Pensioner progress

The impact of personal tax and benefit changes since 2010 on pensioner families

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Mike Brewer, Alex Clegg & Lalitha Try

Tax-paying pensioners did not gain anything from the Chancellor's Budget last week, and policies announced since 2019, including the six-year freeze to tax thresholds, will cut the incomes of pensioners by an average of £900 a year, with the largest losses felt by pensioners on the highest incomes.

This has prompted accusations that the Government has neglected older generations ahead of the next election. But recent tax rises need to be seen in the longer-term context of policy generally favouring pensioners since 2010. Taking a rounded view of all tax and benefit policies announced since then – most importantly the introduction of the 'Triple Lock' and the New State Pension – shows that pensioners are, on average, actually £1,000 better off. Looking over this longer period, the biggest cash gains accrue to middle-income pensioner households – who are set to gain £1,400 on average. Pensioners in the poorest fifth of the population are set to gain £560 on average, and only those in the richest 5 per cent are set to lose overall, by £1,800 on average.

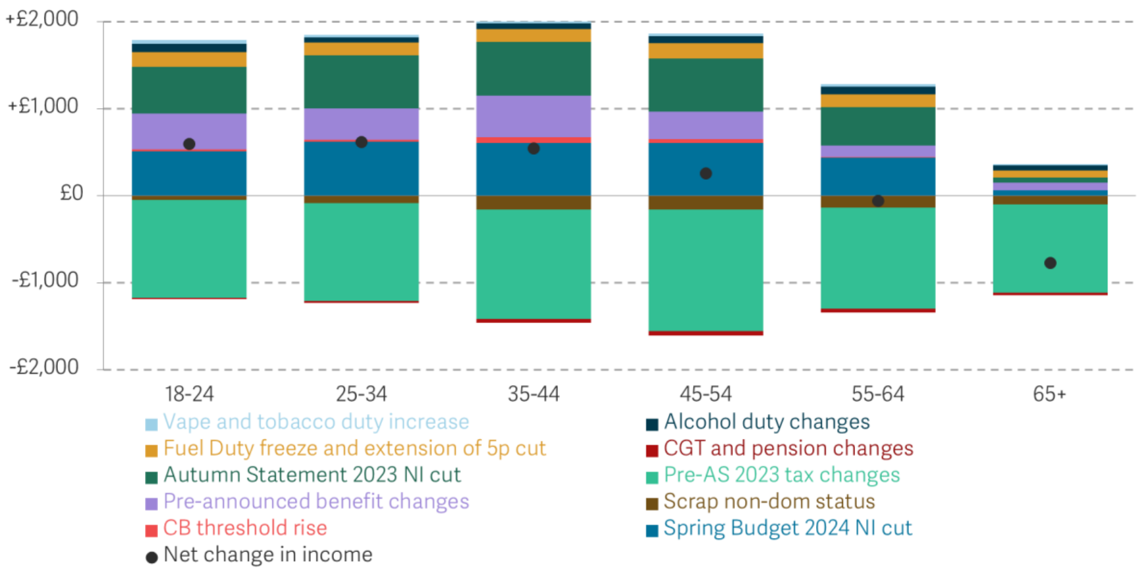
These longer-term changes, the fact that pensioners already pay lower rates of tax due to their exemption from National Insurance, and the fact that pensioners today are less likely to be in poverty than the rest of society, all mean that, given his desire to cut personal taxes, the Chancellor was right to focus tax cuts in the way he did in the Budget.

The centrepiece of Jeremy Hunt's Spring Budget was a 2p cut in employee and self-employed National Insurance rates, to follow January's 2p cut in employee rates (and a 1p cut in the rate for the self-employed). National Insurance does not apply to unearned income, nor to the earnings of people over the state pension age, so this £10 billion-a-year tax cut was in that sense a helpful reform to the system, reducing the tax distortions working against employees and against those under the state pension age, but worth nothing directly to pensioners.

