



House of Commons  
Work and Pensions Committee

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**Intergenerational  
fairness: Government  
Response to the  
Committee's  
Third Report of  
Session 2016–17**

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**Sixth Special Report of Session  
2016–17**

*Ordered by the House of Commons  
to be printed 18 January 2017*

## Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Department for Work and Pensions and its associated public bodies.

### Current membership

[Rt Hon Frank Field MP](#) (*Labour, Birkenhead*) (Chair)

[Heidi Allen MP](#) (*Conservative, South Cambridgeshire*)

[Mhairi Black MP](#) (*Scottish National Party, Paisley and Renfrewshire South*)

[Ms Karen Buck MP](#) (*Labour, Westminster North*)

[James Cartlidge MP](#) (*Conservative, South Suffolk*)

[Neil Coyle MP](#) (*Labour, Bermondsey and Old Southwark*)

[Richard Graham MP](#) (*Conservative, Gloucester*)

[Luke Hall MP](#) (*Conservative, Thornbury and Yate*)

[Steve McCabe MP](#) (*Labour, Birmingham, Selly Oak*)

[Craig Mackinlay MP](#) (*Conservative, South Thanet*)

[Royston Smith MP](#) (*Conservative, Southampton, Itchen*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

Committee reports are published on the [publications page](#) of the Committee's website and in print by Order of the House.

Evidence relating to this report is published on the [inquiry page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are Adam Mellows-Facer (Clerk), Margaret McKinnon (Second Clerk), Ian Hart (Committee Specialist), Libby McEnhill (Committee Specialist), Rod McInnes (Committee Specialist), Alison Pickard (Senior Committee Assistant), and Jessica Bridges-Palmer (Media Officer).

### Contacts

All correspondence should be addressed to the Clerk of the Work and Pensions Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 8976; the Committee's email address is [workpencom@parliament.uk](mailto:workpencom@parliament.uk).

## Sixth Special Report

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The Work and Pensions Committee published its Third Report of Session 2016–17, *Intergenerational Fairness*, (HC 59) on 6 November 2016. The Government's response was received on 13 January 2017 and is appended to this report.

In the Government response, the Committee's recommendations appear in *italicised text* and the Government's responses are in plain text.

## Appendix: Government response

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### Introduction

1. The Government welcomes the Work and Pensions Select Committee Report on intergenerational fairness.
2. The Government agrees with the advice of the Committee that the intergenerational fairness debate should not be conducted in divisive or adversarial terms.
3. The Government is determined to build a country that works for everyone. Since 2010, the coalition Government and this Government have taken difficult decisions to put the welfare system on a sustainable footing, whilst still protecting the most vulnerable.
4. It is important to consider in any debate about intergenerational fairness that since 2010 Government has focussed on reducing the deficit and getting public spending under control, to protect future generations from unpayable public debt.

### The Government's response to the recommendations

#### *The Triple Lock*

#### *Committee Recommendation*

5. *We recommend the Government benchmark the new state pension and basic state pension at the levels relative to average full-time earnings they reach in 2020. The triple lock should then be replaced by an earnings link. In periods when earnings lag behind price inflation, an above-earnings increase should be applied to protect pensioners against a reduction in the purchasing power of their state pension. Price indexation should continue when real earnings growth resumes until the state pension reverts to its benchmark proportion of average earnings. Such a mechanism would enable pensioners to continue to share in the proceeds of economic growth, protect the state pension against inflation and ensure a firm foundation for private retirement saving. The new state pension and basic state pension it replaced would track average earnings growth in the long term. That is more fiscally sustainable and more intergenerationally fair.*

## Government Response

6. The Government is committed to the triple lock for the length of the Parliament. This was reaffirmed in the Autumn Statement made by the Chancellor on 23 November 2016.<sup>1</sup>

7. The triple lock has been an invaluable element in addressing the issue of pensioners living in low income households, which peaked in the late 1980s at over 40 per cent.<sup>2</sup> The proportion of pensioners living in low income is now down to 14 per cent.<sup>3</sup>

8. As a result of the triple lock, the value of the full basic State Pension as a proportion of average earnings is at its highest since the late 1980s.<sup>4</sup>

9. As well as the Triple Lock, this Government has successfully introduced the new State Pension which improves State Pension incomes for many lower earners and women; whilst putting it on a sustainable footing.

10. The latest data for the 2016 Autumn Statement shows that spending on pensioners as a percentage of GDP is falling: from 6.1 per cent in 2010, it is forecast to fall to 5.6 per cent in 2020.<sup>5</sup>

11. The Pensions Act 2014 also commits governments to review the State Pension age every 6 years. As part of the Government's review, DWP commissioned GAD to explore two scenarios that reflect the core principle announced by the Coalition Government, in their Autumn Statement 2013, that people should spend 'up to one third' of their adult life drawing a State Pension.

12. The Government is also continuing the roll out of automatic enrolment into pension schemes which is helping millions more people save for a secure and dignified retirement.

