Estimated Cost of Pensions Commission Proposals

This note sets out the estimated costs of the Pensions Commission recommendations from 2010 to 2020 on public expenditure which lie behind charts in the Pensions Commission's Second Report.

The first set of tables looks at the Commission's preferred option and the second set also includes making the Basic State Pension universal in payment from age 75.

The figures are presented in 2005/06 GDP terms, and in real terms (2005/06 prices). GDP terms means that figures have been adjusted to take into account the effect of GDP growth, so they are relative to the level of GDP.

The figures are also presented relative to the present level of expenditure, and relative to what expenditure would be if present indexation arrangements continue.

In the final table, we also show the fall in public expenditure which would result if the Guarantee Credit were indexed to prices (as measured by the Rossi index) not earnings. Relative to this scenario, the costs of our proposed package are higher by an amount equal to this reduction.

Impact on expenditure on pensioners of the Pensions Commission preferred option without the payment of the Universal BSP to those 75 and over

GDP £ billion (2005/06 terms)	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***	***2016***	***2017***	***2018***	***2019***	***2020***
Cost compared to today	£0.2	£0.4	£0.5	£0.9	£0.9	£0.8	£1.0	£0.8	£1.1	£0.9	£1.5
Cost compared to costs if present indexation arrangements continue	£0.2	£0.1	£0.3	£1.1	£1.8	£1.9	£3.2	£3.1	£4.3	£4.2	£5.4

Real £ billion (2005/06 terms)	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***	***2016***	***2017***	***2018***	***2019***	***2020***
Cost compared to today	£0.2	£0.5	£0.6	£1.1	£1.2	£1.0	£1.3	£1.0	£1.4	£1.2	£2.1
Cost compared to costs if present indexation arrangements continue	£0.3	£0.1	£0.4	£1.3	£2.2	£2.5	£4.1	£4.1	£5.8	£5.9	£7.6

Impact on expenditure on pensioners of the Pensions Commission preferred option plus the payment of the Universal BSP to those 75 and over

GDP £ billion (2005/06 terms)	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***	***2016***	***2017***	***2018***	***2019***	***2020***
Cost compared to today	£1.0	£1.8	£2.1	£2.1	£2.0	£1.9	£2.1	£2.2	£2.5	£2.7	£3.2
Cost compared to costs if present indexation arrangements continue	£1.1	£1.6	£1.9	£2.2	£2.9	£3.0	£4.3	£4.5	£5.7	£6.0	£7.1

Real £ billion (2005/06 terms)	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***	***2016***	***2017***	***2018***	***2019***	***2020***
Cost compared to today	£1.1	£2.1	£2.5	£2.5	£2.5	£2.4	£2.7	£2.9	£3.4	£3.7	£4.5
Cost compared to costs if present indexation arrangements continue	£1.2	£1.8	£2.3	£2.7	£3.6	£3.8	£5.5	£6.0	£7.7	£8.3	£10.0

Reduction in expenditure which would result if the Guarantee Credit is indexed to prices, not earnings

Government saving from indexing Guarantee Credit to Rossi	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***	***2016***	***2017***	***2018***	***2019***	***2020***
GDP £ billion in 2005/06 terms	£1.2	£2.1	£2.8	£2.7	£2.6	£3.4	£3.6	£4.0	£3.9	£4.3	£4.5
Real £ billion in 2005/06 terms	£1.4	£2.5	£3.3	£3.3	£3.2	£4.3	£4.7	£5.2	£5.2	£5.9	£6.4

Other impacts on public finances

The Pensions Commission's proposals could also have knock-ons in other areas of Government finances:

- If the NPSS were successfully introduced it will increase pension contributions, so will increase the amount of tax relief granted, reducing government revenue. However, this effect could also occur if other policies stimulate additional saving, e.g. into Stakeholder Pensions. Conversely the amount of public expenditure on tax relief may decline as a by-product of the falling level of private pension saving which will occur over the medium term because of the DB to DC shift. In the long run, the Pensions Commission believes it likely that a successful NPSS will therefore offset the decline in savings that would otherwise occur, so would not generate additional tax relief compared to the level today.
- The phase-out of contracted-out rebates would increase government revenue significantly in the shorter term and also increase government's long term liabilities in the State Second Pension, with a net present value of zero.
- In addition government tax and NI revenue could be boosted dramatically if measures to encourage older working are successful. Tax revenue would also increase because pensioner incomes will be higher due to a more generous state pension and, in the long run, higher private pension income.
- Measures to mitigate the costs of compulsory employer contributions could also generate additional cost.