Scotianomics
WELLBEING | SUSTAINABILITY | PROSPERITY

Optimum level of a Wellbeing Pension

Revised for April 2023

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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.

In February, 2023, Scotianomics published its report: 'Investigation into the requirement for and optimum level of a Wellbeing Pension'. In that report, we called on the UK Government to increase the State Pension to £225 per week for all pensioners, in a bid to tackle the growing problem of pensioner poverty in the UK.

Since our previous report was published, the planned increase to the State Pension of 10.1% is due to come into effect from the 10th of April 2023. This increase comes with the confirmation that the 'triple lock' has been reinstated. However, the Chancellor has failed to announce any form of backdated payments for pensioners since the date the 'triple lock' was suspended, thereby still leaving pensioners worse off.

In our previous report, Scotianomics calculated the optimum level of a Wellbeing Pension by first creating a Minimum Income Standard (MIS) for single pensioners and pensioner couples against which to gauge the minimum income needed to reach only a basic standard of living. We found that, under the current system, single pensioners were facing a weekly shortfall of as much as £38.54 against their MIS, if they were on the Basic State Pension amount of £141.85 per week (with Pension Credit this would be topped up to £182.60). Pensioner couples faced the largest income shortfall. If both are receiving the Basic State Pension and are therefore ineligible for Pension Credit, their income is £150.93 per week lower than their MIS. The introduction of a Wellbeing Pension at £225 per week would allow for all pensioners to live with dignity in retirement.

In the wake of the planned increase, we have updated our Minimum Income Standard calculations, having adjusted them to current inflation. We find that even with the planned increase to the state pension, pensioners' most basic needs are still not being met. Rampant inflation and the government's failure to properly tackle the cost of living crisis has meant that the most vulnerable in society have been hit the hardest.

Many of the issues covered in our original report remain unresolved. The UK pension system continues to discriminate against the low-paid, those in part-time work, are disabled or have been absent from the workforce. It also continues to unfairly treat those who have been retired longer or are living as a couple on the Basic State Pension. None of these are issues that a simple uplift of 10.1% will solve- they require the system to be redesigned.

State Pension Increase

In his Autumn Statement, the Chancellor, Jeremy Hunt, announced his plan to reinstate the 'triple lock' and increase all benefits, pensions included, by 10.1% in April 2023. This means that the UK Basic State Pension is set to rise from £141.85 per week to £156.20 per week, with those on the Newly Retired State Pension set to receive an increase to £203.85 per week, up from £185.15 per week.

Creating a Wellbeing Pension

The Minimum Income Standard is based on a basket of goods and services that collectively represent an acceptable standard of living. In the original report this was calculated using data from the ONS, which reports on family expenditure in the UK, broken down by household income. This data covers the time period from 2019 to 2021. By focusing on the lowest quintile of the income distribution for households aged between 65 and 74, we can gauge what those dependent on the State Pension are spending their money on. Prices in this data set were then inflation adjusted with a forecast inflation rate of 9% to bring them up to September 2022 prices.

For this updated publication, we have taken the MIS calculated for September 2022 and adjusted it for inflation up to February 2023. The updated MIS for both single and pensioner couples can be found in Table 1a:

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

Minimum Income Standard Budget	Average Household Expenditure (1.2 people)	Average Household Expenditure (Couple)
Food & non-alcoholic drinks	43.72	78.69
Alcoholic drinks, tobacco & narcotics	10.64	19.16
Clothing and footwear	8.01	16.03
Housing (net)*, fuel & power	56.07	61.68
Households goods & services	18.08	27.12
Health	3.77	7.55
Transport	25.41	38.11
Communication	13.28	19.91
Recreation & culture	33.42	66.83
Education	0.00	0.00
Restaurants & hotels	13.85	27.69
Miscellaneous goods & services	19.23	34.60
Above groups	245.47	397.38
Other expenditure items	28.72	51.70
Total expenditure	274.19	449.08
Average weekly expenditure per person (£)	**228.49**	**224.54**

The table above shows that when the MIS is adjusted to current prices, the increase to the UK State Pension of 10.1% is still not enough to cover pensioners' most basic needs. However, the Wellbeing Pension that Scotianomics calculated for the September 2022 MIS must also be revised.