That in itself is nothing for pensioners to complain about: after all, they will still face significantly lower tax rates than working-age people. But it is relevant in the context of other tax policies. When we consider all the permanent tax and benefit changes announced since the 2019 General Election, as we did in [our overnight assessment of the Budget](), then it's clear that these have resulted in a net giveaway, on average, to working-age households, driven by the 4p cut in employee National Insurance rates, but a takeaway from pensioner households (see Figure 1). These changes for pensioners are overwhelmingly driven by the six-year freeze to Income Tax thresholds, which will lead to an average loss of £770 a year for 8 million taxpaying pensioners.

Figure 1 **Tax and benefit measures announced this Parliament have favoured working-age families more than pensioner families**

Impact of all permanent tax and benefit policies announced this Parliament, by age band: UK, 2027-28

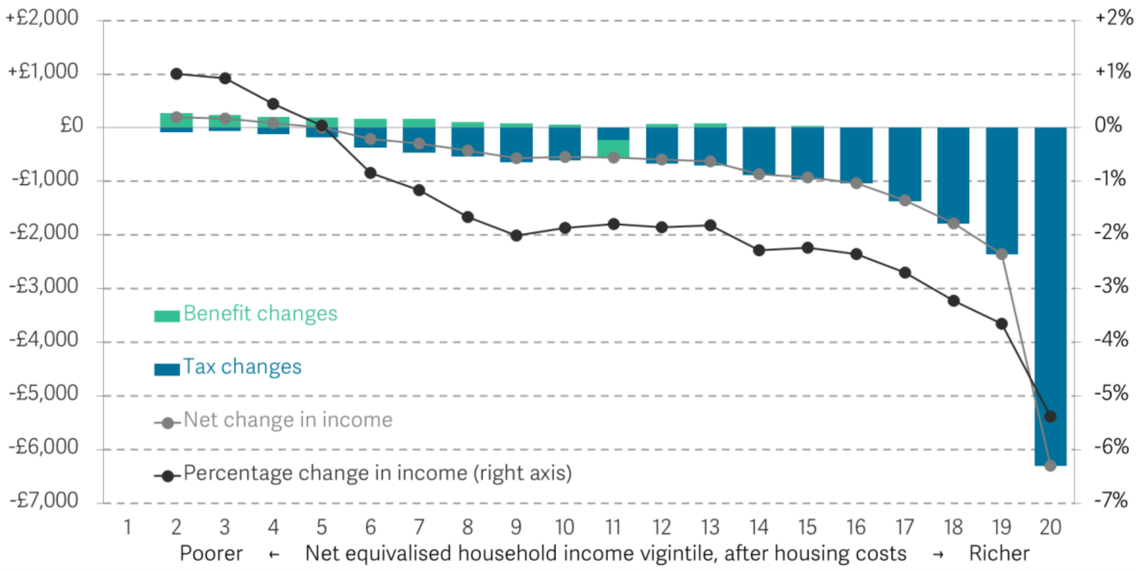


Notes: Data is shown in 2024-25 prices. Spring Budget NI cut refers to the 2p cut to National Insurance. CB threshold rise refers to the increase in the thresholds for the High Income Child Benefit Charge. Pre-announced benefit changes include Pension Credit CPI uprating in 2023-24, reduction in the taper rate, increase in work allowances, benefit cap uprating in 2023-24, increase in UC childcare support caps, and increasing Local Housing Allowance to the 30th percentile of local rents in 2024-25. Pre-AS 2023 tax changes include the increase in National Insurance threshold, Income Tax and National Insurance tax threshold freezes, Income Tax additional rate threshold reduction, increase in dividend tax rates and reduction in dividend allowances. Autumn Statement 2023 NI cut refers to the 2p cut to employee National Insurance, 1p cut to Class 4, and abolishment of Class 2. CGT and pension changes refers to the change to Capital Gains Tax entrepreneurs' relief, reduction in CGT exempt amount, reduction in the CGT property tax rate and increase to annual allowance and abolition of lifetime allowance in pension taxes. Alcohol duty changes include freezes and other policy changes. Vape and tobacco duty increase include the new vape duty and increases in duties on tobacco during the parliament.
Source: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model; ONS, Living Costs and Food Survey; HMT, policy costings.

We can also look at the distributional impact of the permanent personal tax and benefit changes this Parliament on pensioner families – as we do in Figure 2. These changes have reduced incomes for all but the lowest-income pensioners. Indeed, although pensioners in the bottom 20 per cent of the income distribution will see their incomes rise by £170 – thanks to a slight increase in some means-tested benefits that pensioner households receive – those in the top 20 per cent will see their incomes fall by £3,100. This pattern is very similar to the one that we see for [working-age households]().

