**Summary**

- The state pension is under strain, with pensioner benefits projected to continue rising as a share of GDP.
- One radical proposal that addresses issues of both sustainability and inflexibility with the state pension is the TBI's Lifespan Fund.
- However, a complete redesign of the state pension would have a knock-on impact on the workplace pension system.
- Other proposals include reshaping the triple lock and allowing flexible access for young workers.
- A successful solution needs to balance greater sustainability with the wider need for pension adequacy and simplicity.


# The right balance

**With systematic challenges ahead for the state pension, how do policymakers improve fiscal sustainability without sacrificing simplicity and retirement security?**

With an ageing population, the state pension is under strain. Designed as the bedrock of retirement security, the system is facing challenging long-term fiscal pressures. Spending on pensioner benefits is projected to rise from 6 per cent of GDP to 9 per cent by the 2070s. In this climate of fiscal constraint, the debate has turned to how to solve long-term affordability.

The Tony Blair Institute (TBI) has proposed a radical reset. In its report, *The Lifespan Fund: Reforming the state pension for a more affordable, flexible and fair future*, the thinktank proposes a complete redesign of the state pension in favour of a new, flexible retirement fund.

Under the Lifespan Fund, retirement age would be calculated on an individual basis, linked to health records. To ensure fiscal sustainability, the triple lock would be replaced with a smoothed earnings link, aimed at reducing long-term cost to the Treasury.

The TBI estimates these changes, along with reducing average time spent in retirement, would keep state pension spending at 5.5 per cent of GDP by 2070, saving £66 billion a year compared to current projections.

However, critics argue that the proposals are overly complex and that any solution needs to be assessed through the lens of the entire pension system, including the workplace pension framework.

**Reaching sustainability**

Rather than a radical overhaul, others suggest a more incremental solution to promote fiscal sustainability within the current structure. The triple lock is increasingly becoming the subject of debate.

The recent Resolution Foundation report, *What a ratchet*, argues that the triple lock has outlived its purpose, with a typical pensioner household now having the same income level as a working-age household. Their analysis suggests that replacing the 'arbitrary' ratchet with a smoothed earnings link would save £650 million by 2029-30, providing the government with a far more sustainable, predictable, and fair way to manage long-term costs.

However, the authors note that there is no easy answer to the question of when to "stop the triple lock," adding that "in a world of competing priorities, our view is that we have reached a plausible limit already. The new state pension is now 35 per cent of average earnings, or 30 per cent of median full-time earnings".

AJ Bell head of personal finance, Sarah Coles, agrees that the triple lock in its current form is under pressure, noting that the current mechanism pushes the state pension higher even "at times of low inflation and low wage inflation. This is likely to mean a rise in taxes for working-age people and an impact on broader public services".

Beyond reshaping the triple lock, other options to promote sustainability include raising the state pension age faster. However, Coles warns that, "without improvements in health at older ages, this may mean more people relying on working-age benefits later in life". While promoting fiscal sustainability, increasing the state pension age without improving health outcomes risks reducing pension adequacy, especially for those in ill health.

**The interplay with workplace pensions**

Alongside considering fiscal sustainability, policymakers must balance the wider implications of any reforms. The state pension forms the foundation of the UK pension system, which also includes workplace pensions, and any redesign would need to be carefully structured to avoid destabilising overall retirement security.

The more far-reaching the reforms, the wider the potential impact on the workplace pension system. Aviva trustee and pensions expert, Tom McPhail, warns that any new system, which is more flexible and therefore less certain, could have "a radical knock-on impact on workplace pension design".

"The whole premise of workplace pensions is they are a second pillar, delivering a private, funded income on top of a universal state pension payable at a known rate from a known date. If that were to change, then workplace pensions would have to become significantly more flexible in how and when they deliver an income to their members. Scheme design would also have to consider pre-retirement de-risking strategies and the level of guarantees members would want."

Broadstone head of policy, David Brooks, agrees that the current workplace system is shaped around the current state pension model. If a new system strayed too far from the current model, trustees and providers may need to fundamentally reconsider their current default strategies. "Schemes have spent years evolving defaults that are built around flexibility and member choice, and there is a risk that introducing a new, centralised retirement model could cut across that progress or create duplication."

**Impact on pension adequacy**

Yet even if policymakers work to solve both fiscal and technical challenges, there is a risk that any new state pension system may fall short in addressing the wider adequacy crisis.

It's important to remember that the fundamental challenge to members' retirements remains adequacy, says Brooks. "Many people simply are not saving enough – and it's not clear that a new product structure, however well designed, addresses that core issue. The bigger question is whether longevity risk is really the problem we should be trying to solve in isolation."

**"The challenge lies in finding solutions that address fiscal pressures and offer flexibility, without sacrificing clarity"**

He adds: "There is a risk that policy focus shifts towards new mechanisms rather than the underlying levers that drive outcomes, such as contribution levels, state pension policy and incentives to save."

One such new mechanism is the Social Market Foundation's proposal for a flexible drawdown, set out in their report, *Citizens Advance: A state alternative to the Bank of Mum and Dad*. Their proposal would allow under-40s to draw down a portion of their state pension early as a lump sum, in exchange for a delayed future retirement date.

This approach, however, serves to illustrate the very risks Brooks highlights, namely the tension between balancing new mechanisms against the long-term goals of pension adequacy.

**Simplicity is key**

While the current state pension system is not without its imperfections, many argue that its primary strength is its simplicity, and any future changes must work to preserve this key feature. A simple flat system with a set retirement age offers vital clarity within a broader pension system, where engagement is often low.

Independent pension consultant, Henry Tapper, warns that the state pension "is one of the few certainties" for the general public. "We have a state pension that we understand, that generally operates well and serves as an anchor for ordinary people." He adds that policymakers should leave the existing structure untouched.

This sentiment is echoed by both AJ Bell director of public policy, Tom Selby, and Brooks, who caution against any new system that introduces more complexity. Selby argues that moving to the flexible benefits proposed by the TBI, for example, would create "fiendish complexity", while Brooks warns that "additional layers of structure or choice at retirement risk increasing disengagement, particularly for those who are already struggling to make decisions".

Yet, despite the need for simplicity, there is still an argument for well-considered reform. The challenge lies in finding solutions that address fiscal pressures and offer flexibility, without sacrificing clarity.

Ultimately, Brooks warns that any state pension reform needs to be judged against a simple test: "Does it materially improve outcomes for members in a way that is understandable and usable in practice? If it doesn't, there is a danger it adds complexity without solving the problem it is trying to address."

**Written by Alice Guy, a freelance journalist**