Based on the figures calculated above, Scotianomics has revised its recommendation for the value of a Wellbeing Pension to £235 per person, per week, in order to meet the newly calculated Minimum Income Standard.

Case Studies

In this section, we will present a number of case studies to demonstrate how the current State Pension system in the UK falls short of the basic weekly expenditure of those in the bottom quintile of income.

Single Pensioners

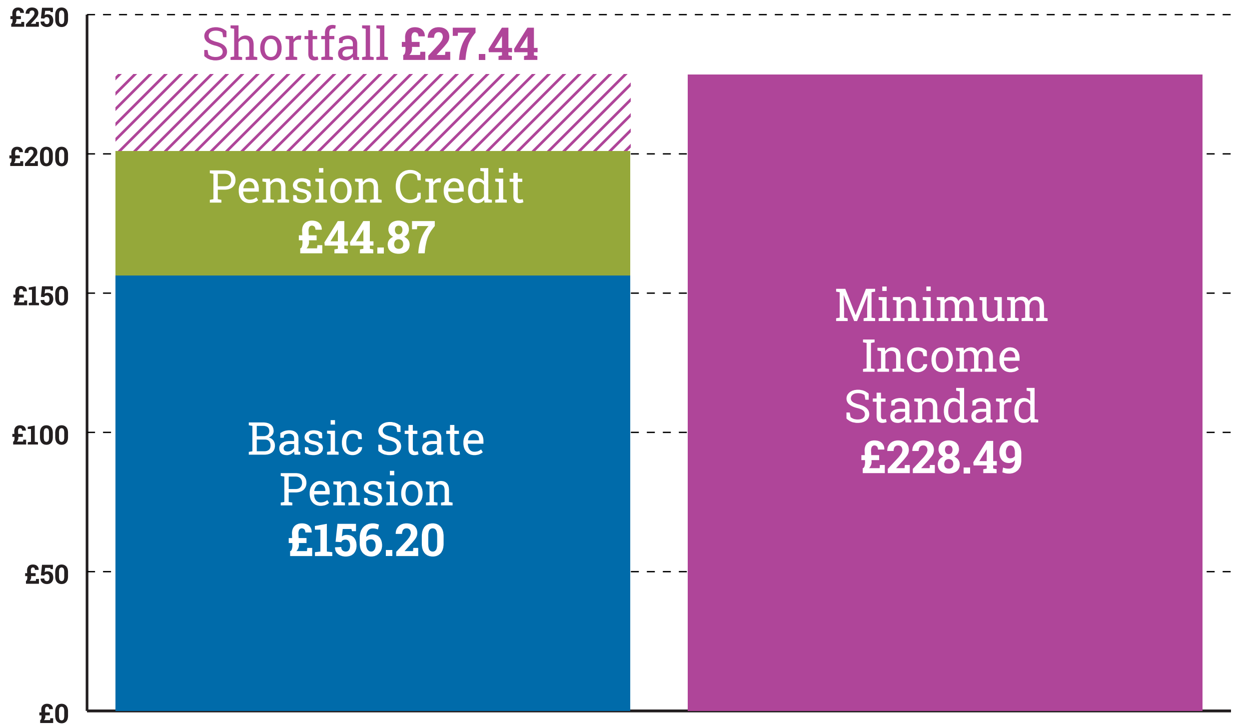
Basic State Pension

Our first case study is that of the absolute bare minimum standard of income for a pensioner in the UK today who lives alone. Firstly, we will look at the pension received by an individual who is eligible for the Basic State Pension and was unable to save or build a private pension before their retirement.

In this case study, we will assume:

- The individual has been unable to work throughout most of their adult life, due to caring responsibilities.
- As a result of the above, they do not have a private pension pot.
- Their responsibility as a carer ended as they reached retirement age.
- The individual claimed Carer's Allowance throughout their working life and are eligible for National Insurance Credits.
- The individual can therefore claim the full State Pension, despite not paying National Insurance Contributions.
- The individual is eligible for Guaranteed Pension Credit due to their low income, which tops up their pension to £201.05 per week.