Figure 2 **Personal tax and benefit measures announced this Parliament have reduced incomes for all but the lowest-income pensioner families**

Impact of permanent tax and benefit policies announced this Parliament on pensioner incomes, by income vigintile: UK, 2027-28



Notes: Data is shown in 2024-25 prices. Benefit changes include Pension Credit CPI uprating in 2023-24, reduction in the taper rate, increase in work allowances, benefit cap uprating in 2023-24, increase in UC childcare support caps, and increasing Local Housing Allowance to the 30th-percentile of local rents in 2024-25. Tax changes include the increase in National Insurance threshold, Income Tax and National Insurance tax threshold freezes, Income Tax additional rate threshold reduction, increase in dividend tax rates and reduction in dividend allowances, the Autumn Statement 2023 2p cut to employee National Insurance, 1p cut to Class 4, and abolishment of Class 2, and the 2p cut to employee and self-employed NICs from the Spring Budget 2024. We exclude the bottom 5 per cent, due to concerns about data reliability.

Source: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model.

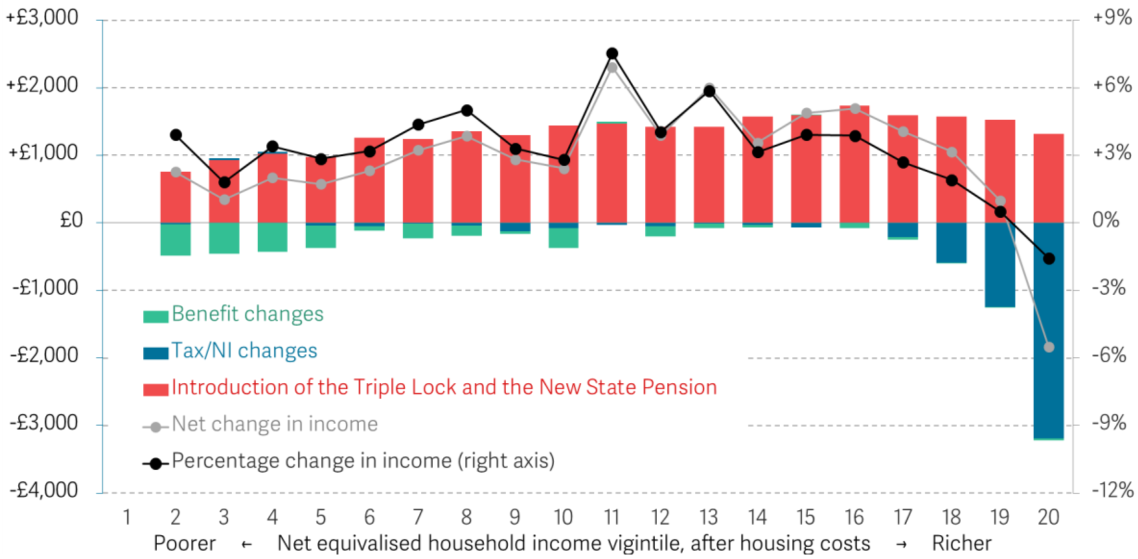
Some people have criticised the approach taken in recent Budgets as not benefiting pensioners. But there are two reasons why such concerns are misplaced – both of which involve taking a longer view than just the current Parliament.

First, as the Chancellor himself said, a focus on this Parliament's decisions (as we do in Figure 1 and Figure 2) ignores the most important single decision affecting pensioner incomes taken by Conservative governments since 2010: the decision to increase the basic State Pension by the Triple Lock (i.e. by the greatest of growth in average earnings, prices or 2.5 per cent).[1] Over time, this single policy change has led to the State Pension growing by 60 per cent between 2010-11 and 2023-24, compared to a cumulative change in both prices and earnings of 46 per cent. Over the same period, the basic rate of working-age benefits rose by only 30 per cent.[2]

In Figure 3, we show the impact of the Triple Lock along with the other key changes affecting pensioner households since 2010 (principally the changes to Income Tax rates and thresholds, including the abolition of the additional tax allowances for those over the state pension age, as well as minor changes to means-tested benefits affecting those over the state pension age).[3] It shows that tax measures have led to higher-income pensioners losing out, although for middle-income pensioners the more-generous treatment of savings income has helped offset the impact of a lower real-terms personal allowance. But these changes are swamped by the impact of the Triple Lock and the introduction of the New State Pension, which benefits those who reached the state pension age from April 2016.

