

Commissioned by:

 Phoenix
Insights

The future of the state pension

Executive summary

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It's 20 years since the Turner Commission's independent review of the state pension held public consultations to understand the public's view of the state pension and potential reforms to it. Since then, the country has undergone major political, social and economic shifts that have significantly impacted the equity, sustainability and affordability of the state pension and left its future status uncertain. In such a rapidly changing context, it is vital to understand the public's attitudes and opinions on how the state pension should look going forward given the scheme will play such a significant role in their lives.

It is for this reason the Policy Institute at King's College London was commissioned by Phoenix Insights to conduct a deliberative study exploring how the state pension can be made fit for the 21st century. This research was designed to complement the government's wider review of the state pension age, published in March 2023. In order to unpick the key issues, this research study explored the following questions with members of the public and relevant stakeholders:

- What is the purpose of the state pension?
- How fair is the state pension? Who does it benefit? Who loses out?
- What are the challenges facing the state pension?
- Mindful of these challenges, how must the state pension evolve? What are the options for reform? To what extent are these reforms fair, and are the reforms future-proofed?
- What is the role of the citizen, the state and the employer when it comes to preparing financially for retirement? What are their rights and responsibilities?

Methodological approach

The study consisted of three phases:

Phase one: Deliberative workshops in London and Birmingham

Two day-long deliberative workshops were conducted in person with 50 members of the public in October 2022. The workshops were facilitated by researchers from the Policy Institute at King's College London ('King's') and addressed the questions outlined above.

The process of deliberation allows us to go beyond the public's top-of-mind responses to potential reforms to the system. Providing participants with extensive evidence and expert opinion, along with the time and space to reflect on this complex policy problem, enables them to consider the need for change in depth, and how this could be achieved in a way that is equitable, and financially sustainable.



Phase two: Follow-up depth interviews

10 follow-up depth interviews took place over the phone in late November and December 2022 with participants who had taken part in the deliberative workshops in London and Birmingham. The aims on the follow up depth interviews were to understand:

- Participants' reflections on the topics discussed during the workshop.
- What actions participants had taken to prepare for their retirement as a result of attending the deliberative workshop.
- Participants' reflections on taking part in a deliberative event.

Phase three: Roundtable event

A roundtable event took place in January 2023. It lasted for three hours, and involved 20 stakeholders from a range of public, private and third-sector organisations. The workshop was structured by a guide and incorporated plenary discussion as well as individual exercises. The aim of the event was to develop policy recommendations informed by the public deliberative workshops in consultation with experts in this field to balance both public demand and the technical challenges to any reforms.

Key findings

The following section summarises the key findings from the study.

The public's wishes for retirement

- When asked what they wanted most from their retirement, participants chiefly spoke about maintaining independence and freedom, specifically in relation to their health and finances. Participants did not want to be a burden, either physically or financially, to family or friends.
- Independence and freedom were also spoken about in relation to hobbies and interests – participants noted the importance of being physically active, as well as having the financial means needed to connect to social networks and undertake activities that provide meaning.

The public's attitude to the state pension

- Participants in the deliberative workshops consistently defined the state pension as a form of financial support from the government that ensures pensioners achieve a “basic” standard of living in retirement, in lieu of a salary.
- However, they tended to overestimate their level of knowledge in relation to the state pension. Upon questioning they struggled to explain even basic aspects of how the system worked, something which many were both embarrassed and concerned by.
- Features participants struggled to explain included: the number of years of national insurance contributions needed to achieve the full state pension, the factors which make you ineligible for the state pension, the amount of money you receive from the

state pension, what the triple lock is, and, to a lesser degree, the difference between the state pension and a workplace pension.

