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The distributional
impact of State
Pension age rises

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Executive summary

State Pension age

The first State Pension age (SPa) was introduced in 1908 at age 70. SPa went through several changes before settling at age 60 for women and age 65 for men in 1940 and remaining at these ages for 70 years. In 2010 the SPa began rising again, in stages, and is currently scheduled to reach age 68 for both men and women by 2046. In March 2016 the Government launched an independent review into options for bringing forward the rise to age 68, and investigating options for further SPa rises.

Costs

The Government expects the cost of State Pensions to increase from 5.5% of GDP in 2014/2015 to around 7.3% of GDP in 2065/2066. For every year of SPa rises, yearly costs are reduced by 0.1% to 0.3% of GDP. The triple-lock increases the cost of State Pensions more quickly than an earnings index would do, though it could help the State Pension to regain some of the relative value that it lost when it was de-linked from earnings in 1980. However, the Government Actuary has warned that the triple-lock may become unsustainable by the late 2020s.

Calculating a third of adult life

The Government's formula of increasing SPa so that people will spend a third or more of adult life in receipt of their State Pension is based on a mean average, which is affected by very low and very high life expectancies. Another way to measure a third on average is by using the median, which shows when 50% of people will spend more than a third and 50% of people will spend less than a third of adult life in receipt of the State Pension.

For at least 50% of people to spend a third or more of adult life in receipt of the State Pension, SPa would need to rise to age 67 in 2034 and age 68 in 2047.

There are inherent uncertainties in life expectancy projections, and projections change over time. Projections in 2010 indicated that life expectancy was increasing more quickly than 2012 and 2014 projections indicated. If SPa rises were set on 2010 projections rather than 2014-based ones, then SPa would rise more quickly as a result, potentially resulting in fewer than a third of people receiving State Pension for a third of adult life on average (Table Ex1).

Table Ex1:¹ SPa rises in line with the three most recent mean average life expectancy projections

Life expectancy projections	SPa rise to age 68	SPa rise to age 69
2010-based	2035	2048
2012-based	2036	2049
2014-based	2042	2055

¹ PPI calculations based on ONS population projections

Impact of SPa rises

Life Expectancy (LE) varies by region, gender, ethnicity and socio-economic class. Therefore, while SPa rises are calculated to ensure that people spend the same amount of time in receipt of the State Pension on average:

- Those with lower LEs are more likely to receive their State Pension for less than a third of their adult life while,
- Those with higher LEs are more likely to receive their State Pension for more than a third of their adult life.

Variations in Disability-Free Life Expectancy (DFLE) also mean that some people will find it harder to work up until higher SPas than others, and may have to live on a lower income from working-life benefits than they would have received from the State Pension.

People with certain characteristics are more likely to have low LEs and DFLEs:

- People living in parts of the North of England, Scotland, Wales and Northern Ireland,
- People from lower socio-economic classes,
- Ethnic minorities.

Mitigating the effects

Differences in LE are not necessarily a reason not to increase SPa. However, it is clear that, in the absence of other changes, some groups will be more adversely affected by SPa rises than others.

If the Government wishes to prioritise the sustainability of the State Pension, then SPa rises are inevitable. However, there are some policy options for mitigating the effects of SPa rises on those most adversely affected. One option would be to tackle inequalities within society which lead to lower LEs and DFLEs for people from particular groups.

The PPI has also explored some State Pension policy options which have either been proposed in the UK or are used internationally:

- Allowing people with 45 years of National Insurance (NI) contributions to claim a full State Pension
- Freezing Pension Credit age or de-linking it from SPa
- Allowing early access to a reduced State Pension
- Allowing early access to an unreduced State Pension
- Allowing people with caring responsibilities to receive their State Pension early unreduced

Some of these options could reduce the level of saving from SPa rises thereby increasing the cost burden on the State, but could ensure that there is protection in the system for people with lower than average life and healthy life expectancies.

Introduction

Since the 1940s, the UK State Pension age (SPa) has been age 65 for men and age 60 for women. As a result of concerns about the long-term sustainability of the State Pension system in the face of longevity increases, successive governments have legislated for SPa increases.

Rises to SPa have not been introduced without controversy. In particular, legislation accelerating rises has particularly affected women of certain ages and has led to campaigns to undo or mitigate changes. Some mitigations were made as a result of these campaigns.

Women of particular ages are not the only people who are and will be affected by SPa rises. SPa rises affect everyone entitled to State Pension or related means-tested benefits, such as Pension Credit. For some people, rises to SPa might have positive consequences if, for example, they encourage them to work longer, contribute more to their pension and retire later, thereby providing themselves with a higher private pension income and a shorter retirement to support.

However, there are potential disadvantages associated with SPa rises for many people. People who cannot work up until a higher SPa due to health reasons or lack of suitable job availability are likely to receive a lower level of income from working life benefits than they would from the State Pension. And as life expectancy varies by region, socio-economic class and ethnicity some people will lose a greater proportion of lifetime receipt of State Pension through rises than other people.

In the light of these issues and of the current independent SPa review, there is a need for a factual, unbiased account of changes to SPa to date and the effects that these and potential future rises could have on people of different characteristics. This report covers the effects of current and future rises in SPa, focussing on the cost/savings implications for Government and the distributional impacts on people of different regions, ethnicity, gender and socio-economic class.

Chapter one covers the history of the SPa and recent reforms.

Chapter two gives projections of the potential costs and savings associated with rises in SPa and explores the potential impact of SPa rises on individuals.

Chapter three sets out who is most vulnerable to SPa rises using Life Expectancy and Disability Free Life Expectancy as indicators, tested against gender, class, ethnicity and location.

Chapter four explores options for mitigating the effects of SPa rises on those most negatively affected.

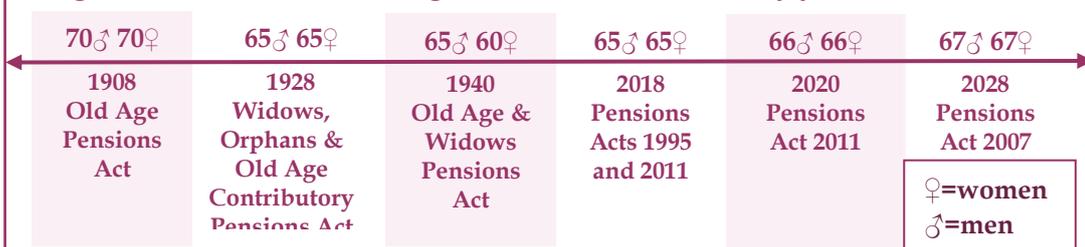
Chapter one: the history of the State Pension age

This chapter covers the history of the State Pension age and recent reforms.

The State Pension age was introduced in 1908 alongside the first State Pension

The first State Pension age (SPa) was introduced in 1908 at age 70. It went through several changes before settling at age 60 for women and age 65 for men in 1940 and remaining at these ages for 70 years. In 2010 the SPa began changing again, in stages, and is currently scheduled to reach age 67 for both men and women by 2028 (Figure 1).

Figure 1: UK State Pension ages for men and women by year



SPa changes between 1908 and 1940

1908 - Old Age Pension Act - The first State Pension in the UK was introduced in 1908 under the name of the Old Age Pension.² The Old Age Pension was non-contributory, means-tested and available to people over the age of 70 (unless they were found to have impoverished themselves intentionally, been imprisoned, or been convicted under the Inebriates Act).³

1928 - The Widows, Orphans and Old Age Contributory Pensions Act (1925) - The *Widows, Orphans and Old Age Contributory Pensions Act 1925* introduced, from 1928, a contributory element of State Pension available to people aged 65 to 69, on the condition that they had contributed between age 60 and age 65.⁴

1940 - Old Age and Widows Pensions Act - In 1940, the full contributory State Pension was introduced and men and women were given different SPAs of age 65 and age 60 respectively.

Women were given a lower pension age than men because:

- Women tended to be younger than their husbands and a lower women’s SPA would assist married couples to retire at the same time.

² The Old Age Pensions Act 1908

³ webarchive.nationalarchives.gov.uk/20080910140413/dwp.gov.uk/mediacentre/pensioncentenary/ (retrieved 01.04.2016)

⁴ ONS (2005)

- It was felt that employed women were more likely to have become “tired” by age 60 as a result of balancing paid work and domestic responsibilities.⁵

SPa changes between 1940 and 2016

- In 1995, it was legislated that women’s SPa would rise to age 65 by 2020,
- In 2007, further SPa increases for both men and women to ages 66, 67 and 68 were legislated for,
- In 2011, SPa rises to age 65 and age 66 were brought forward,
- In 2011, the acceleration of the rise of women’s SPa was seen as problematic and rises to women’s SPa were slowed down in response,
- In 2014, the increase to age 67 was brought forward, and independent reviews were legislated for,
- In 2016, an independent SPa review was launched.

Post-1940 SPa changes in more detail

In 1993, it was announced that women’s SPa would rise to age 65 by 2020

In 1993, the Government announced that they would raise women’s SPa to age 65 in stages between 2010 and 2020. It gave four reasons for this increase:

- Women are more likely to be working than they were in the past (making up nearly half of the workforce) and many would “expect to hold their jobs for as long as men do.”
- People are living longer and healthier lives. There were 33 working-age people for each pensioner in 1993. This was projected to fall to 22 people of working-age for every pensioner by 2030 and increase yearly expenditure on State Pensions from around £30bn to £60bn by 2025. The Government calculated that raising women’s SPa to age 65 would make the State Pension more sustainable by reducing the ratio of working-age people to pensioners to 27/1 and reducing the yearly cost of State Pensions by £5bn (8%).
- There is an international trend throughout the industrial world for pension ages to rise and the majority of UK trading partners have pension ages at or rising to age 65. The rise of women’s SPa is necessary to help Britain to maintain its international competitiveness.
- Occupational pension schemes are increasingly equalising normal pension ages at age 65 and this change would bring SPas into line with this form of provision.⁶

The legislation affected women born after April 6, 1950, and gave them 17 or more year’s notice of the changes to their SPa. It did not affect women over the age of 44 (in 1993). Women aged between 38 and 43 (in 1993) would have SPas between age 60 and age 65. Women under age 38 would have a SPa of 65.⁷

⁵ Thurley, McInnes (2016)

⁶ Department of Social Security (1993)

⁷ Department of Social Security (1993)

In 2006, SPa increases to age 68 were announced

In 2006, the Government announced further rises to SPa, prompted by the Pensions Commission's First Report which suggested that without further rises, State Pension funding would become unsustainable.