Figure 3 **Personal tax and benefit measures announced since 2010 have raised incomes for all but the richest pensioners**

Impact of permanent tax and benefit policies announced since 2010 on pensioner incomes, by income vigintile: UK, 2027-28

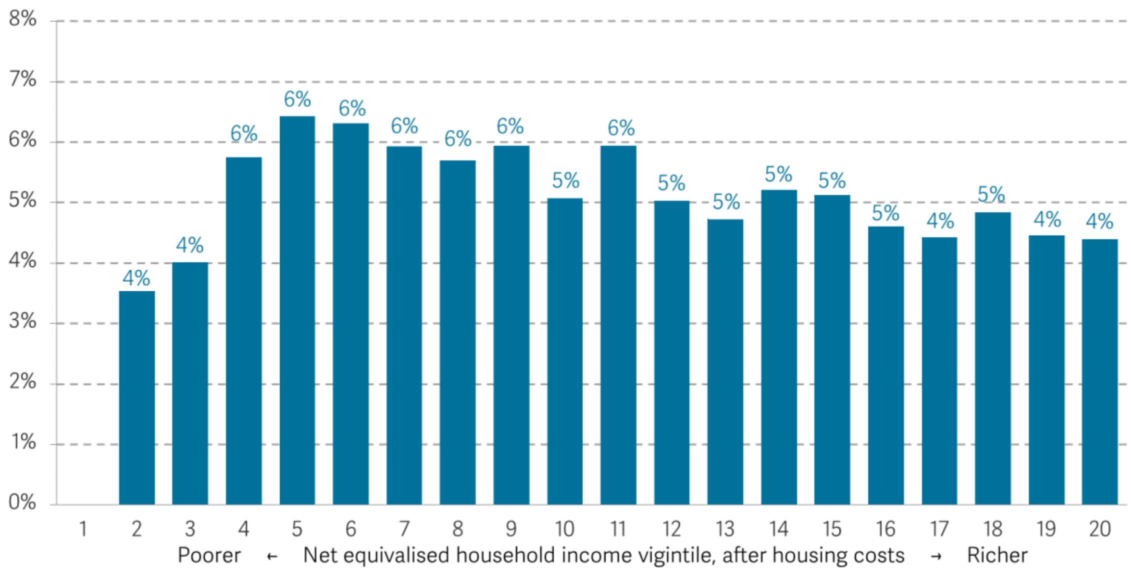


Notes: Data is shown in 2024-25 prices. Benefit changes include changes to Pension Credit entitlement rules, the Local Housing Allowance being pegged to the 30th- rather than 50th-percentile of rents, and below-inflation benefit uprating in multiple years. The counterfactual is all standard benefit rates from 2010 uprated each April by the previous September CPI. Tax and NI changes include all changes in thresholds and rates, the introduction of the Marriage Allowance and Savings Allowance, and changes to dividend taxes. The counterfactual for the introduction of the Triple Lock and New State Pension is the Basic State Pension for all, uprated by average earnings. We exclude the bottom 5 per cent, due to concerns about data reliability.
Source: RF analysis of DWP, Family Resources Survey using the IPPR tax-benefit model.

The second reason that concern over the approach taken in recent fiscal events is misplaced is that pensioners as a group are no longer especially likely to be poor. In fact, pensioners are now less likely to have a low income than other groups: in 2021-22, only 16 per cent of pensioners were in the bottom fifth of the overall income distribution (we would expect 20 per cent to be if pensioners were as likely to have a low income as other groups). Indeed, as Figure 4 shows, pensioners are spread fairly evenly across the income distribution, although they are a little more likely to have a below-average income than a very high income.

