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Still just about managing?

Pre-election briefing on the main political parties' welfare policies

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Our pre-election series of briefing notes have so far centred on the main parties' approaches to deficit reduction and to tax. To complete the fiscal 'set' we must also consider their take on welfare.

In doing so, we are better placed to comment on the parties' positions thanks to the publication of their manifestos. These are, to greater and lesser extents, revealing. There are some clear commitments, but also some unexpected omissions. What's clear is that there is little appetite for further radical welfare reform. That's understandable when substantial reform is already taking place with the roll-out of Universal Credit taking all of the next parliament and disability and pension reform underway.

But positive visions for welfare reform is not the only big gap. You would expect significant detail on the parties approach to the generosity of working age welfare given that whoever wins this election will inherit the delivery of welfare cuts totalling over £14 billion a year by 2021 – the result of commitments made to major welfare cuts in the 2015 Conservative manifesto.

The plans set out by Chancellor Osborne in 2015 included a four year freeze to most working-age benefits; reduced support for working families, particularly those with children; and the limiting of support for families with children. The majority of these cuts are yet to take effect with low inflation in previous years limiting their bite, UC still being rolled out and support for children only affecting new births from April 2017. The result is that £9 billion of cuts that will directly impact on household incomes are set to come in the next parliament.

It is worth putting these cuts into their wider living standards context. Combined with a squeeze on real earnings, that is already biting this year, and unliklely further big employment gains, these cuts mean Britain is on course for stagnant living standards overall and rising inequality as incomes actually fall for the bottom third of households over the next few years. This should be a central focus for the next government, however on the basis of pre-election manifestos it will be anything but.

The Conservative manifesto is entirely silent on the previous Chancellor's cuts to working age benefits, despite their scale and Theresa May's evident decision to press ahead with delivering them. We may have expected either a justification of that approach, or a proposal to reverse these cuts that risk undermining the Prime Minister's clearly articulated wish to establish her own form of One Nation Conservatism. The manifesto contained neither.

Surprisingly, in a manifesto that considers these cuts to working-age welfare an 'attack on low income households' and pledges other big giveaways, Labour has committed to no more than a 'review of cuts' in Universal Credit, with a £2 billion reinvestment rather than a wholesale reversal. Precisely which elements of welfare that review applies has subsequently appeared unclear but what is certain is that the additional £2 billion of mitigation on offer would reverse less than a quarter of the cuts still to come.

The higher wage floors proposed by both parties – whether it's the National Living Wage, or £10 Labour pledge – will not fully offset losses for lower income working families as the low paid do not necessarily live in low income households.

Beyond working-age support, upward pressure on State Pension spend is expected to resume once current State Pension age rises culminate at age 66 in 2020, with an ageing society leading to a growing pensioner population and associated costs. It is important that the intergenerational challenges this creates are recognised.

The Conservative manifesto marks a significant shift in the party's approach in this regard, pledging to turn the triple lock into a double one after 2020 and restrict Winter Fuel Payment entitlement to the poorest pensioners. A row may yet erupt over the triple lock with the other main parties committing to keep it, but in reality this policy of above earnings indexation is expected to have little impact over the short term. Where it matters is in the long run, adding an estimated 0.9 per cent of GDP to pensioner spend by 2066 compared to a simple earnings uprating. The proposed 'double lock' would only marginally reduce this by 0.2 per cent of GDP.

The detail of the move to reduce the £2 billion a year spent on Winter Fuel Payments, made to 12 million pensioners is unclear, both in the savings aimed for and how a means test would deliver those savings. A sensible approach via the current pensioner welfare system of linking the means-test of Winter Fuel Payments to Pension Credit eligibility would save around £1.7 billion, restricting payments to around 2 million pensioners. Introducing a higher income threshold, possibly via the tax system could mean fewer pensioners losing out but save less and create significant additional hurdles to delivery.

This note explores future welfare challenges for an incoming government and examines the extent to which the differing party commitments might meet them.

The next parliament is already set for big changes to support for working age families

Before we consider potential pledges on welfare that have been made in the various party manifestos in this election campaign it is important to understand the context in which they are being introduced.

On the back of the commitment in the previous Conservative manifesto to save £12 billion from welfare, George Osborne set out a series of savings measures at the Summer Budget 2015. With a commitment to protect pensioner benefits those savings fell on working age benefits, and in particular working families with children receiving tax credits.

So far, few of those cuts have had an impact. April 2017 marked the first year in which benefit values were frozen instead of increased in line with the rate of CPI inflation from the previous September (one per cent). The freeze also applied in April 2016, but then low inflation meant that benefits would not have increased anyway. The reduced benefit cap is also already in place with 66,000 households having Housing Benefit capped in February 2017 – an increase of 46,000 since the lower ceiling was introduced.[1]

Other changes have been put into place but currently have a limited impact. Cuts to in-work support in Universal Credit are a prime example, currently very few (approximately 1 per cent) of potentially entitled families with children receive UC.[2] And the majority of savings from removal of the family element and limiting of support for two children are yet to come. So far around 10 per cent of total spend on those elements in 2017-18.[3]

So what is left to come over the next parliament? The key changes still to affect the incomes of working age families, and set to save £9 billion a year by 2021, are:

- **A further two years of the benefit freeze to most working age benefits saving £3.6 billion a year by 2021**: Under current plans working age benefit rates (excluding disability benefits premia, statutory entitlements and maternity allowance) will not be increased until April 2020. On latest projections rates would have been increased by 2.6 per cent in April 2018, and 2.2 per cent in April 2019.
- **Reduced generosity of in-work support in Universal Credit saving £3.2 billion a year by 2021**: cuts to work allowances (which determine the point at which additional earnings start to reduce benefit entitlements) on their own are expected to save £3.9 billion a year in 2021. The lower taper (the rate at which earnings reduce benefit entitlement) announced at