The Pension Commission's First Report (2004) provided calculations that without further SPa rises, spending on State Pensions would grow from 9.9% of GDP to 15.1% by 2050.⁸

The Pensions Commission felt that over the long-term, it made most sense, financially and ethically, for SPa to increase at the same rate as life expectancy. However, the Commission noted that life expectancy had actually been increasing relatively quickly since the 1980s without corresponding SPa rises. They felt that it would be sensible for SPa to rise more quickly than life expectancy initially, until it caught up with the age it would have been at, had it risen with life expectancy since 1980.⁹

The Commission also noted that average life expectancy was increasing faster than previously projected, for example: in 1981, life expectancy for a man aged 65 in 2004 was projected to be around 14 years, however, by 2004 it was actually expected to be around 19 years.¹⁰

Official projections in 2004 assumed a decrease in the rate of life expectancy improvement going forward and that after 2027, the rate of increase would become very slow. However, the Commission warned that, judging by the trends over the last 50 years, increases in life expectancy could continue to rise quickly for the foreseeable future with male life expectancy at age 65 reaching 28 years by 2050. The Pensions Commission expressed a preference for an SPa increase to age 68 by 2050.¹¹

The Government agreed with the Pensions Commission that SPa needed to rise more quickly in order to maintain sustainability in the face of increasing life expectancy, though both the Government and the Commission agreed that people would need to work for longer alongside increases of SPa in order to ensure sustainability of the pensions and benefits system.¹²

In 1908, when the first State Pension was introduced:

- Life expectancy at birth was 40 years for men and 43 years for women,
- 24% of people reached SPa (of age 70),
- Life expectancy at SPa was 9 years (averaged between men and women).¹³

⁸ Pensions Commission (2004) p.13, assumes women's SPA rises to 65 by 2020

⁹ Pensions Commission (2004) p.46

¹⁰ Projections by Government Actuary Department (GAD)

¹¹ Pensions Commission (2004)

¹² Pensions Commission (2004) DWP (2004) para 3.31- 3.34

¹³ DWP (2008)

In 2016:

- Life expectancy (cohort) at birth is 91 years for men and 94 years for women¹⁴
- Around 85% of people reach their SPa¹⁵
- Life expectancy at SPa is an average of 24 years (men and women).¹⁶

In 2006 the Government announced the SPa would rise to age 68 by 2046 in three stages:

- From age 65 to age 66, phased in over two years, from April 2024 to April 2026,
- From age 66 to age 67, phased in over two years, from April 2034 to April 2036, and,
- From age 67 to age 68, phased in over two years, from April 2044 to April 2046.¹⁷

Legislation for these rises was introduced in the [Pensions Act 2007](#).

In 2010, SPa rises to age 65 and age 66 were brought forward

In 2010 the Government announced that the SPa rise to age 66 would be brought forward in the light of unexpected increases in life expectancy since the 2007 legislation. Life expectancy projections for men and women reaching age 65 in 2026 had increased by 1.5 years and 1.6 years respectively since 2007 projections. The Government calculated that these changes could result in an increased spend on State Pensions of £6.5 billion per year.¹⁸

Therefore, the Government announced that the increase of women's SPa to age 65 would be brought forward from April 2020 to November 2018, and both men and women's SPa would rise to age 66 by April 2020.

The increase in the scheduled rises to 65 and 66 affected 4.9 million people overall, 2.6 million women and 2.3 million men.¹⁹

The acceleration in the rise of women's SPa was seen as problematic

There was particular concern over the group of women who would have to wait up to two years longer than they would have done under the previous timetable to receive their State Pension, and that the notice given to these women of the changes was, in some cases, only five years, in comparison to the 17 or more years notice of the original rises announced in 1993. The main objection that affected groups had to this change was that five years notice was seen as

¹⁴ ONS 2014-based National Population Projections Lifetable template

¹⁵ DWP (2008)

¹⁶ DWP (2008)

¹⁷ DWP (2006) para 3.34

¹⁸ DWP (2010) p.7

¹⁹ Lords Hansard, Public Bill Committee Debates, Pensions Bill, Session 2010-12, Column 8, www.publications.parliament.uk/pa/cm201011/cmpublic/pensions/110705/am/110705s01.htm

insufficient time for women to make alternative provision to support themselves for up to two years longer before reaching their SPa.²⁰

The changes were felt to mostly affect women who had to wait for a year or more to receive their State Pension than they would have waited under the previous legislation:

- 500,000 women would wait a year or more longer to receive their State Pension,
- Of these, 300,000 would have to wait for 18 months or more longer to receive their State Pension, and
- Of these, 33,000 would have to wait for exactly two years longer to receive their State Pension.²¹

For those experiencing a full two-year delay, the loss of income from State Pensions could be as high as £10,000, or £15,000 for those eligible for Pension Credit.²²

Rises to women's SPa were slowed down in response to concerns

In response to these concerns, the Government pushed the SPa rise to age 66 back by 6 months to October 2020, so that no woman would have to experience a longer than 18 month wait for her State Pension than she would have experienced under the previous timetable. However, concerns still remain about the women affected by the bringing forward of the increases to age 65 and age 66. Some campaigners argue that women were not given sufficient notice of the earlier rises, announced in 1993.²³

In 2011, the Government announced that it would bring forward the increase to age 67

While it was legislated in 2011 that SPa would rise for women and men to age 66 by October 2020, the increase to age 67 was still scheduled to take place 14 years later, between 2034 and 2036. In 2011, the Government announced that, because of increases in life expectancy, the rise to age 67 would also be brought forward, to take place between April 2026 and April 2028.²⁴ This increase affects around 8 million people, who will have to wait for up to a year longer for their State Pension than they would have waited under the 2007 legislation. The Government also announced that future rises would be informed by an independent commission which would draw on expert advice and emerging evidence on demographic change to make recommendations.²⁵

²⁰ Thurley, McInnes (2016) p.12

²¹ Lords Hansard, Public Bill Committee Debates, Pensions Bill, Session 2010-12, Column 8, www.publications.parliament.uk/pa/cm201011/cmpublic/pensions/110705/am/110705s01.htm

²² Lords Hansard, Public Bill Committee Debates, Pensions Bill, Session 2010-12, Column 6, www.publications.parliament.uk/pa/cm201011/cmpublic/pensions/110705/am/110705s01.htm

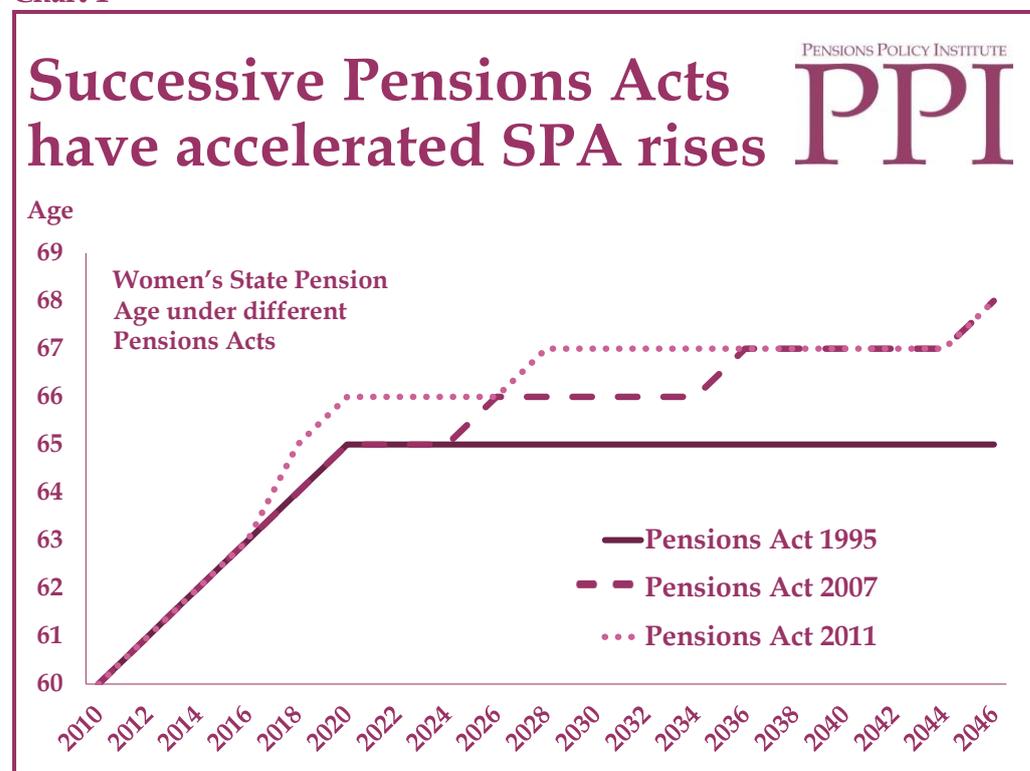
²³ Thurley, McInnes (2016) p.13, www.facebook.com/WASPI-Women-Against-State-Pension-Inequality-Campaign-877054125688402/

²⁴ Announced in 2011 Autumn Statement, legislated for in Pensions Act 2014

²⁵ DWP (2013a) Table 4, DWP (2013c) paras 148-152

The following Chart shows changes to SPa under current and previous legislation since 1995 (Chart 1).

Chart 1²⁶



In March 2016, the Government announced an independent SPa review

The rise to age 68 is still scheduled to take place over two years between April 2044 and April 2046. However, in March 2016 the Government launched an independent review into further rises to the SPa.²⁷ The independent commissioner will consider:

- “What a suitable State Pension age is, in the immediate future and over the longer term;
- Whether the current system of a universal State Pension age rising in line with life expectancy best supports affordability, fairness, and fuller working lives objectives;
- And, if not, how State Pension age arrangements might better support these objectives.”²⁸

²⁶ PPI calculations based on DWP data

www.gov.uk/government/uploads/system/uploads/attachment_data/file/310231/spa-timetable.pdf

²⁷ DWP Press Release, 1 March 2016, “John Cridland CBE appointed to lead the UK’s first State Pension age review”

www.gov.uk/government/news/john-cridland-cbe-appointed-to-lead-the-uks-first-state-pension-age-review

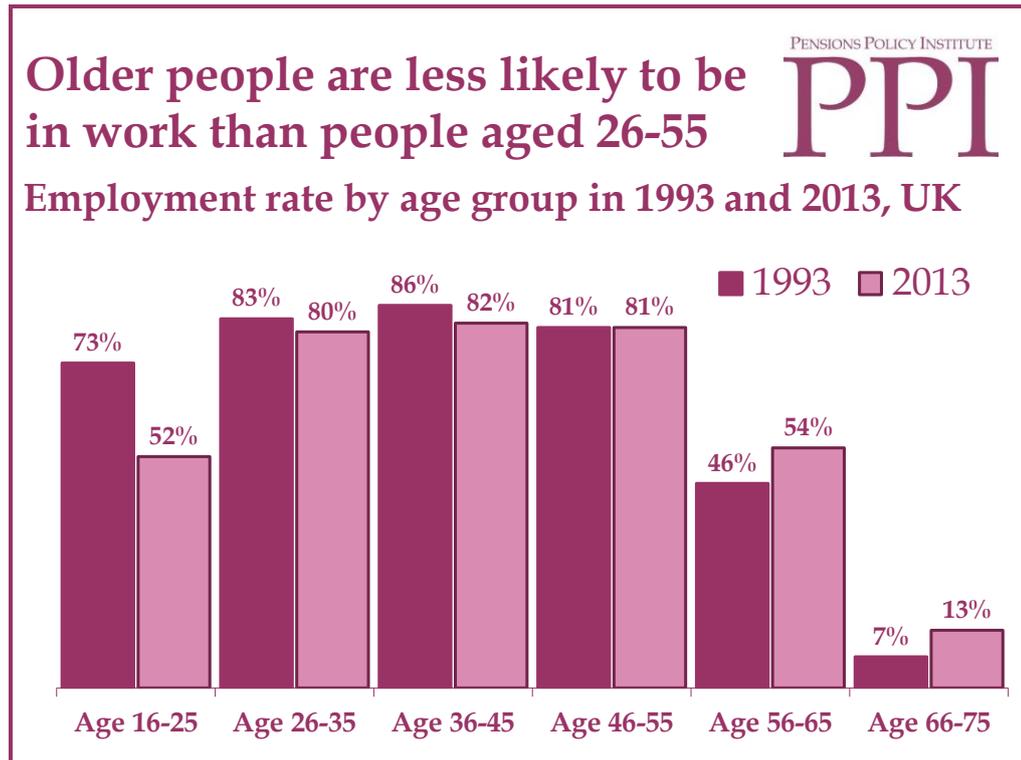
²⁸ DWP (2016) *SPA Independent Review – Terms of Reference* www.gov.uk/government/publications/state-pension-age-review-terms-of-reference

There has been growth in employment at older ages

People leaving work at older ages experience barriers to re-entering the labour market which means that people close to SPa may be the most adversely affected by short notice of changes.