Figure 4 **Pensioners are relatively evenly spread across the income distribution**

Proportion of the pensioner population in each income vigintile: UK, 2021-22

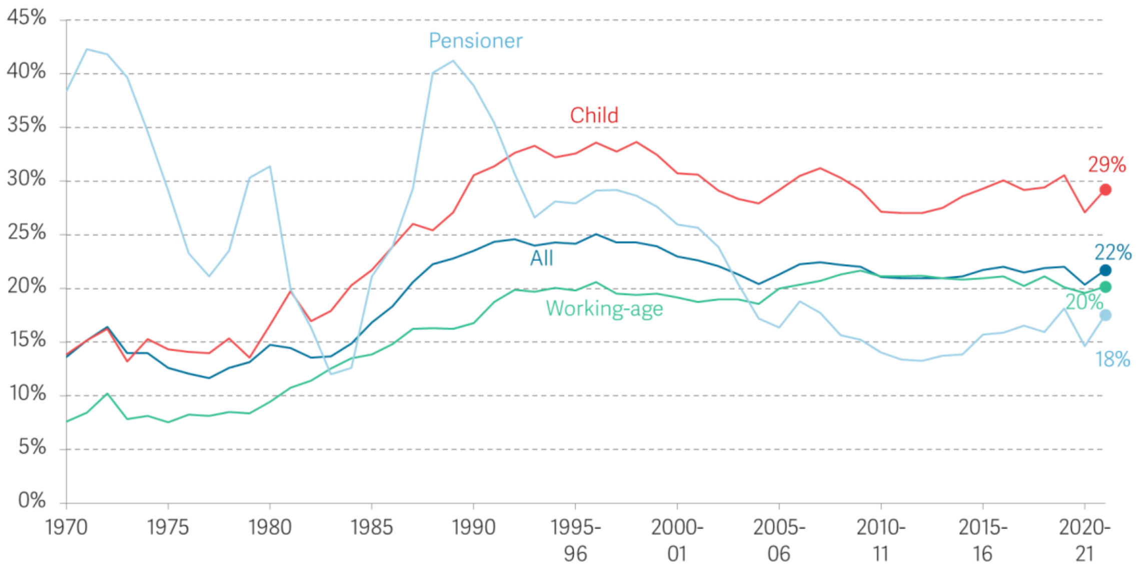


Notes: Vigintiles are of the whole-population income distribution. We exclude the bottom 5 per cent, due to concerns about the reliability of data for this group.
Source: RF analysis of DWP, Households Below Average Income.

This is a dramatic change from the past. As Figure 5 shows, over the past four decades, the relative poverty rate for pensioners has fallen from a peak of 41 per cent in 1989 to 18 per cent in 2021-22. (It has been rising since 2012-13, but this may be due to data issues.) As a recent survey of trends in income inequality concluded: "Pensioners used to be by far the most likely to be in poverty […] now they are the least likely." This change in the relationship between old age and low income is one of the most profound social and economic changes this country has seen over the past few decades.

Figure 5 **Pensioners are now the least likely age group to be in poverty**

Proportion of people in relative poverty, after housing costs: GB/UK



Notes: Data source changes in 1994-95. GB from 1994-95 to 2001-02.
Source: RF analysis of DWP & IFS, Households Below Average Income.

So Jeremy Hunt is right to say that the key decision to uprate the basic State Pension faster than average earnings means that personal tax and benefit decisions since 2010 have still benefited the vast majority of older people. Only the richest pensioners have been left worse off, with gains from the higher State Pension offset by Income Tax rises. But this is also why he was right in his most recent fiscal events, given his desire to reduce personal taxes, to have focused tax cuts on working-age families.

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1 The analysis in this Spotlight also looks only at measures that will still be in place by 2027-28, so it ignores the additional support provided to all pensioners during the cost of living crisis in the form of higher Winter Fuel Payments and the support that many Local Authorities have given to low-income pensioners through the Household Support Fund.

2 The Labour Government under Gordon Brown had previously committed, in principle, to increasing the state pension in line with earnings during the Parliament beginning in 2010, but the Triple Lock has meant that the state pension has risen faster than growth in average earnings.

3 As with the other analysis, we look only at permanent reforms, so this does not consider the temporary Cost of Living Payments. We also exclude some personal tax changes affecting the very rich.