## Strengthening the intergenerational contract

### Committee Recommendation

13. *We recommend the Government make available the necessary information and resources to enable updated research estimating the balance of fiscal contributions and withdrawals by different generations over their entire lifetimes to be carried out.*

14. *We further recommend the Government undertake a forward-looking assessment of the intergenerational distribution of private income and wealth.*

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1 Autumn Statement Speech - <https://www.gov.uk/government/speeches/autumn-statement-2016-philip-hammonds-speech>

2 Pensioners Poverty AHC - [http://www.ifs.org.uk/tools\\_and\\_resources/incomes\\_in\\_uk](http://www.ifs.org.uk/tools_and_resources/incomes_in_uk)

3 HBAI 2014/15 - <https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201415>

4 Table 2.1 of The Annual Abstract of Statistics 2015 - <https://www.gov.uk/government/statistics/abstract-of-statistics-2015>

5 Benefit expenditure and caseload tables 2016 - <https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2016>

## Government Response

15. The Government approach to intergenerational fairness is to ensure economic security for working people at every stage of their life, including retirement. The Government supports people seeking to return to work, which is the best way out of poverty, and provide individuals with the opportunity to save for a secure retirement. Recent progress can clearly be seen:

- The employment rate is at a joint record high of 74.5% and there are more people in work than ever before (31.8 million).<sup>6</sup>
- 5.5 per cent of young people (16–24) have left full-time education and are unemployed – the lowest since records began.<sup>7</sup>
- The proportion of all 16–24s in work or full-time education is 85.8 per cent – just below the recent record high.<sup>8</sup>
- There are more older people in employment than ever before: 9.9 million workers aged 50 plus in the UK which is an increase of over a million (1.5m) over the last 5 years.<sup>9</sup>
- 6.87 million workers have been automatically enrolled and 293,868 employers have declared compliance with their automatic enrolment duties.<sup>10</sup>

16. The Government has taken action to reduce the deficit - plans to reduce government debt will reduce the burden on future generations.

17. The Government is acting to boost productivity – which is crucial to raising living standards – through infrastructure investment, supporting job creation and reforming markets. Ordinary working families rely on Government to provide economic stability and we are starting from a position of strength.

18. Since 2010, Government action has raised employment, ensured that the UK remains an attractive place for business to create prosperity, and seen living standards rise. However, this Government recognises that not everyone has felt the full benefits of the economic recovery. This is why the Government is:

- Taking targeted action to help people's money go further: freezing fuel duty, providing affordable housing and raising the personal allowance.
- Supporting jobs and earnings: raising the National Living Wage, and increasing incentives to progress in work for people on Universal Credit by reducing the taper rate.

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6 Statistical bulletin: UK labour market: Nov 2016 - <http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/november2016>

7 Statistical bulletin: UK labour market: Nov 2016 - <http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/november2016>

8 Statistical bulletin: UK labour market: Nov 2016 - <http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/november2016>

9 Statistical bulletin: UK labour market: Nov 2016 - <http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/november2016>

10 TPR (2016) Automatic enrolment Declaration of compliance report July 2012 – end October 2016. <http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf>

- Reforming markets to increase fairness and ensure that all consumers can benefit, such as through banning letting agents' fees to tenants.

19. The Government has also recently published *Improving Lives – the Work, Health and Disability Green Paper* which sets out the Government's proposals for improving work and health outcomes for disabled people and people with long-term health conditions. Proposals focus on changes that can be made to the welfare system, by employers and across health services, to ensure that the health needs and employment aspirations of these individuals are better supported. The Green Paper also explores how attitudes towards work, health and disability can be transformed across wider society, and looks at how government can work with others to bring about long-lasting change.

20. A national consultation has been launched on the proposals in the Green Paper. This consultation will run until 17th February 2017, during which the Government is talking with and listening to a wide range of stakeholders. The Government wants to engage with all those who have an important part to play in making the transformative changes required to support disabled people and people with long-term health conditions to get into and stay in work.<sup>11</sup>

21. The Government believes that its approach to increasing security and opportunity across the population and reducing the deficit is the best way to ensure fairness across the generations. Although the Government is not convinced that the Committee's recommendations would be the best use of its resources, it welcomes the work that is being undertaken by leading experts in this area brought together to form the Resolution Foundation Intergenerational Commission.<sup>12</sup>

22. The Committee has highlighted the work undertaken by Professor Sir John Hills as "The most prominent attempt to assess and compare the past and future contributions of different generations over the whole life course remains that published by Professor John Hills in 2004, based on 2001 calculations.<sup>13</sup> Professor Hills compared past and future tax contributions and expenditure on health, education and social security for each five-year birth cohort over the course of their lifetimes."<sup>14</sup>

23. As part of the Intergenerational Commission, the Government understands Professor Hills will update this analysis. The Government will be happy to consider requests to support the work of the Intergenerational Commission and looks forward to examining the results.

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11 Work, health and disability: improving lives - <https://www.gov.uk/government/consultations/work-health-and-disability-improving-lives>

12 <http://www.intergenerationcommission.org/>

13 John Hills, 'Distribution and redistribution', chapter 8 in *Inequality and the State*, OUP 2004; analysis reproduced in John Hills, *Good Times Bad Times: The Welfare Myth of Them and Us*, Policy Press, 2015

14 House of Commons Work and Pensions Committee. Intergenerational fairness. Third Report of Session 2016–17 - <http://www.publications.parliament.uk/pa/cm201617/cmselect/cmworpen/59/59.pdf>