

# Will there be any state pension left for you?

[Imogen Tew](#) November 26 2022, 12.01am

A fifth of workers do not think there will be a state pension by the time they retire, according to a survey by the financial firm Barnett Waddingham, and a quarter think it will be less generous. The government has been reviewing the state pension age and is due to publish its conclusions next year. The age at which you can claim your pension is already set to increase, but many expect the rises to happen sooner than planned. This week Mel Stride, the work and pensions secretary, suggested that the retirement age may have to rise faster than expected because of “pretty hairy” public finances.

The state pension age is now 66. The age for women increased from 60 in 2010 to 65 in 2018, to match men, then between December 2018 and 2020 it increased for both from 65 to 66. It is due to rise to 67 between 2026 and 2028, and to 68 by 2039. This second rise could be brought forward to as early as 2033, experts believe.

Those affected, which could be those born between April 1965 and April 1971, could lose an average of £10,000 of state pension payments each.

The full state pension, introduced in 2016 to simplify the old system, is worth £185.15 a week, and the government’s triple lock pledges to increase it each year by 2.5 per cent, inflation or earnings growth, whichever is highest. Raising the age of qualification four years early would save the government an estimated £40 billion, according to Steve Webb, a consultant at the pensions company LCP. It will, however, do little to solve the long-term problem of how to cover the increasing cost of the state pension. Many do not expect it to survive in its existing form.

“Maintaining the status quo is simply not sustainable with rising life

expectancy and a growing retired population,” said Tom Selby from the investment platform AJ Bell. “It could be that the state pension age increases or that rises in the state pension are pared back. In reality, it is likely that both will happen.”

The latest projections for the population show a significant shift in the ratio of working-age people to pensioners. The birth rate is declining and people are living longer, so a smaller number of taxpayers will need to support a growing number of older people.

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The number of people aged 85 and over is projected to double to 3.1 million by 2045, while the number of working-age people is expected to start declining after 2045. This means that the old-age dependency ratio — the population aged 65 and over as a percentage of the working-age population (aged 16 to 64) — is set to increase from about 30 per cent today to more than 50 per cent by the mid 2060s, according to the Office for Budget Responsibility (OBR).

All of this is likely to have a significant impact on our tax, pensions and social care systems as the cost of benefits soak up a larger proportion of GDP. The OBR estimates that the state pension and other pensioner benefits such as pension credit and winter fuel payments will represent about 4.8 per cent of GDP this year. By 2042 they are expected to be at 5.5 per cent, rising to 6.2 per cent for the year to April 2052, 7.3 per cent for the year to April 2062 and 8.1 per cent by 2072.

## **How the state pension could change**

The state pension age will increase and the payments could become less generous. The triple lock could be the first thing to go. It has been protected by the chancellor, Jeremy Hunt, for next year, but Steven Cameron from the pensions firm Aegon expects that to be its “last gasp”. He said it was

unsustainable to match price inflation or earnings when they are “volatile and unpredictable”.

As the state pension age rises, when you can claim it could become more complex, to cater for those who will be unable to work for longer.

“There should be flexibility to start taking your state pension, say, up to three years earlier than the state pension age, at a reduced amount to make it financially fair for all,” Cameron said.

It may need to be better able to meet a range of lifespans and health issues. The gap in healthy life expectancy across different regions is as wide as 19 years, according to the Office for National Statistics. Allowing people with limited life expectancy to draw their pension earlier could be fairer.

Another option would be to increase the years of national insurance contributions you need for the full state pension (at the moment it is 35 years) but to allow people to claim their pension as soon as they hit that target, instead of having to wait until state pension age.

“Some of these ideas have merit, but none are perfect and each would make the state pension more complicated,” Selby said. “They also entail a big overhaul of the system, which would inevitably be controversial.”

Any changes to the system prompt arguments about fairness. Why should one generation get different benefits from another? Why should some work longer? When the women’s pension age gradually rose, many were suddenly faced with having to wait years for a pension they had expected at 60.

“Millions rely heavily on the state pension, so there will always be pressure to make it more generous,” Cameron said. “But with every extra £1 billion spent having to be funded by £1 billion from those of working age, something has to give. The implications for all generations need to be carefully balanced.

“Some may question why individuals paying vastly different amounts of national insurance could get the same amount of state pension, or why different generations get different ‘deals’ — but this is the nature of how our state pension works.”

## **‘I just won’t be able to rely on it’**

Chloe Sweden feels as if her state pension is going to move further and further into the future — and she is certainly not relying on it for her retirement. Instead she hopes that the sale of her business, Plants and Perks, which runs employee reward schemes, will support her.

“We have to plan as if there will be no state pension. There are no guarantees,” said Sweden. “Just look at what has happened in the past few years, the government is going to have to raid the pot somewhere, and the state pension is going to be one of the ways.”

Sweden, 41, who lives in Hertfordshire with her husband, Scott, and two children has a small private pension pot but has not been paying into it lately, prioritising things such as buying a house and having children.

“It’s scary when you think about how you will support yourself in your seventies,” she said.