Older people’s (aged 50 to 64) employment rates have grown over the last few from 55.4% in 1984 to 69.6% in 2015.²⁹ However, employment at older ages is still lower than for those aged 26 to 55 (Chart 2).

Chart 2³⁰



Older people (over age 55) are disadvantaged in the labour market, particularly those without any qualifications, as the demand for skills and qualifications has grown. People who leave employment when they are over the age of 55 find it much harder to return to work than younger people.³¹ Barriers to work for older people include:

- An employer preference for employees aged 25-49,
- Age discrimination,
- Health problems,
- The need to provide care,
- A lack of take-up or knowledge of flexible working options,
- A lack of skills and/or of opportunities to gain new skills.³²

²⁹ DWP (2015) p. 3

³⁰ George et al. (2015) p. 17, Figure 5

³¹ George et al. (2015) p. 4-5

³² George et al. (2015) p. 4-5

People are likely to need 10-15 years notice of future rises to SPa

People make work and retirement plans based on expectations regarding SPa, therefore short notice regarding changes in SPa can lead to people struggling financially, especially if they are unable to return to work due to health problems or difficulty finding employment. Though people leaving work prior to SPa may be eligible for working-age means tested benefits, these tend to be far lower than a State Pension income. For example, those receiving the average amount of Employment Support Allowance receive a weekly income from the State of around £33 lower than if they were receiving the State Pension (2016 earnings terms).³³

In order to accommodate people's work and retirement plans, the Government is aiming to give people at least 10 years notice of any further increases to SPa.³⁴

In the Pension Commission's Second Report (2005), they recommended a period of notice for rises to SPa should be at least 15 years and should be accompanied by "measures to facilitate longer working" for those who might struggle to continue working until older ages and measures to protect those on lower incomes with lower life expectancies.³⁵

Conclusions

- The first State Pension age (SPa) was introduced in 1908 at age 70. It went through several changes before settling in 1940 at age 60 for women and age 65 for men and remaining at these ages for 70 years. In 2010 the SPa began changing again, in stages, and is currently scheduled to reach age 67 for both men and women by 2026.
- In 1993, the Government announced that they would raise women's SPa to age 65 in stages between 2010 and 2020 and, in 2006, in light of increases in longevity, further rises to age 68 by 2046 were announced.
- In 2010, the increase in women's SPa to age 65 was brought forward to 2018 and the increase to age 66 was brought forward to 2020. These moves were controversial because of the impacts they could have on women most affected by the changes, who may not have sufficient time to adjust retirement plans.
- As life expectancy continued to increase, the Government announced in 2011 that it was bringing the rise to age 67 forward to take place by 2028.
- The rise to age 68 is still scheduled to take place over two years between April 2044 and April 2046. However, in March 2016 the Government launched an independent review into further rises to the SPa.
- People might need at least 10 to 15 years notice of any future rise to SPa as less notice may affect people who have already left work and have settled plans for retirement income contingent on receiving their State Pension at a particular time.

³³ PPI (2016)

³⁴ DWP (2013b)

³⁵ Pensions Commission (2005) p. 14

Chapter two: how could rises to SPa affect costs to Government and people with different life expectancies?

This chapter gives projections of the potential costs and savings associated with rises in SPa and explores the potential impact of SPa rises on the Government and individuals.

Period vs. cohort life expectancy projections

This report uses both period and cohort life expectancy measurements

- **Cohort life expectancy** shows the number of years a person of a specific age is expected to live, taking into account any known or projected future changes in mortality. Cohort life expectancy is the preferred method for estimating longevity; however at present it can only be applied at national level restricting its use for detecting inequality between sub-groups of the population.
- **Period life expectancy** shows the average number of years a person in a specific area, or with specific characteristics, is expected to live at the time the measurement is taken. It does not allow for future changes in mortality or for differences between generations. Period life expectancy measures are useful for comparisons and detecting inequalities between people from different areas or with different characteristics.

Rises to SPa are based on calculations of life expectancy

The next section of this chapter looks at the potential savings the Government can make by raising SPa in different years.

Rises to SPa are influenced by calculations of Life Expectancy (LE) which are released every two years by the Office for National Statistics. The last three releases have not been consistent, as the pace of LE increases projected in 2014 were slightly reduced from 2010 and 2012-based projections. It will not be clear for some time whether the reductions in pace of increase are evidence of an overall reduction or simply a one-off reduction found among the cohorts tested in the last few years.

Therefore, the following analysis shows the potential costs/savings of raising the SPa in line with the Government's policy of keeping adult life in receipt of the State Pension at a third (using a mean average), using 2010, 2012 and 2014-based LE projections.

Under current legislation, SPa is scheduled to rise from age 67 to age 68 between 2044 and 2046. The following table shows when the SPa would rise to age 68 and age 69 under the three most recent life expectancy projections, based on the premise that SPa starts to rise in a staged process two years before mean average life expectancy reaches one third (Table 1).

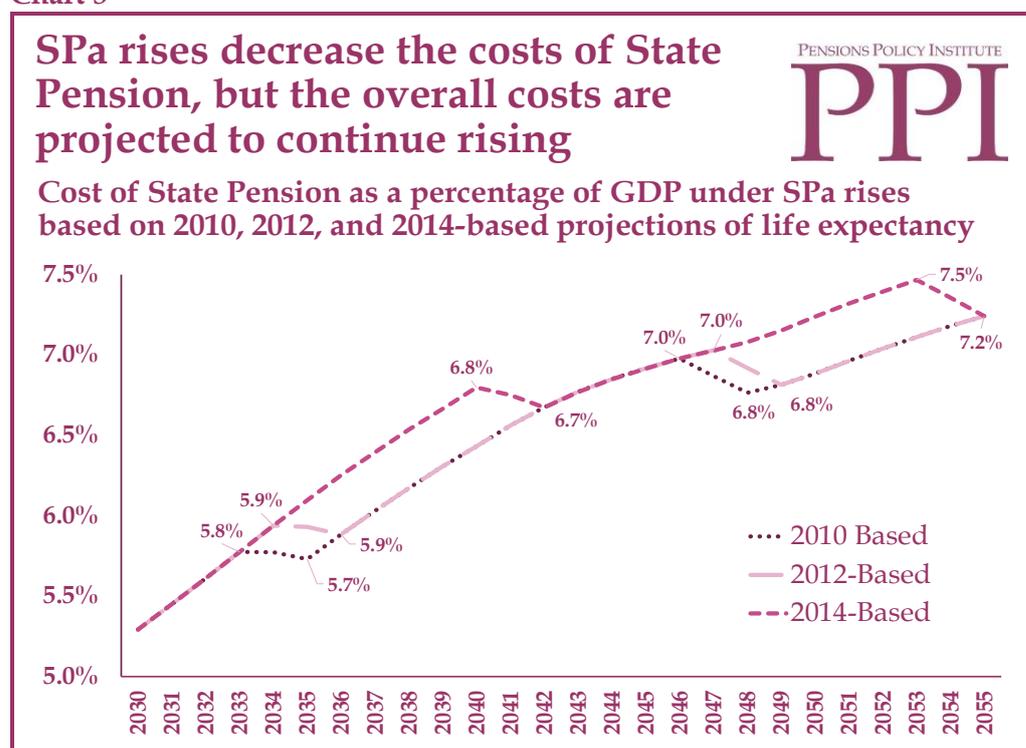
Table 1:³⁶ SPa rises in line with the three most recent mean average life expectancy projections

Life expectancy projections	SPa rise to age 68	SPa rise to age 69
2010-based	2035	2048
2012-based	2036	2049
2014-based	2042	2055

The Government expects the cost of State Pensions³⁷ to increase from 5.5% of GDP in 2014/2015 to around 7.3% of GDP in 2065/2066.³⁸

While rises to age 68 and age 69 will decrease the cost of State Pensions, they will not stop the overall costs from increasing as the number of older people receiving State Pension increases. Chart 3 shows the cost of State Pension as a proportion of GDP under the three different life expectancy projections.

Chart 3³⁹



³⁶ PPI calculations based on ONS population projections

³⁷ Basic State Pension, SERPS and State Second Pension, new State Pension, Pension Credit and other elements of State Pension and pension benefits

³⁸ DWP (2015b) Table LT1, under current policies

³⁹ PPI Aggregate Model, while different mortality projections are used to calculate rises, the total cost is calculated on 2014 mortality projections to give a more accurate picture

The cost of State Pensions is likely to rise in the future, however for every year of SPa rises, yearly costs are reduced by 0.1% to 0.3% of GDP. With a rise to age 69 in the late 2040s, State Pension costs are likely to reach around 7.2% of GDP by 2055.