- Participants' lack of knowledge was further revealed by misconceptions about the state pension, the most prominent being the belief each person's national insurance contributions are kept in a personal pot, ready for them to access when they reach state pension age.
- Participants tended to agree the standard amount of state pension received was not adequate to live comfortably in retirement and that a workplace pension, private pension, or additional assets such as property were required to supplement it. This view was reflected in experiences shared by retirees in the workshops and those who had retired family members, who reported that the current cost of living crisis, and in particular the rising cost of gas and electricity, meant those in retirement were struggling to make ends meet.
- Across both workshops participants expressed concern about the sustainability of the state pension in the long term. Increased life expectancy, the ageing population and an increasing level of distrust in government were all perceived as threatening the long-term existence of the state pension.
- Additionally, participants questioned the equity of the state pension, specifically raising concerns about the fairness of the process for qualifying for the full state pension, and the impact of geographical inequalities on the adequacy of the state pension, given the varying cost of living across the country. Despite these worries, participants commonly considered the triple lock and the state pension's status as a universal benefit fair and called for these features to remain intact in the future.

The case for change: age as a determinant for access

- Participants largely felt raising the state pension age in line with the country's increasing life expectancy was the best option for determining access to the state pension, once the context of rising longevity and the country's ageing population were understood. Participants recognised that without doing this the government may not be able to financially support the increasingly large portion of the population in retirement in the future.
- However, raising the state pension age in line with the country's increasing life expectancy was felt to have its downsides. Unequal life expectancy levels across the country, unanticipated events that undermine the accuracy of "average life expectancy," a person's physical and mental ability to work to retirement age and employment shortages for young jobseekers were all considered factors in need of addressing if the state pension is to increase in line with life expectancy.

Principles for change

- Four principles for change emerged from the thematic analysis of the findings from the deliberative workshops: a shared responsibility, inclusivity, personalisation and integrity. Participants felt strongly that any reforms made by the government aiming to create a state pension fit for the 21st century should be guided by these principles.

PRINCIPLE	DEFINITION
A shared responsibility	<p>A successful reform is one in which responsibility is shared – between citizens and the state, employers, or a combination of all three.</p> <p>Participants expressed a strong belief that the state, employers and citizens all have a role to play in ensuring people have enough money to live on in retirement. The state and employers were considered responsible for providing financial support to workers for retirement, in addition to sharing information about the steps required to ensure they are financially secure in later life. In turn, citizens were felt to be responsible for using the money and information provided by the state and employers to attain financial stability for retirement.</p>
Inclusivity	<p>Any reform needs to be inclusive and ensure that everyone has the opportunity to benefit from what is being offered.</p> <p>It was commonly stated that the state should consider how it can provide further financial support to those who, through no fault of their own, fail to qualify for a full state pension. Groups falling into this category were thought to include those with caring responsibilities, health conditions, or atypical working patterns. Furthermore, participants voiced strong support for initiatives that enabled older workers to stay in the workforce beyond retirement age (if they desire to do so). Such proposals included flexible working patterns and retraining in the later stages of their career.</p>
Personalisation	<p>Any reform should acknowledge that “one size does not fit all” when comes to planning for retirement. Circumstances and needs change – reforms must account for this.</p> <p>Participants felt any reforms to the state pension should acknowledge people’s unique circumstances when planning for retirement. As such, the government should take wider societal inequalities into consideration and the impact such disparities could have on a citizen’s ability to build their national insurance contributions, work up to the current age of retirement and maintain their physical and mental health sufficiently to enjoy retirement.</p>
Integrity	<p>There must be transparency about why reforms are being enacted and what they intend to achieve. Open communications at key points should highlight whether these aims are being met – and what the contingency plan is if not.</p> <p>Participants displayed low levels of trust in the government and their ability to adequately manage and maintain money paid into the system through national insurance contributions. Given this concern, participants called for more openness and transparency from the government about how the state pension works, and the reason for reforms when they occur. Increased communication about the state pension, an increased emphasis on financial literacy in schools and the establishment of an independent body to oversee changes to the state pension were specifically suggested as ways to meet this need.</p>