[1] DWP, *Benefit cap: number of households capped to February 2017*, April 2017

[2] In 2014-15 3.9 million families with children were in receipt of Child Tax Credit compared to 50,000 families with dependent children in receipt of UC in December 2016, from HMRC, *Child and Working Tax Credits Statistics, UK, 2014-15* and DWP, *Stat-explore: Households on Universal Credit, December 2016.*

[3] RF analysis using HMRC, *Child and Working Tax Credits Statistics, UK, 2014-15* and HMT, *Budget 2016*

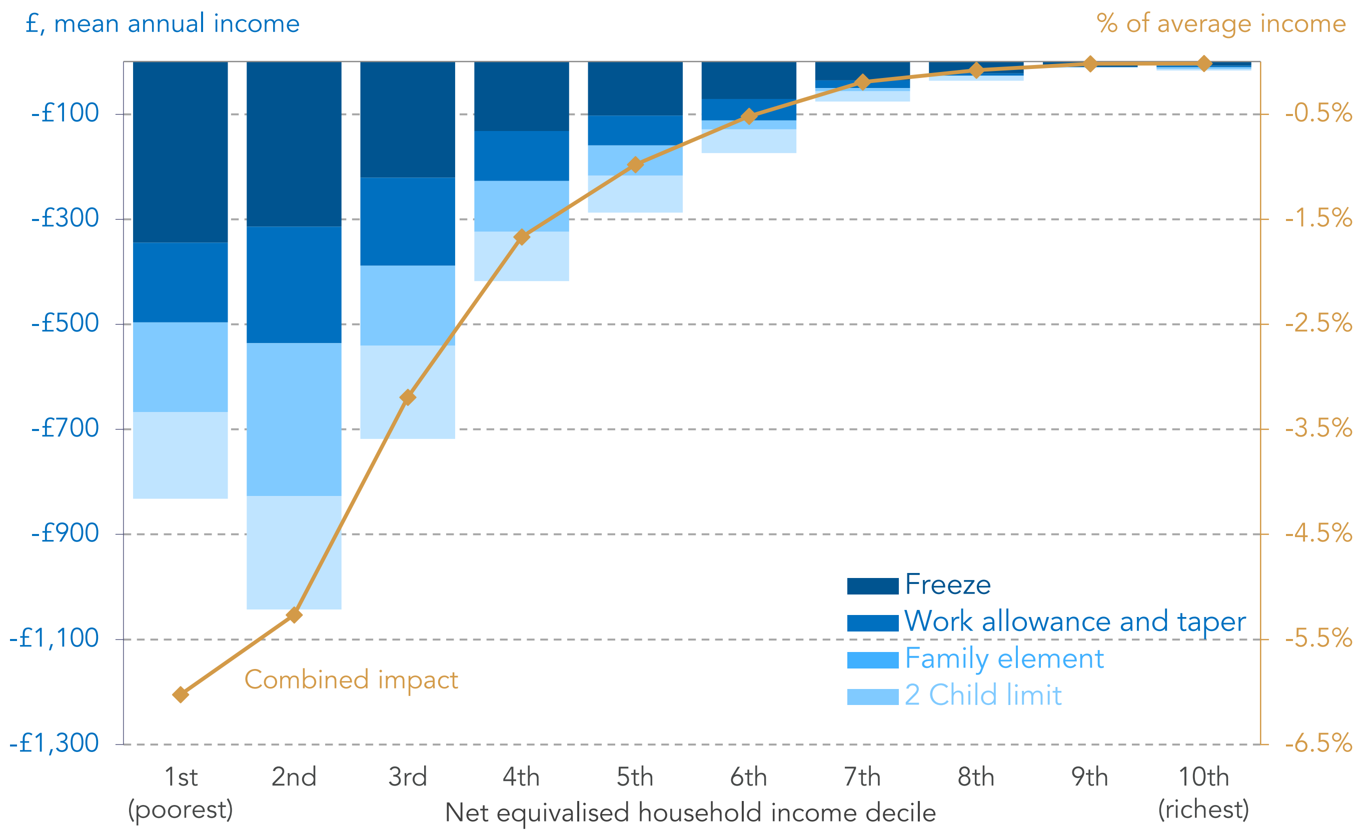
Autumn Statement 2016 reverses £0.7 billion of that cut. But overall a full-time minimum wage earning single parent could still be up to £2,600 a year worse off while couple parents lose up up to £1,000 a year.

» **Limiting support for children saving an additional £2 billion a year by 2021**: new births (and eventually claims) to tax credits or Universal Credit will no longer receive either the family element, worth up to £545 a year, or the up to £2,780 paid per child for children beyond the first two.[4] Currently 3.9 million families with children claim Child Tax Credit, of those 0.9 million have three or more children, two-thirds live in working families.

The final policy change expected to produce significant savings is a one per cent a year reduction in social rents. This was expected to save an additional £3.1 billion a year in 2020-21, although the measure directly affects the income of social landlords rather than tenants.

Figure 1 shows the extent to which the key benefit changes set out above will affect household incomes when fully in place under Universal Credit. As might be expected the greatest losses are experienced by households in the bottom half of the income distribution who are more likely to have a greater share of their income stemming from benefits.