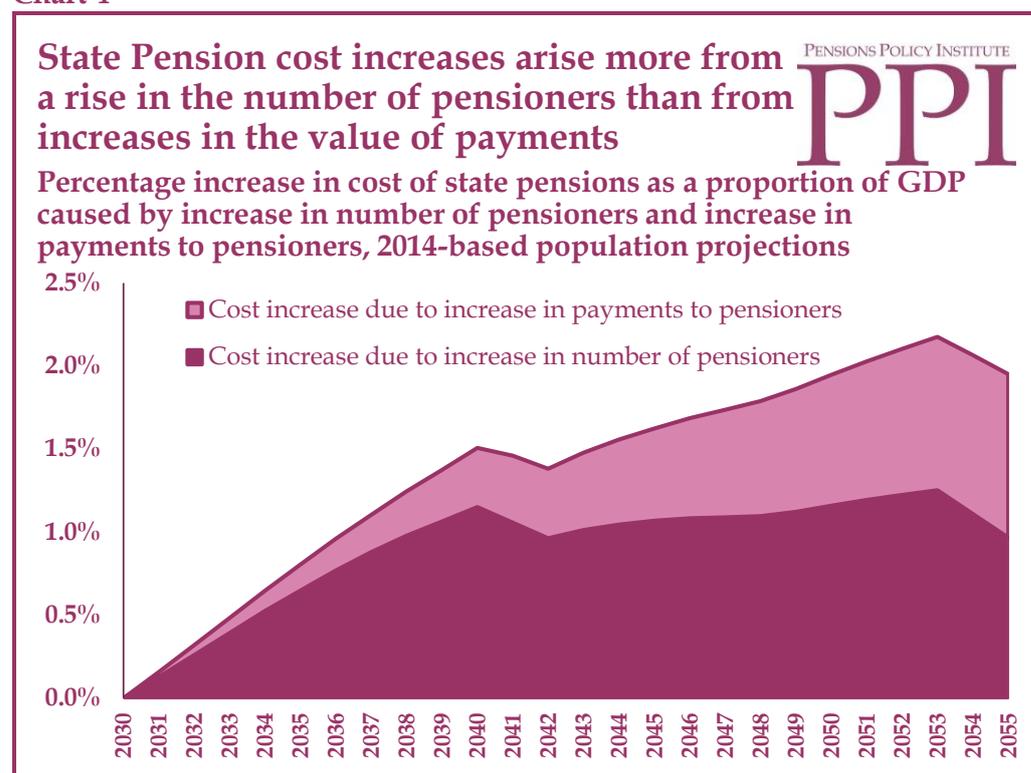
Chart 3 assumes that the basic State Pension and the new State Pension remain Triple-Locked. As the Triple-Lock index is not legislated for, but a minimum earnings index is, the State Pension may be indexed to earnings at some point in the future. An earnings index would reduce the cost of State Pensions, but would also mean that the value of State Pension income would no longer increase above earnings over time.

In the year before the State Pension was de-linked from earnings (1979) the full-rate of basic State Pension was worth 26% of National Average Earnings (NAE). In 2016, the new State Pension is worth 24.2% of NAE. In order to reach 26% of NAE again, the new State Pension would need to remain triple-locked until around 2040.⁴⁰ However, the Government Actuary has commented that the rate of annual State Pension increases might need to be reduced from 2020 to a “small fraction below earnings” in order to maintain long-term sustainability and avoid “fund exhaustion” by 2027.⁴¹

While Chart 4 shows the cost of State Pensions increasing over time, the majority of the increase is due to the rising number of pensioners rather than a significant increase in the cost per pensioner. The cost of State Pensions per pensioner is projected to increase over time, due to the triple-lock, from £132 to £147 per week (2016 earnings terms) between 2030 and 2050, while the number of pensioners will increase from around 16 million to around 18 million between 2030 to 2055 (Chart 4).

⁴⁰ PPI calculations

⁴¹ GAD (2014) para 11.9 & table 9.1, there is no ongoing National Insurance fund, the “fund” size comprises the total receipt of National Insurance contributions in any given year

Chart 4⁴²

Less than half of people would receive State Pension for a third or more of adult life until 2047, under an SPa of 68

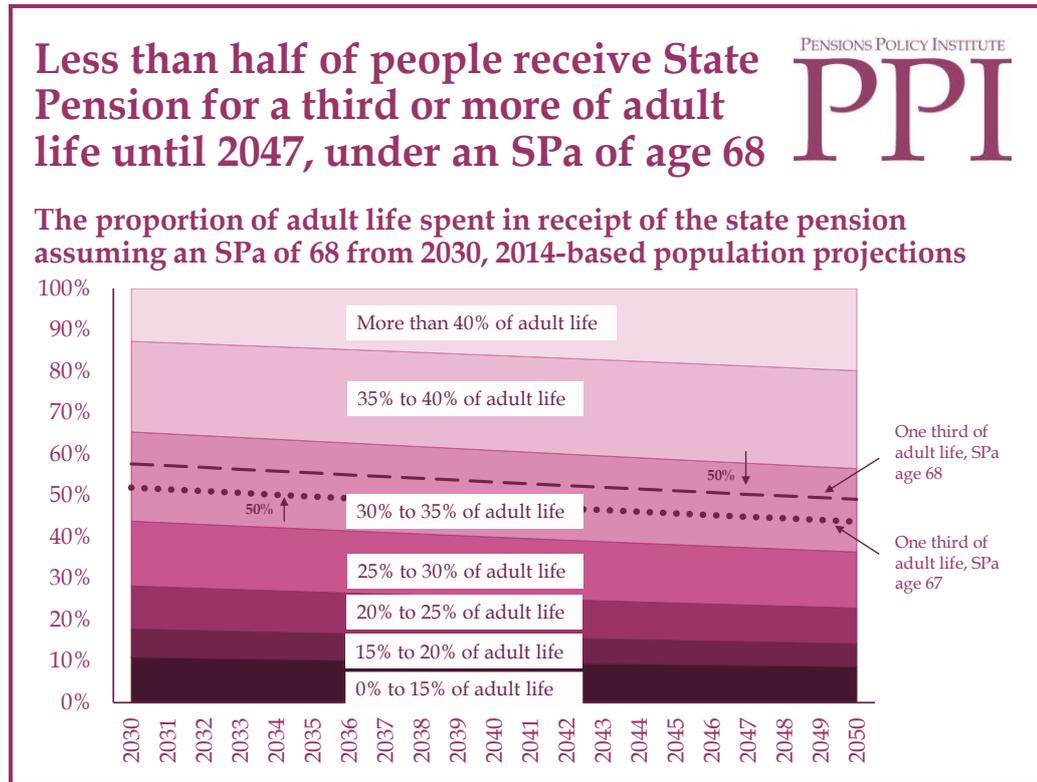
The Government believes that people should spend “on average, up to one third of their adult life drawing a State Pension,” with adult life being assumed to begin at age 20.⁴³ Variations in Life Expectancy (LE) mean that an SPa rise will not result in everyone in the UK spending the same proportion of adult life in receipt of the State Pension. In any given year, an SPa rise to age 68 will result in some people receiving State Pension for a third of their adult life, some receiving it for less, and some receiving it for more.

Chart 5 shows how an SPa of age 68 would affect the proportion of life people spend in receipt of the State Pension in the years between 2030 and 2050.

⁴² PPI Aggregate Model, SPa rises based on 2014-based population projections and third of life rule

⁴³ DWP (2013b)

Chart 5⁴⁴



For at least 50% of people to spend a third or more of adult life in receipt of the State Pension, SPa would need to rise to age 67 in 2034 and age 68 in 2047. Prior to these dates, the majority of people would receive their State Pension for less than a third of adult life.

The Government’s formula of rising SPa when people will spend a third or more of life in receipt of their State Pension is based on a mean average, which is affected by very low and very high life expectancies. The above calculations are based on medians, which splits the population distribution to show when 50% of people will spend more than a third and 50% of people will spend less than a third of adult life in receipt of the State Pension. This is an alternative formula for looking at the effects of raising State Pension age.

Women have higher LEs than men and are more likely to spend a third or more of adult-life in receipt of the State Pension.

- An SPa of age 67 would result in women receiving State Pension for half their lives, on average from some point before 2030 for women and from 2044 for men.

⁴⁴ PPI analysis of ONS 2014-based life tables

- An SPa of age 68 would result in women receiving State Pension for half their lives, on average from 2038 for women and from some point after 2050 for men.

Tables 2-3 show how different SPas affect the proportion of adult life men and women spend in receipt of the State Pension in the years between 2030 and 2050.

Table 2: The proportion of adult life women would spend in receipt of the State Pension assuming SPas of age 67 and age 68 from 2030, 2014-based population projections⁴⁵

	The proportion of adult life women would spend receiving State Pension, on average			
	Age 67: under one third	Age 68: under one third	Age 67: over one third	Age 68: over one third
2030	48%	54%	52%	46%
2031	47%	53%	53%	47%
2032	47%	53%	53%	47%
2033	46%	52%	54%	48%
2034	46%	52%	54%	48%
2035	46%	51%	54%	49%
2036	45%	51%	55%	49%
2037	45%	51%	55%	49%
2038	44%	50%	56%	50%
2039	44%	50%	56%	50%
2040	44%	49%	56%	51%
2041	43%	49%	57%	51%
2042	43%	48%	57%	52%
2043	42%	48%	58%	52%
2044	42%	48%	58%	52%
2045	42%	47%	58%	53%
2046	41%	47%	59%	53%
2047	41%	46%	59%	54%
2048	41%	46%	59%	54%
2049	40%	46%	60%	54%
2050	40%	45%	60%	55%

⁴⁵ PPI analysis of ONS 2014-based life tables

Table 3: The proportion of adult life men would spend in receipt of the State Pension assuming SPAs of age 67 and age 68 from 2030, 2014-based population projections⁴⁶

	The proportion of adult life men would spend receiving State Pension			
	Age 67: under one third	Age 68: under one third	Age 67: over one third	Age 68: over one third
2030	56%	62%	44%	38%
2031	56%	62%	44%	38%
2032	56%	61%	44%	39%
2033	55%	61%	45%	39%
2034	55%	60%	45%	40%
2035	54%	60%	46%	40%
2036	54%	59%	46%	41%
2037	53%	59%	47%	41%
2038	53%	58%	47%	42%
2039	52%	58%	48%	42%
2040	52%	58%	48%	42%
2041	52%	57%	48%	43%
2042	51%	57%	49%	43%
2043	51%	56%	49%	44%
2044	50%	56%	50%	44%
2045	50%	55%	50%	45%
2046	49%	55%	51%	45%
2047	49%	54%	51%	46%
2048	49%	54%	51%	46%
2049	48%	54%	52%	46%
2050	48%	53%	52%	47%

Conclusions

- Increasing State Pension age (SPA) requires a calculation of how much the State can afford to pay on the State Pension compared to how much potential financial hardship for individuals is deemed to be acceptable.
- The cost of State Pensions is likely to rise in the future, however for every year of SPA rises, yearly costs are reduced by 0.1% to 0.3% of GDP. With a rise to age 69 in the late 2040s, State Pension costs are likely to reach around 7.2% of GDP by 2055.
- The triple-lock increases the cost of State Pensions more quickly than an earnings index would do.
 - The cost of State Pensions per pensioner is projected to increase over time, due to the triple-lock, from £132 to £147 per week (2016 earnings terms) between 2030 and 2050, while the number of pensioners will

⁴⁶ PPI analysis of ONS 2014-based life tables

- increase from around 16 million to around 18 million between 2030 to 2055.
- In the year before the State Pension was de-linked from earnings (1979) the full-rate of basic State Pension was worth 26% of National Average Earnings (NAE). In 2016, the new State Pension is worth 24.2% of NAE. In order to reach 26% of NAE again, the new State Pension would need to remain triple-locked until around 2040.
- The Government Actuary has recommended that the rate of annual State Pension increases should be reduced after 2020 from the triple-lock to a “small fraction below earnings” in order to maintain long-term sustainability and avoid National Insurance “fund exhaustion” by 2027.
- The Government’s formula of rising SPa when people will spend a third or more of life in receipt of their State Pension is based on a mean average, which is affected by very low and very high life expectancies. The above calculations are based on medians, which show population distribution such as when 50% of people will spend more than a third and 50% of people will spend less than a third of adult life in receipt of the State Pension. This is an alternative formula for looking at the effects of raising SPa.
- For at least 50% of people to spend a third or more of adult life in receipt of the State Pension, SPa would need to rise to age 67 in 2034 and age 68 in 2047. Prior to these dates, the majority of people would receive their State Pension for less than a third of adult life.

