

Dear Colleagues,

2023#5 The Future of the Welfare State

Thank you to everybody who submitted a response to our consultation on the future of transportation. This briefing paper is the third in our series of consultations looking beyond the short-term political horizon to the future.

Make sure that your Conservative Association or Federation has a date in the diary to be a part of this forward-looking agenda—and, as usual, be sure to invite as many members and supporters as possible. Please send your responses to the questions in this briefing paper to CPF.Papers@conservatives.com, using the associated response form published alongside the paper on the CPF website. The deadline for submitting your response is 14th January 2024. We aim to publish our next discussion paper on 15th January, in which we anticipate looking ahead to the general election.

We look forward to hearing your views,

The CPF Management Team

John Hayward
CPF Manager

Penny-Anne O'Donnell
Voluntary Director

John Penrose
Chairman

Fleur Butler
Vice-Chairman

www.conservativepolicyforum.com
[@ConservativePF](https://twitter.com/ConservativePF)

The challenge ahead

“Lloyd George and the Liberals introduced the old age pension. Attlee and Labour brought in comprehensive National Insurance. Margaret Thatcher’s government introduced Family Credit. So it would be wrong to see there being a single moment in history, under a single party, when the current welfare system sparked into being – and of course there will never be a point in the future when the job is done and no further reform is needed.” (From welfare state to welfare system, 16 November 2016)¹

*“Changes in the way we think about the welfare state have eroded our understanding of its mutuality – our understanding of it as a shared insurance pool to which we all contribute through our taxes and contributions and which we can all draw from when we are old or face the additional costs of children.”
(David Willetts, 1 July 2016)²*

*“There remain over 2.5 million people who are inactive because of long-term sickness and disability. ... the proportion of people going through a work capability assessment who are being given the highest level of award and deemed to have no work-related requirements at all has risen from 21% in 2011 to 65% last year.”
(Mel Stride, Work and Pensions Secretary, 5 September 2023)³*

N.B. Significant aspects of social security policy are reserved in Great Britain. Largely equivalent welfare provision is available in Northern Ireland, whereas the devolution of some social security powers to Scotland since 2016 has substantially altered the structure of welfare provision in the UK. For details, see the Commons Library report “An introduction to social security in the UK”.⁴

Just over half (51%) of families in the UK received a type of state support in the three years to March 2021.⁵ Nearly half of all state welfare spending is on people of pension age (47.8% in 2021/22), most of this being accounted for by state pensions. The next largest proportion is spent on working-age benefits such as Universal Credit (30.9%). In July 2023, the number of people claiming Universal Credit stood at a record 6.1 million, including 2.1 million with ‘no work requirements’.⁶ Disability benefits and Child Benefit account for 10.7% and 4.7% of state welfare spending, respectively.⁷ (See Charts 1 and 2).

Several factors mean that the number of pensioners is expected to continue increasing relative to the number of people in work. These include people living to older ages, women having fewer children, young people staying in education for longer and increasing numbers of 50-64 year-olds deciding to retire early.

- The number of people aged 65 years and over increased from 9.2 million in 2011 to over 11 million in 2021. The proportion aged 65 years and over rose from 16.4% to 18.6%.⁸
- By 2042, a quarter (24%) of people in the UK are expected to be aged 65 or older.⁹
- One-in-forty (2.5%) older people were living in care homes in 2021. In addition, there were almost 1.2 million unpaid carers aged 65 years and over in England and Wales, just over 1 in 10 of the older population.⁸
- The average fertility rate has been below 2.0 children per woman since 1973. In 2021, the average number of children per woman stood at 1.61.¹⁰ (See Charts 3 and 4).

The current UK state pension age of 66 for both men and women is higher than the average for developed economies.¹¹ It is legislated to rise to 67 between 2026 and 2028 and to 68 between 2044 and 2046.¹² Despite this, as the House of Lords Economic Affairs Committee has observed, “The UK stands out among developed economies in having a

growing inactivity rate and not reverting to its pre-pandemic trend” and “The biggest contributor to this change has been an increase in early retirement.” As the Lords’ report cautions, this all “damages growth in the near term” and “reduces the revenues available to finance public services while demand for those services will grow.”¹³ (See Charts 5 and 6. Also see the Appendix for a reminder about the differences between public and private sector pensions, discussed by CPF Groups in summer 2022.)

Questions for discussion

1. How might we adjust the balance between supporting vulnerable individuals and families and encouraging personal responsibility—encouraging people to work and to save for their own financial wellbeing, while still helping households with children and providing a safety net for those in genuine need?
2. What measures could be taken to streamline and simplify the welfare system, reducing bureaucracy and administrative costs while ensuring those in genuine need receive timely support?
3. In the context of an aging population and decreasing fertility rates, how might government address the sustainability of pension and elderly care provisions within the welfare system, ensuring they remain affordable and efficient?
4. What more can we do to help those who are economically inactive return to the workplace? How could we further incentivise work and entrepreneurship among welfare recipients and early retirees to support job creation and economic growth in the UK?
5. Is there any other observation you would like to make?

Sources and Further Details

¹ *From welfare state to welfare system*, Department for Work and Pensions, 16 November 2016, <https://www.gov.uk/government/speeches/from-welfare-state-to-welfare-system>

² *What the welfare state is for, in Towards a new age: The future of the UK welfare state*, International Longevity Centre, 1 July 2016, <https://ilcuk.org.uk/towards-a-new-age-the-future-of-the-uk-welfare-state/>

³ *Work Capability Assessment Consultation*, Hansard, Volume 737, 5 September 2023, <https://hansard.parliament.uk/commons/2023-09-05/debates/1B6A59DE-36DC-497C-B213-6A41E8D98819/WorkCapabilityAssessmentConsultation>

⁴ *An introduction to social security in the UK*, House of Commons Library, 1 June 2022, <https://commonslibrary.parliament.uk/research-briefings/cbp-9535/>

⁵ *State support*, Department for Work and Pensions, 12 July 2022, <https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/benefits/state-support/latest>

⁶ *Universal Credit: 29 April 2013 to 13 July 2023*, Department for Work and Pensions, 15 August 2023, <https://www.gov.uk/government/statistics/universal-credit-statistics-29-april-2013-to-13-july-2023/universal-credit-29-april-2013-to-13-july-2023>

⁷ *Economic and fiscal outlook – March 2023, Table 4.9*, Office for Budget Responsibility, 15 March 2023, <https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/>

⁸ *Profile of the older population living in England and Wales in 2021 and changes since 2011*, Office for National Statistics, 3 April 2023, <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/profileoftheolderpopulationlivinginenglandandwalesin2021andchangessince2011/2023-04-03>

⁹ *How would you support our ageing population?*, Office for National Statistics, 24 June 2019, <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/howwouldyousupportourageingpopulation/2019-06-24>

¹⁰ *Births in England and Wales: 2021*, Office for National Statistics, 9 August 2022, <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/bulletins/birthsummarytableenglandandwales/2021>

¹¹ *Pensions at a Glance 2021: OECD and G20 Indicators*, OECD, 8 December 2021, <https://www.oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm>

¹² *State Pension age review*, House of Commons Library, 6 April 2023, <https://commonslibrary.parliament.uk/research-briefings/sn06546/>

¹³ *Early retirement and our ageing population are causing labour shortages*, House of Lords Economic Affairs Committee, 20 December 2022, <https://committees.parliament.uk/committee/175/economic-affairs-committee/news/175197/early-retirement-and-our-ageing-population-are-causing-labour-shortages-says-lords-report/>