Figure 1: Long run impact of benefit policy changes on net household income



Source: RF analysis using the IPPR tax-benefit model

Notes: Analysis uses latest OBR assumptions, under the Universal Credit system and assuming all policies are fully in place.

[4] Applies to children born after 6th April only in the tax credit system. Claims to UC cannot be made until November 2018, from that point limits will also apply to new claims regardless of when a child is born.

And so far neither the Conservative or Labour parties have offered to mitigate these losses

The Conservative party make no mention at all of the ongoing cuts in their manifesto, choosing neither to endorse nor remind the electorate about George Osborne's plans while presumably planning to press ahead with them. They do relate that they have 'no plans for further radical welfare reform in this parliament' and to 'continue the roll-out of Universal Credit'. The latter implies that people will still be moved across to the less generous system over the next parliament, the former does not rule out further takeaways – or possible giveaways.

Given the big shift towards a higher tax, higher spend offer in the Labour manifesto, and apparent headroom in their fiscal plans it makes it all the more surprising that they do not set out plans to fully offset the coming losses from cuts to working age welfare. They have pledged to spend an additional £2 billion a year in 2021 to hold a 'review of cuts and how best to reverse them', but only mention cuts to Universal Credit and the two child policy. Combined those two policies alone are expected to reduce spend by £5 billion in 2021. As such the £2 billion would reverse only two-fifths of those cuts. If we also take account of the freeze, reversing part of which Labour spokespeople said would be part of the £2 billion review on the day of the manifesto launch,[5] and family element cuts then less than a quarter of the £9 billion of planned cuts would be reversed.

Both parties argue that additional support to boost incomes can come in the form of a higher wage floor. The Conservative party have pledged to maintain the National Living Wage (expected to reach £8.75 by 2020 and applying only to workers aged 25-plus),[6] and Labour would introduce a higher £10 wage floor for all workers by the end of the decade.

A higher wage floor has potential ramifications for employment. A higher wage floor runs the risk, especially for younger workers, of lower levels of employment. Historically, the Low Pay Commission have set the wage floor with a view to what the market can bear. The National Living Wage has been introduced with an acknowledgement of potential job losses.

Putting the potential ramifications for the labour market to one side there is a clear flaw in equating higher minimums with mitigation for cuts in support for working families. That's because not all households affected by cuts have all or any members of a household in work, and because not all low paid workers live in low income households.

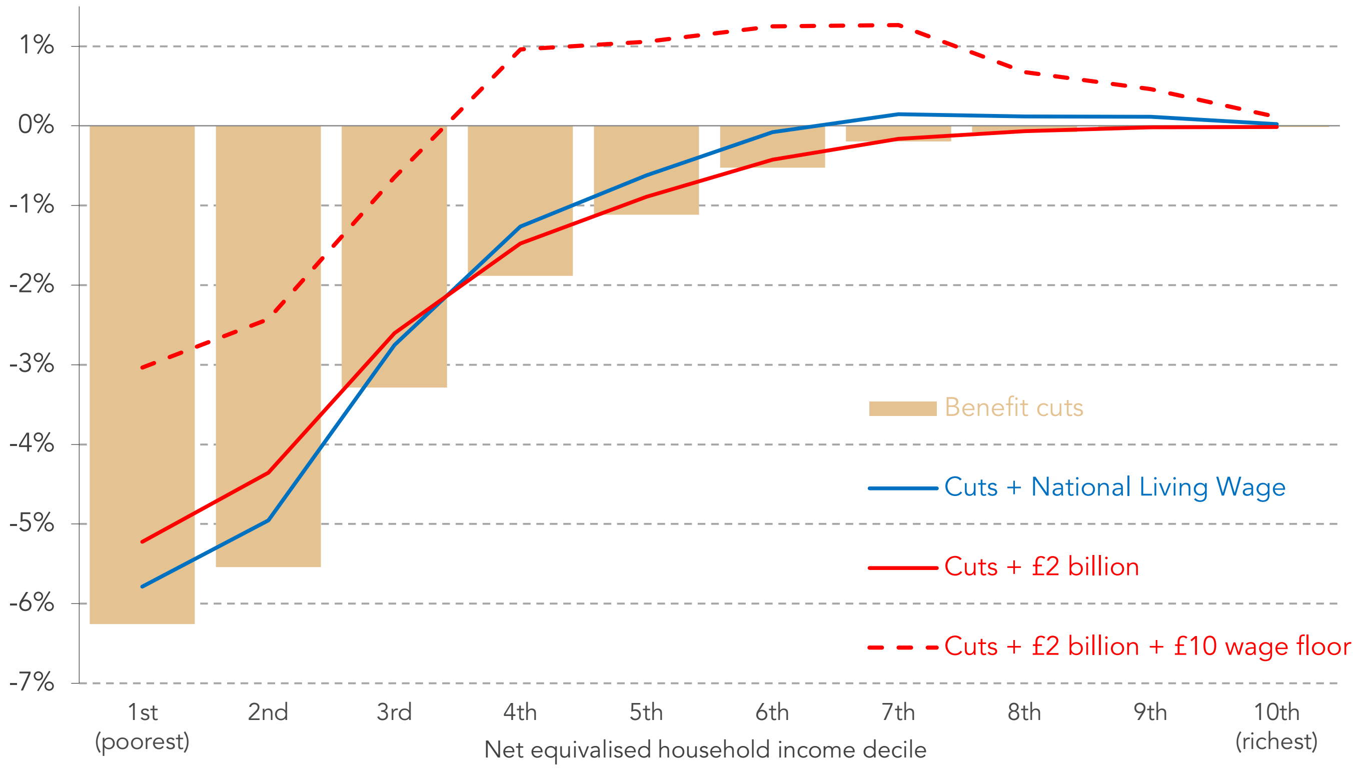
Figure 2 sets gains from the different higher wage floors against the benefit cuts shown previously in Figure 1. It also provides an illustration of the effect of Labour's additional £2 billion to mitigate the impact of cuts to in-work support and the 2 child policy, by proportionately reducing savings made via those elements. As is clear neither wage floor compensates for the losses from benefit cuts, even in combination with the additional £2 billion of investment.