Figure 2a: Single Pensioner Receiving Basic State Pension



We can see from the above graph that this individual's pension coverage would currently be £27.44 below the Minimum Income Standard each week, according to the average expenditure of 65-74 year olds in the lowest income quintile. Over a year, this works out at a shortfall of £1,426.88.

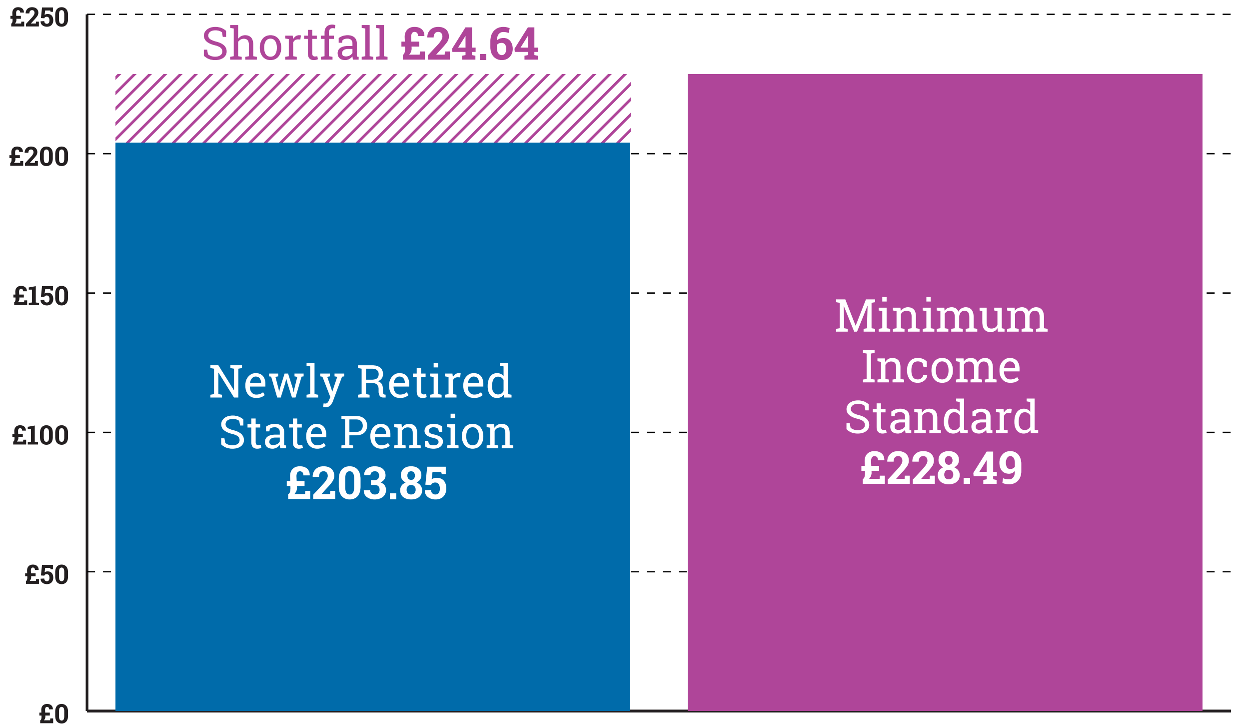
Newly Retired State Pension

Our second case study is that of an individual eligible for the Newly Retired State Pension. Remember that this system was intended to provide a more streamlined approach, merging the old Pension Credits system with the State Pension, similar to the implementation of Universal Credit.

In this case study, we will assume:

- The individual is eligible for the full amount of Newly Retired State Pension.
- The individual is ineligible for Guaranteed Pension Credit, as the full amount of Newly Retired State Pension is above the eligibility threshold.

Figure 2b: Single Pensioner Receiving Newly Retired State Pension



The above graph shows that despite the Newly Retired State Pension being framed as an 'improvement' on the Basic State Pension, retirees would still face a shortfall of income of around £24.64 per week. This equates to a yearly shortcoming of £1,281.28. The Newly Retired State Pension therefore provides little improvement to the financial situation of pensioners on lower incomes.