Chapter three: how could SPa rises affect individuals?

This chapter sets out who is most vulnerable to SPa rises using Life Expectancy (LE) and Disability Free Life Expectancy (DFLE) as indicators, tested against gender, class, ethnicity and location.

SPa rises result in people with lower life expectancies losing a greater proportion of time spent receiving the State Pension

In 2013, the Government announced that it intended for people to spend “on average, up to one third of their adult life drawing a State Pension,” with adult life being assumed to begin at age 20.⁴⁷

The Government believes people should spend, on average, up to one third of their life after age 20 receiving the State Pension

Men and women currently have different LEs, though the gap is narrowing. The Government intends to use average LE between both genders when calculating future SPa rises.⁴⁸

The measures in this chapter are based around period life expectancy and should not be taken as actual projections of how long someone is expected to live. Rather they show differences between people with different characteristics at a point in time.

Life expectancy varies across the population

LE varies by region, gender, ethnicity and socio-economic class. Therefore, while SPa rises are calculated to ensure that people spend the same amount of time in receipt of the State Pension on average:

- Those with lower LEs are more likely to receive their State Pension for less than a third of their adult life while,
- Those with higher LEs are more likely to receive their State Pension for more than a third of their adult life.

Period life expectancy varies by region

Throughout the UK, LE varies by region. Deprived areas with high levels of unemployment, poor housing, and lifestyle factors that affect health (such as smoking) tend to have lower than average LEs and DFLEs. Areas with higher LE and DFLE tend to be wealthier.⁴⁹

⁴⁷ DWP (2013b)

⁴⁸ Weighted to take account of proportion within the population.

⁴⁹ Buck & Maguire (2015)

Within England and Wales (2012-2014):

- The highest LE for new-born boys was in Kensington and Chelsea at 83.3 years,
- The lowest LE was in Blackpool at 74.7 years,
- The areas with lowest LE tend to congregate in the North of England, parts of Wales, London and Southern coastal areas (Chart 6).⁵⁰

Life expectancy is lower outside of England

Local Area Districts in Scotland, Wales and Northern Ireland⁵¹ experience lower levels of average LE than those in England. In 2010-2012:

- 72% of Scottish,
- 36% of Welsh,
- 19% of Northern Irish, and
- 14% of English Local Area Districts were in the areas with the lowest fifth of LEs at birth in the UK (Chart 6).⁵²

Conversely, the fifth highest quintile of LE contains:

- Zero Local Area Districts in Scotland and Wales,
- One Local Area District in Northern Ireland, and
- A quarter of Local Area Districts in England.⁵³

LE also varies within local areas between individuals based on other characteristics including socio-economic class, age, gender, ethnicity and health issues. Chart 6 shows how widely LE varies across the UK, not just by region but also within regions.

⁵⁰ ONS (2014) chapter 7

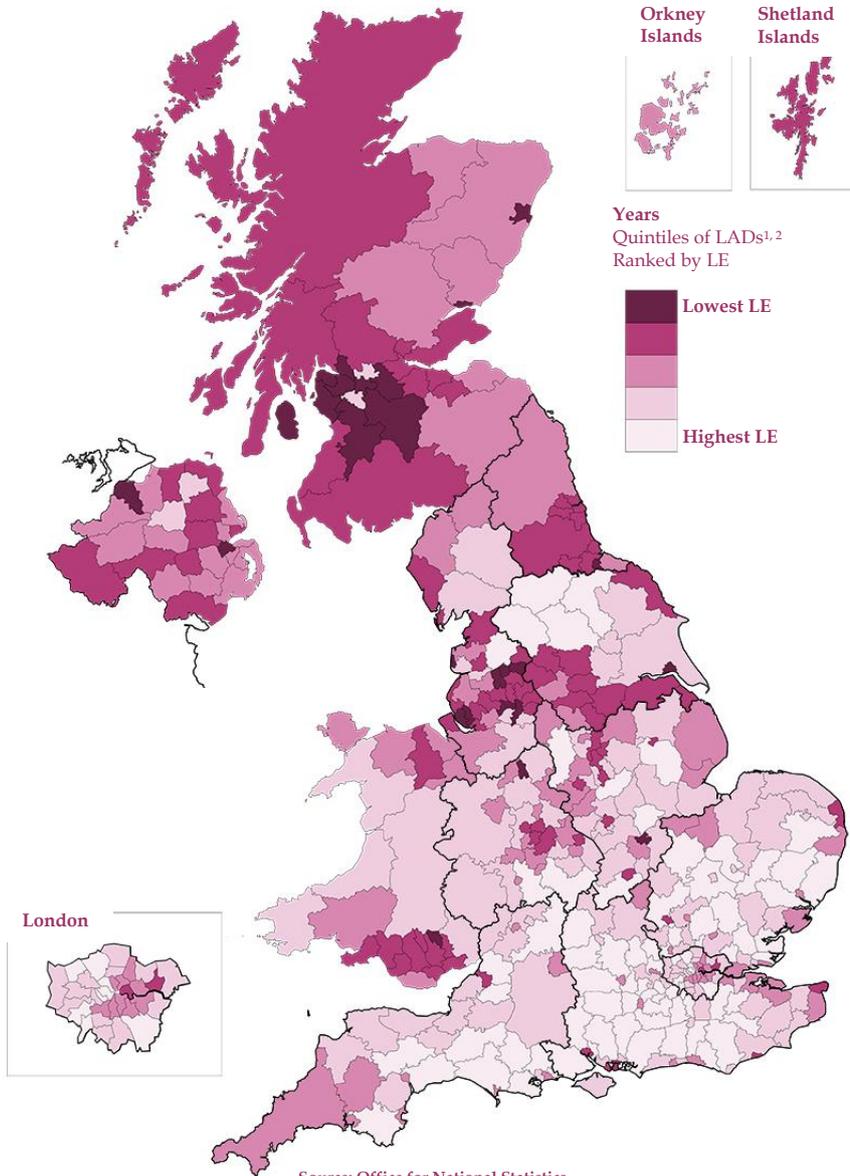
⁵¹ Local councils - Scotland and Northern Ireland, and unitary authorities - Wales.

⁵² ONS (2014) chapter 7

⁵³ ONS (2014) chapter 7

Chart 6⁵⁴

Life Expectancy (LE) for males at birth by local authority district, United Kingdom, 2012-14 (GB) and 2010-13 (NI)



Source: Office for National Statistics
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1 Local authority districts (LADs) include unitary authorities, London boroughs, metropolitan districts and non-metropolitan districts in England and Wales, council areas in Scotland and district council areas in Northern Ireland.
 2 Each quintile comprises 81 LADs with the exception of the quintile with the lowest life expectancy, which has 80.
 3 Life expectancy figures are not available for City of London or Isles of Scilly because of small numbers of deaths and populations.

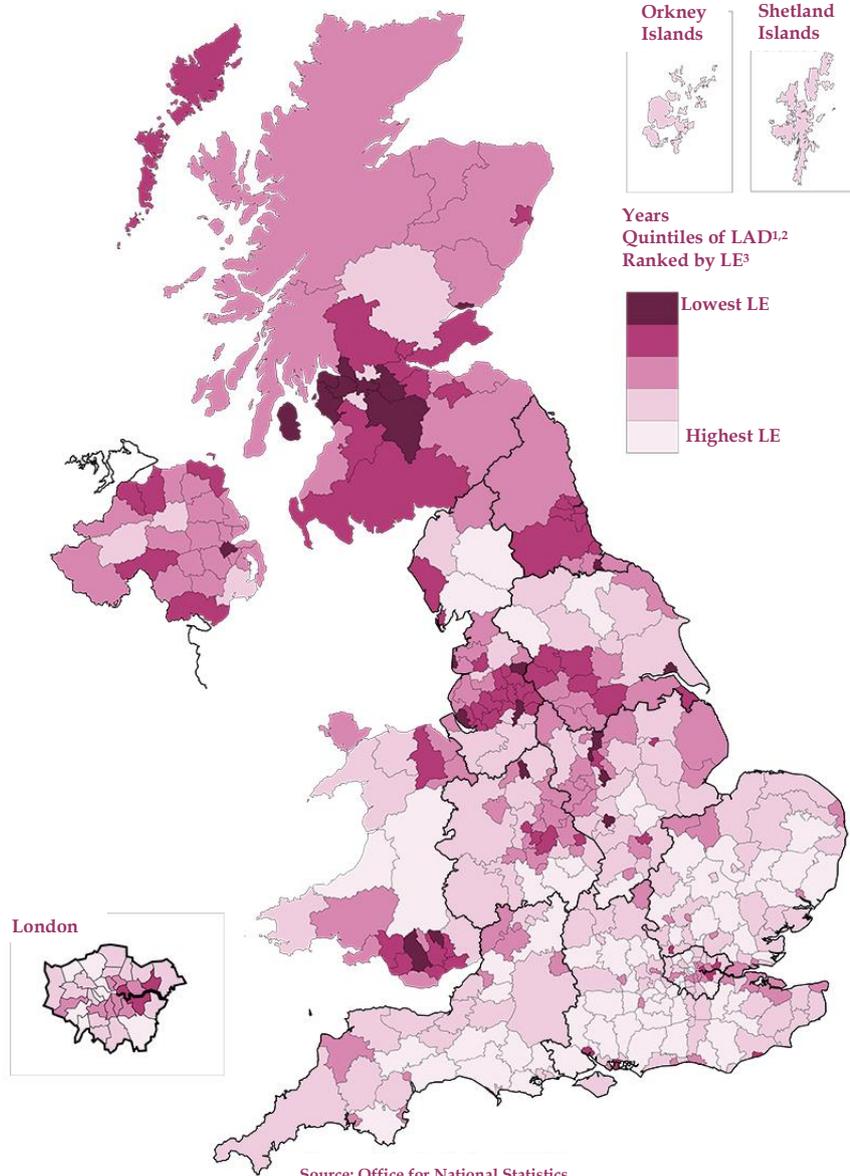
⁵⁴ Data and chart produced by Office for National Statistics

People closer to age 65 will be most affected by SPa rises initially, though over the longer term, those with lower “at birth” LEs will also be affected. The majority of areas with low LE at birth also have low average LEs at age 65.