[5] For example see http://www.independent.co.uk/news/uk/politics/general-election-20107-latest-labour-manifesto-benefits-freeze-cap-jeremy-corbyn-a7739471.html

[6] OBR, *Economic and Fiscal Outlook*, March 2017

Figure 2: Offsetting benefit cuts with higher wage floors and re-investment

Percentage change in income



Source: RF analysis using the IPPR tax-benefit model

Notes: Analysis uses latest OBR assumptions & under UC system. Included benefit changes, assumed to be fully in place, are: 4 year benefit freeze, two child limit, removal of family element, work allowance cuts, reduction in UC taper. £2 billion additional investment is applied proportionately relative to in-year savings in 2021. £10 wage applies to all ages. Modelling takes no account of employment changes.

Labour has additionally pledged to reverse relatively smaller cuts such as the removal of the £29 a week payment for new claims in the work related activity group of Employment Support Allowance Universal Credit – expected to eventually affect around half a million claims and costing around £900 million in steady state.[7] They would also reverse the 'bedroom tax' introduced by the coalition government and increase the generosity of carer's allowance. These policies would have a significant impact for those affected but it is a strange omission for a prospective Labour government aiming to 'tackle child poverty' to only partially address the much greater cuts bearing down on lower income working families – and not mention the freeze at all.

On the other hand the Liberal Democrats have pledged to reverse cuts in full

The Liberal Democrat party has pledged to reverse these cuts in full – and actually go further pledging to boost generosity of out-of-work benefits for under-25s and match the Labour commitment to remove the 'bedroom tax' they helped introduce in coalition. With a plan to fund these changes through an acceptance of higher borrowing, rather than finding matching saving elsewhere. The SNP have previously indicated their opposition to the various cuts on past occasions, though we are yet to see their manifesto commitments.

[7] DWP, *Impact Assessment to remove the ESA work-related activity component*, July 2015

Tax plans, whether revenue raisers or giveaways offer little by way of mitigation

As noted in our briefing on tax, the policy impact on living standards are a product of the interaction of tax and welfare together. Just as it is wrong to highlight gains or losses associated with a tax change in isolation, so any assessment of welfare changes should consider any offsetting impacts from tax policy.

Table 1 provides an indication of the impact of combined tax and benefit policies as well as the introduction of the National Living Wage for a number of different family types, mostly representing low-to-middle income households. Unlike earlier analysis above that focuses on the impact of the cuts to come, the table compares the impact of policies announces since May 2015. As can be seen while some low paid individuals may gain – such as a single worker aged 25-plus on the wage floor who has no children, families with children entitled to Universal Credit could be up to £3,000 a year worse off in 2020 under policies announced since the Summer Budget 2015.

Table 1: Impact of policy changes announced this parliament on example families

	Net household incomes (before housing costs)	Pre-parliament policy	*Policy announced since May 2015*
a	**Single (no kids), full time, earning wage floor, renting** *works 37.5 hours per week at NMW/NLW , rents privately at 30th pctile*	£11,400	*+£1,400*
b	**Single (1 child), part time, earning wage floor** *works 20 hours per week at NMW/NLW*	£14,400	*-£1,900*
c	**Single (1 child), full time, low earning, renting** *works 37.5 hours per week at p25 wage , rents social housing at average rents*	£17,300	*-£800*
d	**Couple (2 kids), full time single earner on wage floor** *main earner works 37.5 hours per week at NMW/NLW*	£21,000	*-£1,000*
e	**Couple (2 kids), low earning/wage floor, renting** *main earner works 37.5 hours per week at p25 wage , second earner works 20 hours per week at NMW/NLW , rents privately at 30th pctile*	£29,200	*-£500*
f	**Couple (3 kids), low earning/wage floor, renting** *main earner works 37.5 hours per week at p25 wage, second earner works 20 hours per week at p25 wage, rents privately at 30th pctile*	£32,100	*-£3,000*
g	**Couple (2 kids), low/mid earning** *both work 37.5 hours per week, main earner at median wage , second earner at p25 wage*	£34,800	*+£100*
h	**Couple (no kids), high earning** *both work 37.5 hours per week at p90 wage*	£74,700	*+£600*

Notes: Figures relate to modelled hypothetical outcomes in 2020-21 on the assumption that these families receiving in-work benefits are in the Universal Credit system. In examples b, d and f the first child is born before April 2017; the 3rd child in example f is born after April 2017. All figures are presented in 2016-17 prices, deflated using CPI. Impacts cover the effects of direct tax and benefit changes, the introduction of the National Living Wage and new childcare support but assume no behavioural changes or dynamic effects. Wage floors (NMW and NLW) reflect OBR projections for 2020. Figures may not sum due to rounding (all are rounded to nearest £100). Inflation and earnings projections are taken from OBR forecasts.

Source: Resolution Foundation analysis using RF microsimulation model

The latest Labour and Liberal Democrat tax pledges are covered in more detail in our accompanying tax note[8], but the focus has been on raising revenues rather than supporting incomes. The Liberal Democrat proposal for a broad based income tax rise will obviously lower incomes; Labour plans would directly affect higher earners, though wider moves to raise Corporation tax could have some indirect effects on incomes more widely.