Pensioner Couples

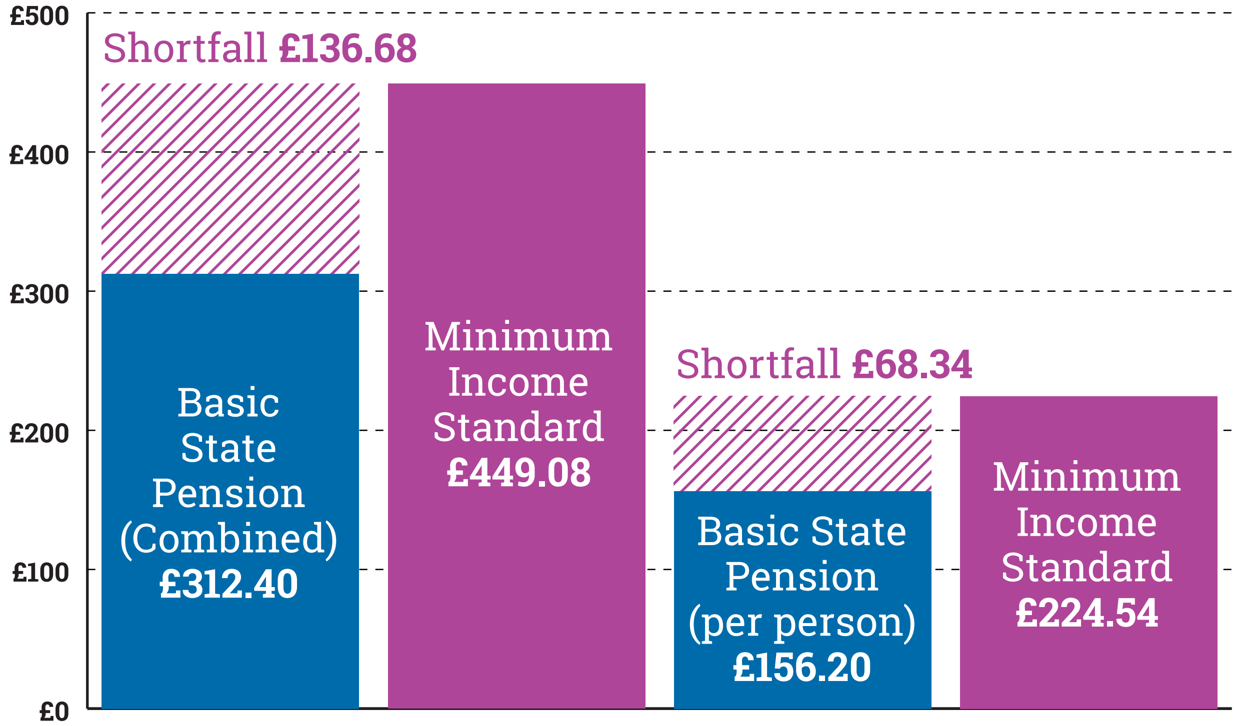
Basic State Pension

It is also worth considering how the UK State Pension would provide for a retired couple. First, we will consider the case of a couple who are both eligible for the Basic State Pension.

In this case study, we will assume that:

- The couple is married and consists of two individuals who were born before 1951.
- Both individuals contributed 30 years of National Insurance Credits, which means that they are eligible 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 more than twice as worse off per person than a single pensioner receiving the Basic State Pension each week. This adds to a shortfall of £3,553.68 per person per year.