The distribution of LE shifts somewhat when LE at age 65 is considered, though lower LEs still tend to congregate in the North of England, Southern coastal areas, Scotland, Wales and Northern Ireland (Chart 7).

Chart 7⁵⁵

Life Expectancy (LE) for males at age 65 by local authority district, United Kingdom, 2012-14 (GB) and 2010-13 (NI)



Source: Office for National Statistics
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1 Local authority districts (LADs) include unitary authorities, London boroughs, metropolitan districts and non-metropolitan districts in England and Wales, council areas in Scotland and district council areas in Northern Ireland.
 2 Each quintile comprises 81 LADs with the exception of the quintile with the lowest life expectancy, which has 80.
 3 Life expectancy figures are not available for City of London or Isles of Scilly because of small numbers of deaths and populations.

⁵⁵ Data and chart produced by Office for National Statistics

In 2010-2012, Glasgow experienced the lowest LE in the UK, with LE for 65 year old males at 14.9 years, and 18.3 years for 65 year old women. Glasgow City consistently has the lowest LE in the UK. Scotland has the lowest UK-wide LE at age 65 for both men and women.⁵⁶ Table 4 shows average country-wide differences in LE at age 65.

Table 4: life expectancy at age 65 in 2010-2012 by country and gender⁵⁷

Country	Life expectancy at age 65	
	Men	Women
England	18.6 years	21.1 years
Wales	18.0 years	20.6 years
Scotland	17.2 years	19.5 years
Northern Ireland	17.9 years	20.6 years

Ethnic minorities tend to have lower life expectancies

LE varies by ethnicity, though there is less LE data available on ethnicity than on region and gender. It is important to recognise that ethnic minorities experience quite a lot of variation in LE both between as well as within ethnic minority groups. Some ethnic minorities will have lower LE due to external factors such as class, region or immigration status.

Over time, data on ethnicity will become increasingly important as the ethnic minority population of the UK is growing quickly. Between 2001 and 2007 the ethnic minority population of England and Wales grew from 13% to 16% and is projected to grow to 28% by 2026.⁵⁸

People from ethnic minority groups tend to have lower LEs than those from the majority population. Table 5 shows estimates based on assumptions of how ethnic mix might be affect LE.⁵⁹

⁵⁶ ONS (2014) chapter 5, Table 2

⁵⁷ ONS (2014) chapter 5, Table 2

⁵⁸ Lievesley, N (2010)

⁵⁹ These are not period measures as shown in the area charts.

Table 5: life expectancy at birth in England by ethnicity⁶⁰

Ethnic group	Men	Women
White British	76.2 years	80.6 years
Indian	75.9 years	80.4 years
Pakistani	75.0 years	79.8 years
Bangladeshi	74.6 years	79.8 years
Black Caribbean	75.2 years	80.2 years
Black African	75.1 years	80.2 years
Chinese	75.7 years	80.5 years

Particular regions are more likely to have higher proportions of residents who are from ethnic minority groups. Ethnic minorities are more likely to live in areas with lower average LEs and Healthy Life Expectancies. Some ethnic minority groups are also more likely to have other indicators of disadvantage. Bangladeshi, Pakistani and Black African people have the lowest average levels of LE and are also more likely than any other ethnic group to suffer from indicators of deprivation such as poverty.⁶¹

Areas with a higher proportion of ethnic minorities are generally inland and towards the midlands and East of England and Wales. This correlates to some extent with the patterns seen for LE.

The highest proportions of ethnic minorities live in London (40%) and the West Midlands (17%) while the lowest proportion of ethnic minorities live in the South West (5%) and Wales (4%).

People in lower socio-economic classes tend to have lower life expectancies

LE varies by socio-economic class, with those in more disadvantaged classes having lower on average LEs than those in higher classes (Table 6).

Table 6: Male and female life expectancy at birth by socio-economic class, 2007-2011, England and Wales⁶²

Socio-economic class	Life Expectancy at birth	
	Men	Women
Higher managerial and professional	82.5 years	85.2 years
Lower managerial and professional	80.8 years	84.5 years
Intermediate	80.4 years	83.9 years
Small employers own account workers	80.0 years	83.5 years
Lower supervisory and technical	78.9 years	81.9 years
Semi-routine	77.9 years	81.7 years
Routine	76.6 years	80.8 years

⁶⁰ Lievesley, N (2010) p. 28, Table 9

⁶¹ Kenway, P. Palmer, G. (2007)

⁶² ONS (2015b) Table 1 and Table 4, uses National Statistics Socioeconomic Classification 7 analytic class schema

People are most likely (22% of men and 26% of women) to be in the lower managerial and professional class. Only 16% of men and 8% of women are in the highest class. Women are more likely than men to be in the more disadvantaged classes (Chart 8).

Chart 8⁶³

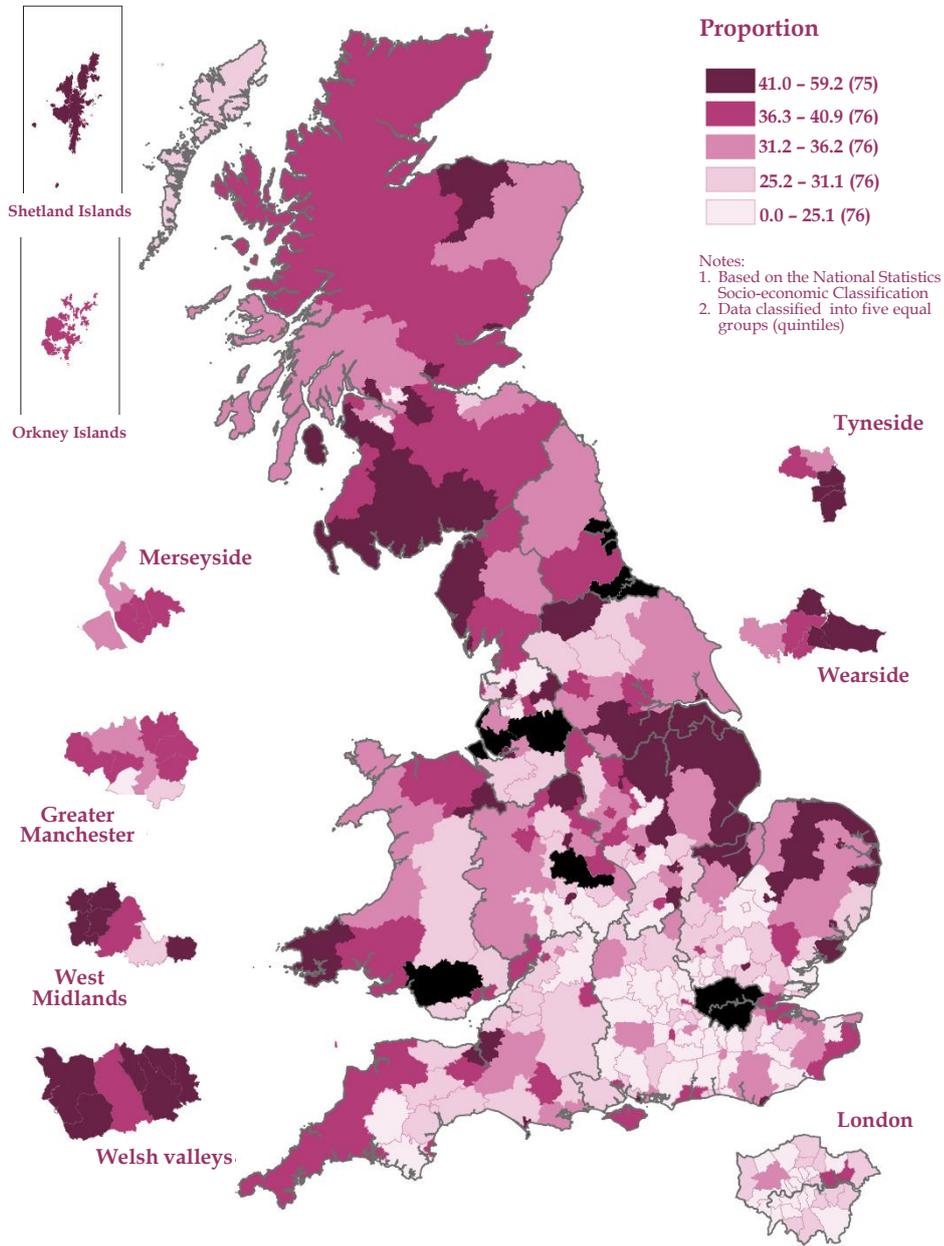
People in lower social classes are more likely to live in the North of the UK with 38.5% or more of people in many Northern areas in the routine or manual class.⁶⁴ Those in intermediate classes are more likely to live in the midlands or in coastal areas. People living in London and the South of the UK are much more likely to be in the intermediate or higher social classes, in many Southern areas 37.5% or more of people are in managerial and professional classes (Charts 9-11).

⁶³ ONS (2013) p.2

⁶⁴ This condensed class encompasses routine, semi-routine and lower supervisory and technical classes.

Chart 9⁶⁵

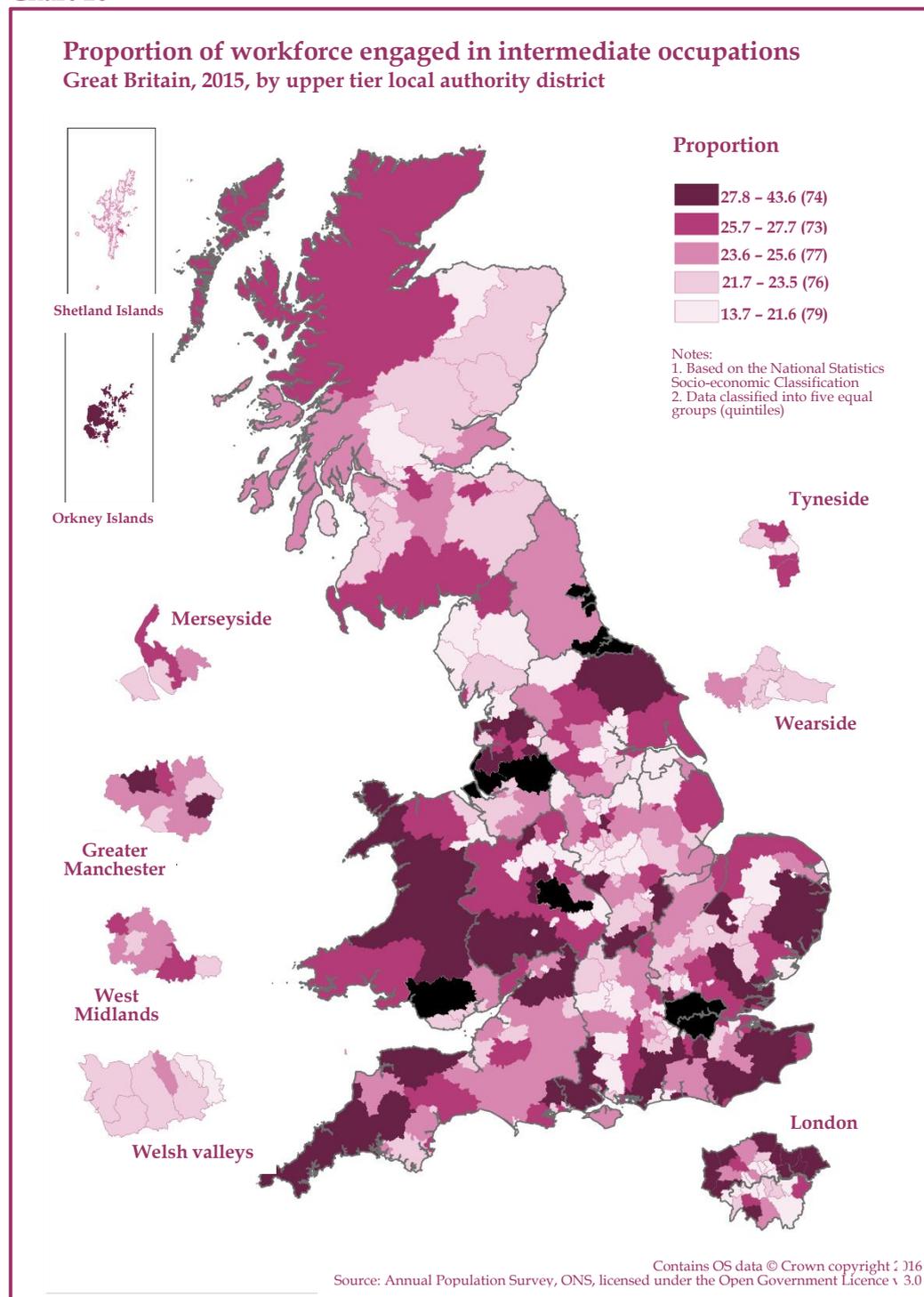
Proportion of workforce engaged in routine and manual occupations
Great Britain, 2015, by upper tier local authority district



