individuals who were living on a low income and people from various support agencies.

A Minimum Income Guarantee would be for people in need, regardless of their age. This would be particularly significant for pensioners and would build on the progress that has been made with Pension Credit. In contrast to UBI which is unconditional and for everyone, a Minimum Income Guarantee would focus on those who are particularly vulnerable. Indeed, it would "set a floor below which no one could fall – a promise of security which we make to each other as a society and which we call upon at times in life when incomes are low, or we face the extra costs of disability, illness and caring."[52] Unlike UBI, Minimum Income Guarantee would look at the minimum wage, tax allowance, benefits, and pensions to ensure that a minimum income was guaranteed for all.

How does the Scottish Government's commitment to researching a Minimum Income Guarantee affect the Wellbeing Pension?

Within multiple Scottish political parties' (including the SNP and Scottish Labour's) 2021 election manifestos are commitments to pursuing a Minimum Income Guarantee for all low-income individuals in Scotland. However, the manifestos do not lay out how or when this would be accomplished, while admitting that it "would not happen overnight".[53] A review by the Institute for Public Policy Research in March 2021 proposed that Scotland should aim to have a MIG by 2030, which is far outside of the timeframe we would expect the Wellbeing Pension to be adopted. Following the re-election of the SNP in conjunction with the Greens at Holyrood, the Scottish Government has established a steering group of expert and cross-party MSPs to work on how a MIG would be delivered in Scotland but so far nothing has come of it.[54]

We therefore argue that although a MIG could be a possible remedy to the current issue of pensioner poverty in Scotland the idea is not at any implementable stage in its development and thus cannot be of use in helping pensioners to heat, feed and clothe themselves.

52 Social Justice and Fairness Commission, 2021; socialjustice.scot/wp-content/uploads/2021/07/Social-Justice-Fairness-Commission-Final-Report-.pdf

53 Scottish National Party (2021): https://issuu.com/hinksbrandwise/docs/04_15_snp_manifesto_2021___a4_document?mode=window

54 Scottish Government (2021): https://consult.gov.scot/social-security/minimum-income-guarantee/#:~:text=A%20Minimum%20Income%20Guarantee%20(MIG,or%20subsidised%20by%20the%20state.