The Conservative party have recommitted to their pledge of lifting the Personal Allowance and Higher Rate Threshold to £12,500 and £50,000 respectively. Of the £1.3 billion total cost four-fifths of the gains go to the richest half of households.[9] Such a move will do little to offset welfare losses.

[8] A Corlett, *A matter of tax: pre-election briefing on the main parties' tax policies*, Resolution Foundation, May 2017

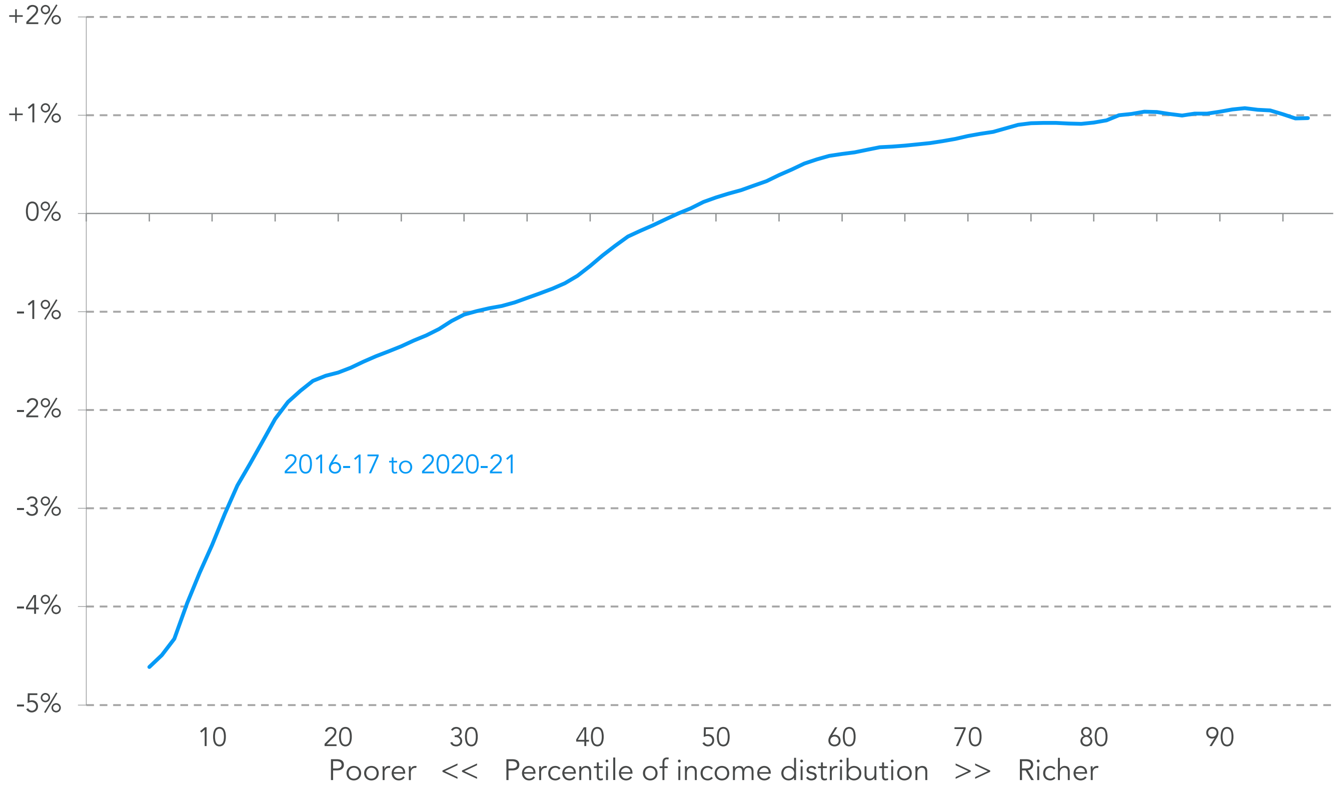
[9] S Clarke et al, *Are we nearly there yet? Spring Budget 2017 and the 15 year squeeze on family and public finances*, Resolution Foundation, March 2017

Due to slow implementation, low inflation and some measures only kicking in this year these significant changes to the structure and generosity of working age support have so far been largely unnoticed. Indeed, most households this year and last will have gained overall from income tax cuts and a higher wage floor. That is about to change.

The last election campaign was characterised by the division between the main parties over the extent welfare cuts were needed at all to reduce the deficit. Those cuts have outlived the fiscal debate and are set to drive a potential fall in incomes of 10 per cent for the poorest third of working age households, shown in Figure 3, and a rise in inequality not seen since the 1980s.[10] That means it's very important to pay close attention to the precise detail of the party offerings, and indeed for them to provide the detail necessary to understand the implications of their proposals.

Figure 3: Forecast income average annual household net income growth to 2020-21

Real equivalised household disposable after-housing income growth, 2016-17 to 2020-21, working-age



Notes: Includes impact of National Living Wage, announced income tax cuts, removal of family element, limiting support to two children, work allowance cuts, Class 2 NICs abolition, benefit freeze & reducing UC taper to 63 per cent. Assumes full take-up of benefits, UC 75 per cent rolled out & measures affecting new claims/births half in place. Budget 2017 scenario uses policies announced by Budget 2017 and OBR economic assumptions in March 2017.

Source: RF analysis using IPPR tax-benefit model and OBR, Economic and Fiscal Outlook, various & DWP Family Resources Survey.