Source: Annual Population Survey, ONS, licensed under the Open Government Licence v 3.0

⁶⁵ Data and chart produced by Office for National Statistics

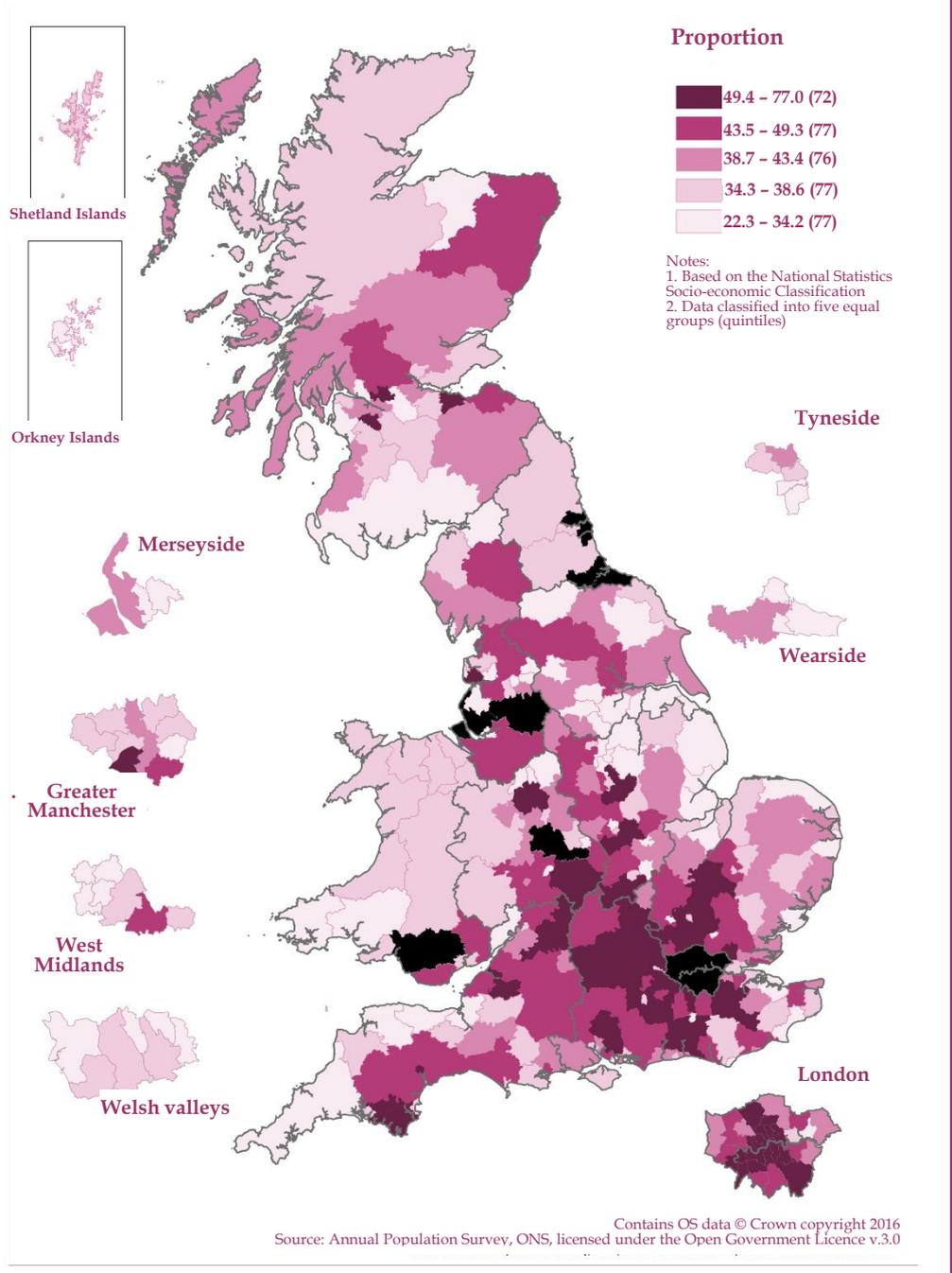
Chart 10⁶⁶



⁶⁶ Data and chart produced by Office for National Statistics

Chart 11⁶⁷

**Proportion of workforce engaged in Managerial and Professional occupations
Great Britain, 2015, by upper tier local authority district**



⁶⁷ Data and chart produced by Office for National Statistics

Disability-Free Life expectancy

Alongside measures of LE, there are also measures of how long people are likely to live in good health. Health expectancy is important to measure in relation to SPa rises because those who have shorter healthy life expectancies might find it challenging to work up until SPa due to health problems.

Health expectancies can be measured in two ways:

- Healthy Life Expectancy (HLE): the proportion of lifetime that people are expected to spend in “good” or “very good” health.
- Disability-Free Life Expectancy (DFLE): the proportion of lifetime people are expected to spend free from a limiting long-term illness or impairment.

HLE measures health in relation to wellbeing while DFLE measures health and functionality.⁶⁸ As people with disabilities are far less likely to be in work than those without, DFLE is a helpful indicator for how long people may be able to stay in work.⁶⁹

LE has been rising over the last few decades and alongside it, DFLE has also been rising, though not as quickly as LE, particularly for people aged 65 or over. Between 2000/2002 and 2009/2011 LE for 65 year olds increased by 2.1 years for men and 1.7 years for women, while DFLE only increased by 1.7 years for men and 0.8 years for women.⁷⁰

Women’s DFLE is similar to men’s, though their LE is higher. This means that, proportionally, women might live longer than men, but are likely to spend proportionally more time in poor health than men, on average (Table 7).

As with LE, high levels of DFLE are more common in the South of England while DFLE is generally lower in the North, though within and between areas DFLE will vary between individuals as LE does.

There is greater variation in levels of DFLE than levels of LE. In England, 2012-2014:

- 65 year old men in Wokingham and 65 year old women in Richmond upon Thames lived, on average, for 14 and 16.7 years, respectively, free from restrictions in carrying out normal daily activities.
- 65 year old men in Newham and 65 year old women in Tower Hamlets lived, on average, for 2.8 years and 3.3 years respectively, free from restrictions in carrying out normal daily activities.

⁶⁸ ONS (2016a) p. 2

⁶⁹ In January 2016, 46.5% of disabled people of working-age were in work compared to 84% of non-disabled people. Papworth Trust (2016) p. 5

⁷⁰ Jagger, C. (2015) p. 11 Table 2

Average lifetime DFLE is below age 65 in some areas of England. People in these areas may find it difficult to work until the current SPa, and may therefore find further SPa rises particularly challenging (Table 7).

Table 7: Disability-Free Life Expectancy at birth in 2012-2014 by English region and gender⁷¹

Country	Disability-free life expectancy at birth	
	Men	Women
South East	65.1 years	65.2 years
South West	65.0 years	64.7 years
East of England	64.8 years	64.3 years
London	64.0 years	64.2 years
East Midlands	62.5 years	62.2 years
West Midlands	62.3 years	61.8 years
Yorkshire and The Humber	61.4 years	61.6 years
North West	61.0 years	61.0 years
North East	60.4 years	60.4 years

DFLE at birth is lower in parts of Scotland, Wales and Northern Ireland than it is in England (Table 8, Chart 12).

Table 8: Disability-Free Life Expectancy at age 65 and at birth in 2009-2011 by country and gender⁷²