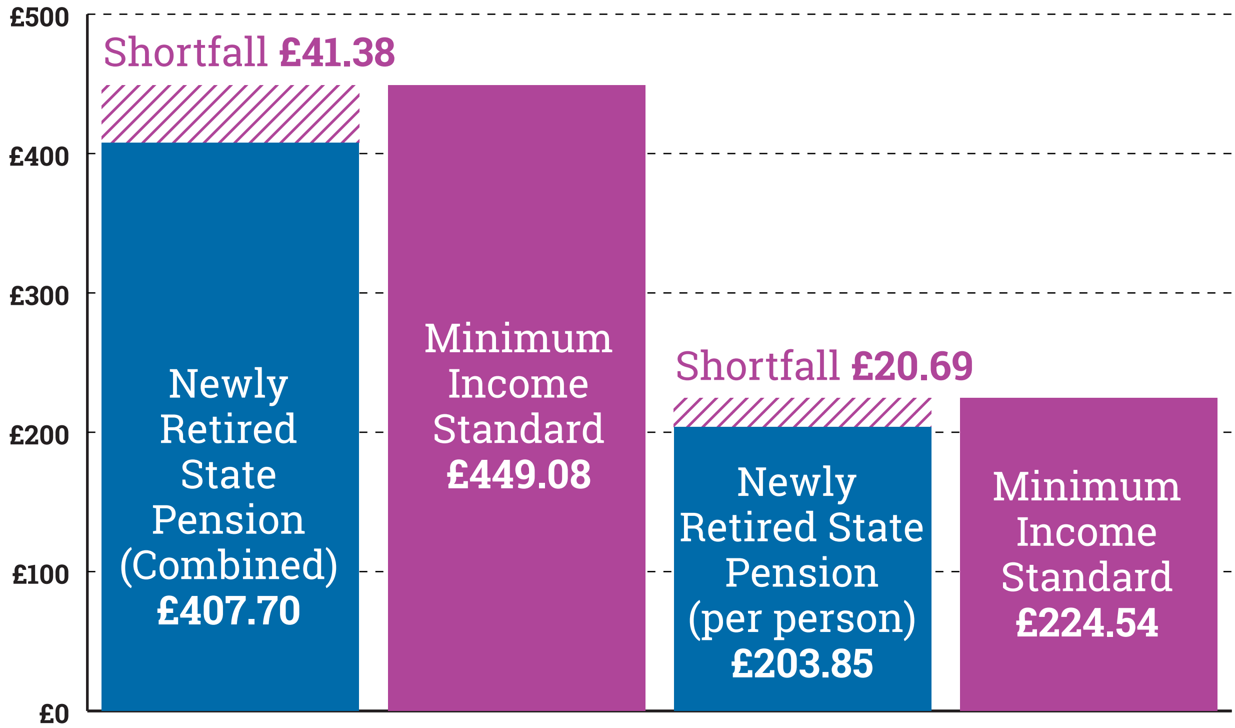
It is important to note however that this case study assumes that both individuals received the full amount of Basic State Pension. As their combined income of £312.40 would be above the threshold for Pension Credit for couples at £306.85, they would not be eligible for this additional support. This does not make much of a difference to their income however, as it is only £5.65 more in total than it would be if they received Pension Credit. Thus, it can be observed that the Basic State Pension system is particularly bad at providing for couples to reach a Minimum Income Standard without other forms of financial support.

Newly Retired State Pension

In the case of a couple where both are receiving the Newly Retired State Pension, the following assumptions can be made:

- This couple are married and were both born after 1953. They are therefore eligible for the Newly Retired State Pension.
- Both individuals worked for enough qualifying years to receive the full amount of State Pension (£203.85/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