Welfare approaches matter, not just for incomes but incentives too: UC cuts risk weakening these. But it's not just the generosity of the system that is falling, the shape of support is also changing, affecting financial incentives to work. While their manifesto pledges no further 'radical welfare reform' one possibly important change in stance between the current Chancellor and his predecessor was the move to spend some additional money on Universal Credit.

[10] A Corlett & S Clarke, *Living standards 2017: the past, present and possible future of UK incomes*, *Resolution Foundation*, January 2017

This came via the taper. Reducing the taper rate by 2 per cent was a relatively small measure meaning that workers would keep an extra 2p of each additional pound earned, an extra 1p if they pay tax. That's 37p in the pound for people earning less than around £8,000 year and 25p for income tax payers.

This signalled a possible stronger focus on progression – important to boost living standards in future. With employment at record highs, worklessness at record lows but two-thirds of children in poverty living in working households,[11] increasing earnings is an important route to boosting living standards. However, much greater movement on the taper would be needed to have a significant effect on incentives, and indeed to compensate those losing out from work allowance cuts – a near impossible outcome for the lowest earning single parents.

But overall cuts to Universal Credit weaken financial incentives where it matters most

It is important that any welfare system provides an appropriate balance between three core trade-offs: adequacy of income, the level of spend by government and financial incentives to work. The anticipated fall in incomes for the poorest half of households is a clear indication of the direction of travel for one of those pillars. And, despite reducing incomes for many, the strength of financial incentives for some remains in question.

Across the whole population the combination of a higher wage floor, lower rates of direct taxation and less generous benefit system mean that the financial return from working will on average be strengthened.

However, for certain groups, particularly single parents and second earners – typically mums – financial incentives will be weaker. And these are groups known to be sensitive to such returns:

» At 16 hours of work a single parent will be worse off under UC than in the current tax credit system. Their optimum 'sweet spot' that balances their income from work against the high taper rates of the benefit system will be at 5 or 10 hours of the wage floor – lower than the 16 hours in the current system and creating the risk that single parents are trapped at low levels of earnings with little incentive to progress.[12]

» The lowest earning parent in a couple may question whether it is worth working at all. The taper of 63 per cent will apply to every pound earned meaning a parent returning to a part-time role (20 hours a week) on the National Living Wage could keep only £55 of the £150 that they earned each week.

Stronger incentives for the most disadvantaged come at the price of their living standards

And for others those incentives are strengthened by making them significantly worse off. Limiting support for families with children will mean that a family with two children having a new baby to make it three would be up to £3,325 a year worse off. That is likely to make life very tough for the most disadvantaged. Theoretically at least it means the financial return from working becomes relatively greater but at the price of potential hardship. A similar argument applies to those affected by the benefit cap.

So far no political party manifesto has expressed concerns about the work incentive mix being created – either their strength or how they are being achieved. That might reflect a need to avoid language that means little to voters, but nonetheless these are serious policy considerations, ones

[11] DWP, *Households Below Average Income: 2015-16*, March 2017

[12] D Finch, *Universal Challenge: making a success of Universal Credit*, Resolution Foundation, May 2016

that may prove hard to undo once done. That is why it is important that any moves to change the generosity of in-work support – such as the restoration proposed by the Liberal Democrats or Labour's review of the policy – recognises the importance of the shape and strength of financial incentives and how they are being achieved.

A growing older population is placing upward pressure on welfare spend, with important intergenerational implications

With an ageing population, the generosity of support for pensioners is becoming ever more important to the balance of welfare spend. The upward effect on pensioner spend creates pressures not just in the welfare budget but the whole of the government finances. It also presents a challenge for government to fairly allocate resources between generations. But this it should do.

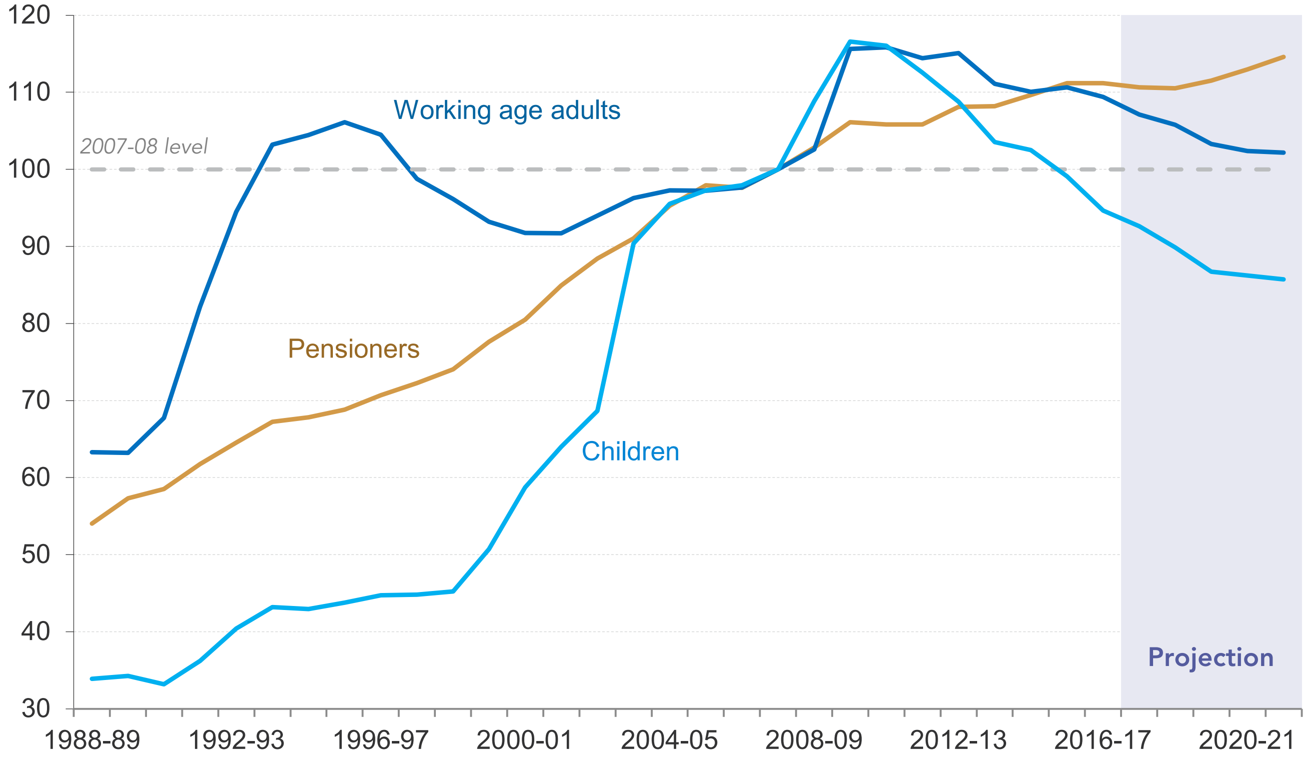
On current policy plans, welfare spend is expected to remain broadly flat over the next four years. Spend on working age families is set to fall, reducing by 0.5 per cent of GDP between 2016-17 and 2021-22 to 4.3 per cent. That's equivalent to a real terms fall in spending of £1.3 billion since 2016-17.