Reforms to ensure the state pension is fit for the 21st century

- ♦ To explore how the state could ensure the state pension is fit for the 21st century, participants were presented with three key challenges in need of addressing during the workshop:
 1. How can we help people save more?
 2. How can we help people to stay in work longer?
 3. How can we provide additional support for those who need it?
- ♦ As part of the workshop participants were offered details of several potential reforms to mitigate each of these challenges. Following extensive discussion, participants identified six key reforms (two for each challenge) they felt met the need to ensure the fairness, sustainability, and adequacy of the state pension in the long term (while also meeting the requirements set out by the four principles). The follow table summarises participants views on the six reforms.

CHALLENGE 1: HOW CAN WE HELP PEOPLE SAVE MORE?

Increase information about the state pension and improve financial literacy

Participants strongly supported **increasing communications about financial management and improving financial literacy amongst the general population**. It was felt that given the state pension does not provide enough to sufficiently support pensioners, the government should equip people with the ability to make informed intelligent financial decisions through their lives that would ensure their financial solvency in retirement.

Widen access to auto-enrolment

Participants were also highly receptive to the idea of **removing the minimum earning threshold of £10,000 to provide auto-enrolment to lower earners and offering an employer-only contribution option**. This approach was considered “fairer” than the current system, which was seen to penalise part-time and “zero-hours” contract workers (ie those who tend to earn under £10,000), and those forced to work part-time through no fault of their own (ie due to caring responsibilities or health problems).

CHALLENGE 2: HOW CAN WE HELP PEOPLE TO STAY IN WORK LONGER?

End the cliff edge to retirement through phased retirement and flexible working

It was felt that offering **phased retirement to workers in the later stages of their career acknowledged the value these staff have brought to their workplace, and the experience and skills they can pass onto their colleagues**.

Phased retirement was also seen as beneficial to older people’s mental wellbeing, as it eases them into a life without work. Practically, working part-time post retirement age was considered favourable as it enables those with insufficient savings to continue working.

Reskill and retrain employees for long term careers

Participants commonly made a connection between phased retirement and the need for career review and retraining, reflecting that **offering a career review or retraining to move into a different role in their organisation (depending on their needs)** allows older workers to adapt as they reach the later stages of their career and may facilitate their being able to stay in the workforce longer.



CHALLENGE 3: HOW CAN WE PROVIDE ADDITIONAL SUPPORT FOR THOSE WHO NEED IT?

Early access to state pension (for select groups)

Participants welcomed the introduction of **early access to a portion of the state pension before the age of retirement but felt this offer should be limited to three specific groups**: People who can no longer work for health reasons; those who can no longer work due to the physical demands of their role; and people with caring responsibilities. It was felt that without restricting early access the system was in danger of being abused, and those unable to manage their finances responsibly could end up spending the money “frivolously,” leaving them without financial support for later life.

Reform working age benefits

While participants were strongly in favour of providing financial support to those nearing retirement age (ie those approximately 10 years away from retirement) who were in need, they queried whether it would be **more appropriate to provide these people with other state benefits that reflected their individual circumstances**, such as universal credit, housing benefits, disability benefit or carer’s allowance.

This was considered preferable as it removed the need to lower the state pension age to support vulnerable people nearing retirement and meant the state pension fund was maintained at its current level, an important consideration given concerns over its sustainability.



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Phoenix Insights

People are living for longer. But longer lives are not yet always better lives. We want to change this.

[Phoenix Insights](#) is a think tank set up by [Phoenix Group](#) to transform the way society responds to the possibilities of longer lives.

We use research to lead fresh debate and inspire the action needed to make better longer lives a reality for all of us. The core of our work is focused on financial security, work, and learning and skills. Reimagining longer lives means making changes in all these areas. At the heart of all our work, we are committed to reducing inequalities and building a society that enables all of us, not just the fortunate few, to live better longer lives.



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