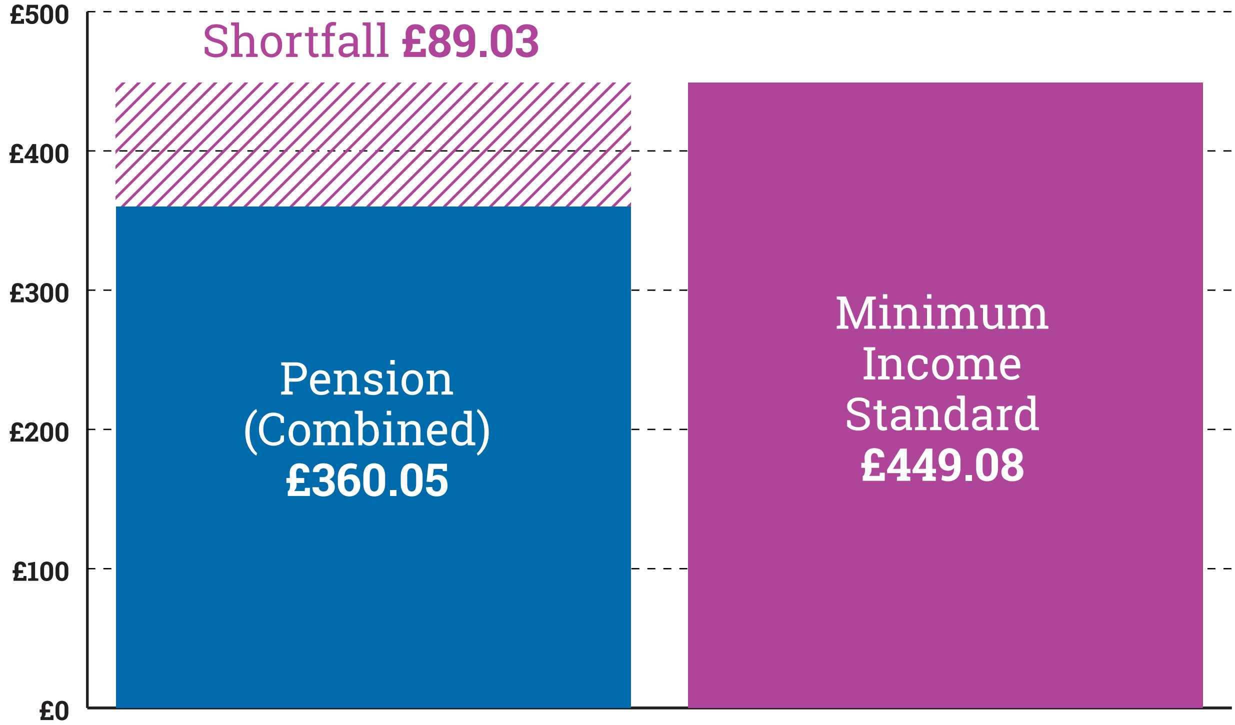


Although this is the least drastic of all situations outlined, the total income of this couple still falls short of the Minimum Income Standard. As with the previous case, the couple's combined income is high enough that they are not entitled to Pension Credit. At £407.70 however, their combined income is still £41.38 below the MIS. Over a year, per person, this is a shortfall of £1,075.88.

Special Case: 1 Basic + 1 Newly Retired State Pension

Finally, one additional case can be discussed, which relates to what happens when one individual in a couple is a recipient of the Basic State Pension, while the other receives the Newly Retired State Pension. Aside from this detail, the above assumptions apply for the typical individual on each pension system.

Figure 2e: Pensioner Couple: 1 BSP and 1 NRSP



From the above graph, we can see that this couple's combined income is £360.05. This is above the combined income of a couple where both receive the Basic State Pension and is above the Pension Credit threshold. However, they are still £89.03 a week below the Minimum Income Standard, with a yearly shortfall of £2,314.78 per person.

These five 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.

How much would the Wellbeing Pension cost the UK Government?

By revising the value of the Wellbeing Pension up to £235 per week, we also increase the cost of implementing that pension to the UK Government. The current state pension system is forecast to cost the UK Government £123bn in 2022/23.[1] If the UK Government was to adopted the Wellbeing Pension of £235 per week, we estimate this would increase the cost to the UK Government to £167.7bn.[2] However, the Office for Budget Responsibility has forecast that National Insurance Contributions (NICs) are set to be worth £172.3bn in 2023/24, which is more than enough to cover the introduction of the Wellbeing Pension.[3]

How much would the Wellbeing Pension cost the Scottish Government?

Unfortunately the Scottish Government does not publish a forecast for its NIC figures and they are not available until they are published alongside the Government Revenues and Expenditure Scotland report later in the year. However, we can estimate their value by taking a population share of the forecast NICs for the UK. This estimates Scotland's revenues from NICs to be £13.9bn for 2022/23. If Scotland alone were to adopt the Wellbeing Pension, it would see its expenditure on the State Pension increase to £13.3bn for 2022/23, which as we can see is more than covered by NICs for that year.[4]

1 Office for Budget Responsibility, 2023; https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-pensioner-benefits/#:~:text=Pensioner%20benefit%20spending%20in%202022,5.5%20per%20cent%20of%20GDP.

2 GOV.UK, 2023; https://www.gov.uk/government/statistics/dwp-benefits-statistics-february-2023/dwp-benefits-statistics-february-2023

3 Office for Budget Responsibility, 2023; https://obr.uk/docs/dlm_uploads/OBR-EFO-March-2023_Web_Accessible.pdf

4 GOV.UK, 2023; https://www.gov.uk/government/statistics/dwp-benefits-statistics-february-2023