Although pensioner benefit spend as a share of GDP is set to fall by 0.3 per cent of GDP between 2016-17 and 2020-21, driven by increases in State Pension age to 66 over the period limiting the size of the pensioner population, spend will start to rise after 2020-21. In real terms, overall spend will rise by £3.8 billion between 2016-17 and 2021-22. That is an increase three times the size of the fall in funding for working age families.

Considered on a per head basis the more generous treatment of pensioners is clearer. Figure 3 shows the historic pattern of benefit spend per head for support targeted at different groups: pensioners, working-age adults and children. Spend for working-age groups to an extent reflects cyclical effects. But despite unemployment falling to near record lows spend per head is still projected to fall to 2021-22 – the last year for which data is available. Support for children has fallen by 14 per cent below the pre-crisis level in 2007-08. For pensioners it has increased by 15 per cent.

Figure 4: Change in per-head value of benefits benefit spend for different groups, UK

Per head value of benefits, 2007-08=100, CPIH terms



Source: RF analysis using DWP, Spring Budget 2017 Expenditure and Caseload forecasts, March 2017

Notes: A historic index of CPIH is available to 1988-89 but for projected years the analysis simply takes the forecast trend in CPI from the latest OBR economic projections.

And longer term pensioner spend is likely to grow, even if new proposals would slow the pace

But it is over the longer term that true pressure will grow. State pension spend will increase by a further 0.7 per cent of GDP by 2030, before a further SPA rise provides a temporary slowdown. By 2066 spend is expected to rise by almost a quarter to 7.1 per cent of GDP, compared to 5.0 per cent in 2020.[13]

The last Conservative manifesto protected pensioner benefits – the State Pension, Pension Credit and various payments like Winter Fuel Payments. It also committed to maintaining triple lock uprating (the higher of inflation, earnings or 2.5 per cent) for basic (and new) State Pension, a policy with Liberal Democrat origins under the coalition government. The fact that uprating commitment alone adds 0.9 per cent of GDP to spend by 2066 – almost half of the rise – reflects the importance of decisions made now on the long term sustainability of pensioner spend.

However, the biggest changes to short term State Pension entitlement were actually part of the Conservative manifesto in 2010 – the increase in State Pension age to 66 by 2020 was expected to save DWP a total of £30.6 billion – and was again introduced in 2010 to 2015 under the Coalition.

[13] Under a baseline of legislated SPA rises: OBR, *Fiscal Sustainability Report*, January 2017

The Conservative manifesto marks an important shifting of the intergenerational debate

The Conservative manifesto provides welcome recognition of the growing concern about living standards between generations as they look to 'restore the contract between the generations' with 'the solidarity that binds generations...under strain'. It is this very issue that lies at the heart of our Intergenerational Commission. While this is a welcome change in tack, it remains to be seen how far policy will meet the challenge. Only the future will tell whether the rhetoric is matched by policy commitments.

In stark contrast to the lack of commentary on working age benefits, the Conservative manifesto has important things to say about pensioner benefits, though equally important are the things that are not said. Perhaps the most eye-catching proposal is to means-test Winter Fuel Payments (WFPs) to focus support on the 'least well-off pensioners'. In 2017-18 the government expect to spend £2.1 billion a year on WFPs, a poorly targeted £200 to £300 payment per household payment ostensibly helping 12 million pensioners deal with higher fuel bills in winter. And of course those funds are ear-marked to re-invest in the older population via social care funding.

Based on current benefit structures the simplest method of delivery would be via Pension Credit, the income top-up for lower income pensions. That could save in the region of £1.7 billion a year, restricting entitlement to 2.2 million pensioners. However, with low take-up rates at around two-thirds of the entitled population[14] many lower income pensioners are likely to miss out if such an approach is taken. Introducing an alternative form of means-test could mean a new system altogether or a link to the tax system and have similar take-up issues. Either way it may mean fewer pensioners lose out, but will lead to an additional complex admin burden.

While not overtly referencing issues of intergenerational fairness the Liberal Democrat manifesto also proposes means-testing entitlement to WFPs, but only to those with income above the Higher Rate Threshold (with at least £45,000 a year of taxable income in 2017-18). Such a restriction would save in the region of £100m a year and affect approximately 5 per cent of current recipients. Nonetheless it highlights the sea change in the balance of support between younger and older generations.

Labour have taken a step in the other direction by committing to the triple lock over the rest of the next parliament (increasing the basic (and new) State Pension) by the higher of prices, earnings or 2.5 per cent), as has the Liberal Democrat manifesto. The Conservative party pledge to maintain the lock until 2020 but then implement a 'double lock' (the higher of growth in earnings or prices) which is estimated to reduce the 0.9 per cent of GDP long run cost of the triple lock by 0.2 per cent.[15]

For a policy that attracts so much debate, in the shorter term (with a caveat of how uncertain projections can be) at least we can expect it to have very little impact. The 2.5 per cent underpin provided a small boost in April 2017, and is expected to add a small further boost via inflation in April 2018 but latest OBR projections suggest that's only a 25p 'lock lift' in the weekly rate of basic State Pension by April 2022 – a £150 million increase in the annual £94 billion State Pension budget.

The estimated over £4 billion additional cost of the triple lock[16] on top of a simple earnings link between 2012 to 2015 occurred in special circumstances. It was a unique product of a prolonged period in which earnings grew more slowly than inflation, at a time when government were committed to switching from price to earnings indexation in the parliament. Rarely mentioned is the long term significance of that switch – or how using CPI inflation in the lock, rather than RPI, actually saved money.[17]

[14] DWP, *Income-related benefits: Estimates of take-up in 2014-15*, June 2016

[15] C Emmerson & A Hood, *Moving from a Triple to a Double Lock does little to long-run state pension affordability*, IFS, May 2017

[16] D Thurley & R Keen, *State Pension triple lock*, House of Commons Library, April 2017

[17] OBR, *Welfare trends report*, October 2016

All the talk of savings will only really come into play over the very long term. Over that timeframe it makes sense for the State Pension to broadly rise in line with earnings – it ensures that pensioner incomes maintain parity with working age incomes. And it also makes sense to avoid building over-indexation into the long term public finances. Though perhaps it is more realistic to do so.

Projections are always uncertain, but triple lock or not, what seems more certain is that any stripe of government would find it hard – given the scarring to the collective political memory of the reaction to Alistair Darling's 75p rise in the weekly rate back in 2000 – to stick to earnings uprating in a period in which earnings growth is outstripped by both inflation and the 2.5 per cent underpin. Or indeed to increase by less than earnings in a time of strong earnings growth.

Just as important for long term sustainability is how fast State Pension age will rise, but here parties may not be as far apart as they first seem

A final determinant of future State Pension spend is how many people are entitled. With origins back to Adair Turner's Pension Commission back in 2004, State Pension age is set to rise, very broadly, in line with increases in life expectancy so that pensioners spend a third of their adult life in retirement. On latest projections that would mean a State Pension age of 67 in 2028, rising to 68 by the late-2030s.

The Cridland review conducted in the previous parliament came down on a very similar timetable, though linked this pace of change to removal of the triple lock, balancing generosity with the size of the entitled population.

The Conservative manifesto pledges to 'ensure that the state pension age reflects increases in life expectancy, while protecting each generation fairly'. The Liberal Democrats fail to mention it. On the face of it Labour have committed to no further increases in State Pension age once age 66 is reached in 2020 by rejecting current policy plans to 'increase the state pension age even further'. Instead they will 'commission a new review of the pension age'.

But it is worth noting that there are already no plans to further increase SPA until 2026, when it starts to rise to 67. And current legislation dictates that a review is held every parliament[18] to determine the future path of SPA. John Cridland's[19] was the first and deliberated on flexible approaches to retirement, similar to those mentioned in the Labour manifesto, though perhaps did not go as far.

The greatest difference may end up being the current convention of providing at least ten years notice for a further SPA rise. A new Labour government providing such notice would relating to a rise to 67 would inevitably push it back to at least 2030 if that principle were to be maintained. Though its sounds radical Labour policy may in reality more closely reflect the status quo.

However, it should be remembered that policies put in place in the next parliament can have a real and lasting effect on the long term sustainability of welfare spend. And will inevitability lead to trade-offs elsewhere, be it reduced spending on other benefits or services, higher levels of taxation, or indeed higher debt.

A rising share of resources allocated to pensioners is a practically inevitable outcome in an ageing society. And it is right that with such large demographic shifts the state adapts. It is in everybody's interest to ensure an adequate standard of living for today's and tomorrow's oldest generations. But that is also the case for younger generations living standards. It is appropriate to question how best to allocate limited resources across different age groups with different standards of living, especially at a time when the poorest half of working age income is set to be lower in 2020 than today.

[18] Pensions Act 2014

[19] *Independent Review of the State Pension Age: Smoothing the Transition*, March 2017

Little sign of plans for radical welfare reform. But next parliament remains hugely important to the near- and longer-term position of living standards

This election's manifestos provide a mixed bag. The Conservatives show signs of starting to grapple with increasing demands from an ageing population, but say little on the incomes of working age households. The other parties go far further in addressing the living standards challenge for working age households by reversing at least some of the cuts already in train, but do little, if anything to face the growing costs of servicing an ageing society.

Resolution Foundation

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- *undertaking research and economic analysis to understand the challenges facing people on a low to middle income;*
- *developing practical and effective policy proposals; and*
- *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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