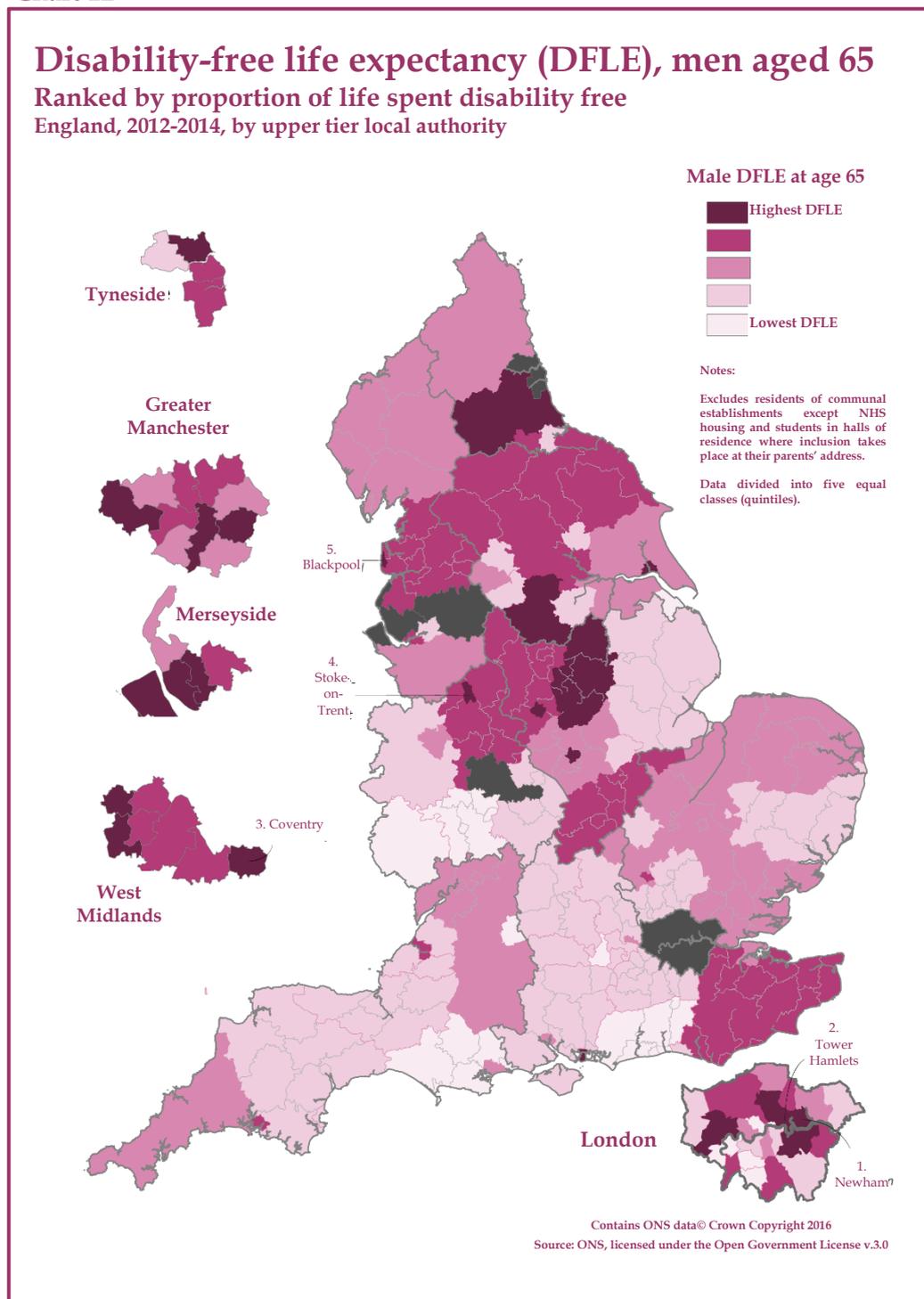
Country and gender	Disability-free Life Expectancy	
	At age 65	At birth
Men		
England	10.8 years	64.5 years
Wales	9.1 years	61.7 years
Scotland	8.6 years	60.6 years
Northern Ireland	9.5 years	59.9 years
Women		
England	11.0 years	65.0 years
Wales	10.4 years	62.9 years
Scotland	11.1 years	64.0 years
Northern Ireland	9.2 years	61.0 years

⁷¹ ONS (2016a) Disability-Free Life Expectancy (DFLE) and Life Expectancy (LE): at age 65 by region, England

⁷² ONS (2014) Health Expectancies in the United Kingdom, Great Britain, England, Wales, Scotland & Northern Ireland

Chart 12⁷³

Disability-free life expectancy (DFLE), men aged 65 Ranked by proportion of life spent disability free England, 2012-2014, by upper tier local authority



⁷³ Data and chart produced by Office for National Statistics

Ethnic Minorities tend to have lower Disability-Free Life Expectancies

DFLE is lower for people from most ethnic minority groups than for white people. White British women have higher DFLEs than men, but women from some ethnic minority groups, Pakistani, Indian, and Black African, have lower DFLEs than men from those groups (Table 9).

Table 9: Disability-Free Life Expectancy at birth by ethnic group in England and Wales in 2001⁷⁴

Ethnicity	Disability-free Life Expectancy at birth (range) ⁷⁵	
	Men	Women
Chinese	65.3-67.5 years	67.6-68.8 years
White British	61.7 years	64.2 years
Black African	62.6-64.1 years	63.7-63.9 years
Black Caribbean	59.5-59.8 years	60.5-60.9 years
Indian	61-61.1 years	59.6-60 years
Bangladeshi	54.7-54.8 years	56.3-57.1 years
Pakistani	55.8-56 years	54.6-55.4 years

Those in lower more disadvantaged classes are more likely to be in poor health

Health expectancies vary by socio-economic class with people in the most disadvantaged class being twice as likely as those in the highest class to report that their health is “not good” (Table 10).⁷⁶

Table 10: Proportion of people in socio-economic classes (age-standardised) reporting “not good” health in England and Wales in 2011⁷⁷

Social Class	Reporting that health is “not good”	
	Men	Women
Higher managerial and professional	14%	14%
Lower managerial and professional	17%	18%
Intermediate	22%	21%
Small employers own account workers	22%	21%
Lower supervisory and technical	26%	28%
Semi-routine	29%	28%
Routine	30%	33%

As with other indicators, the effects of socio-economic class worsen the farther North someone lives. Rates of “not good” health are worse for all social classes

⁷⁴ Wohland *et al.* (2014), Figures 1 and 2

⁷⁵ Range between GWM and SIR mortality estimation methods

⁷⁶ Based on a range of possible answers: “Very Good”, “Good”, “Fair”, “Bad” or “Very Bad”. “Not Good” includes all those who answered “Fair”, “Bad” or “Very Bad”.

⁷⁷ ONS (2013) Figure 3 & Figure 4, classification by current or former occupation

in parts of the North than the rate for the equivalent class in the South. For example, 34% of routine workers in the North East report “Not Good” health compared to 27% of routine workers in the East.⁷⁸

Conclusions

- In 2013, the Government announced that it intended for people to spend “on average, up to one third of their adult life drawing a State Pension,” with adult life being assumed to begin at age 20.
- Men and women currently have different Life Expectancies (LEs), though the gap is narrowing. The Government intends to use average LE between both genders when calculating future SPa rises.
- LE varies by region, gender, ethnicity and socio-economic class. Therefore, while SPa rises are calculated to ensure that people spend the same amount of time in receipt of the State Pension on average:
 - Those with lower LEs are more likely to receive their State Pension for less than a third of their adult life while,
 - Those with higher LEs are more likely to receive their State Pension for more than a third of their adult life.
- Variations in Disability-Free Life Expectancy (DFLE) also mean that some people will find it harder to work up until higher SPas than others, and may have to live on a lower income from working-life benefits than they would have received from the State Pension.
- People with certain characteristics are more likely to have low LEs and DFLEs:
 - People living in parts of the North of England, Scotland, Wales and Northern Ireland,
 - People from lower socio-economic classes,
 - Ethnic minorities.

⁷⁸ ONS (2013) Figure 3 & Figure 4

Chapter four: can the effects of SPa rises be mitigated?

This chapter explores options for mitigating the effects of SPa rises on those most negatively affected.

Not everyone in the UK is equally effected by SPa rises

The Government intends for people to spend up to a third of adult life (from age 20) in receipt of the State Pension, on average. Men, people living in parts of the North of England, Scotland, Wales and Northern Ireland, people from lower socio-economic classes, and ethnic minorities have lower average Life Expectancies (LEs) and will lose a greater proportion of adult life in receipt of the State Pension, on average, as a result of SPa rises and are more likely to spend less than a third of life in receipt of the State Pension.

People living in parts of the North of England, Scotland, Wales and Northern Ireland, people from lower socio-economic classes, and ethnic minorities have lower Disability-Free Life Expectancies (DFLEs) and may have greater difficulty working up until higher SPas.

Differences in LE are not necessarily a reason not to increase SPa. However, it is clear that, in the absence of other changes, some groups will be more adversely affected by SPa rises than others. If the Government wishes to prioritise the sustainability of the State Pension, then SPa rises are inevitable. However, there are policy options for mitigating the effects of SPa rises on those most adversely affected. One option would be to tackle inequalities within society which lead to lower LEs and DFLEs for people from particular groups.

The PPI (sponsored by Age UK) has modelled several possible options for ensuring that the SPa can rise whilst also protecting those most affected by SPa rises. Some of these options could increase the overall costs to Government, increasing the cost burden of the State Pension and pensioner benefits.

The PPI has explored options which have either been proposed in the UK or are used internationally:

- Allowing people with 45 years of National Insurance (NI) contributions to claim a full State Pension
- Freezing Pension Credit age or de-linking it from SPa
- Allowing early access to a reduced State Pension
- Allowing early access to an unreduced State Pension
- Allowing people with caring responsibilities to receive their State Pension early unreduced

Allowing people with 45 years of National Insurance (NI) contributions to claim a full State Pension could help those from lower socio-economic classes

People from lower socio-economic classes are likely to have lower LEs and DFLEs making it harder for them to work up until higher SPas, and also more

likely to lose a greater proportion of life in receipt of the State Pension as a result of SPa rises.

People in very low socio-economic classes, such as manual workers, are more likely to have entered work straight from school, spending more time in work than those attending higher education. Due to the increased time spent in work and the nature of the work, those in the lowest socio-economic classes are more likely to incur health-related illnesses.

If those with 45 years of NI contributions were allowed access to a full State Pension prior to SPa this would mitigate some of the effects of SPa rises on this group. The threshold of 45 years also ensures that the policy is targeted at people who have spent all of their adult life in the workforce (or engaged in an activity for which they would have earned NI contributions), as those who haven't would not accrue 45 years of NI contributions before SPa.

This policy would affect around 38% of people reaching SPa⁷⁹ who might be able to claim a State Pension prior to SPa. Assuming the distribution of qualifying years is relatively stable, the additional payments of State Pension resulting from this policy would be around £163million per year (in 2016 earnings terms) in 2018, increasing to around £250million per year in 2020⁶ as the SPa increases to 66.

The net cost to the Exchequer would be affected by other factors which may offset the cost such as a reduction in working age means tested benefits, and an increase in tax revenue resulting from the State Pension payments. However, allowing early access to State Pension may mean that some people who would have continued to work otherwise, cease working, and therefore do not pay income tax or NI contributions on their income.

Freezing Pension Credit age or de-linking it from SPa could help those who will struggle to work up until SPa

People with lower DFLEs are more likely to develop health problems prior to SPa and may struggle to work up until higher SPas. Freezing Pension Credit at age 65, or setting it at five years below SPa, would help to mitigate some of the impact of SPa rises on this group, as they would be eligible for a higher level of means-tested benefits than they would have been under the working-age benefits system. An alternative approach would be to introduce a higher rate of Universal Credit for people within 2 to 5 years from SPa. Using means-tested benefits as a policy-lever ensures that the policy is targeted on those with lower incomes.

It is clear that employment rates at older ages are lower than for those in middle age groups and that older people are more likely to struggle to return to work

⁷⁹ In 2013

due to health or labour market barriers. Some older people would benefit from claiming Pension Credit early. However, it is difficult to quantify the cost of this policy as there is no clear evidence on how many people might take up Pension Credit early.

This policy could be problematic if it encouraged people to leave work early and claim Pension Credit. However, conditions could be applied to any pre-SPa receipt of Pension Credit, such as requiring applicants to be carers, unable to work due to ill health, or actively seeking work.

Allowing early access to a reduced State Pension could also help those who will struggle to work up until SPa

Allowing early access to a reduced level of State Pension could help those who may struggle to work up until a higher SPa due to health problems or other barriers, though others may choose this option as well. In order to maintain cost neutrality, the pension income⁸⁰ might need to be reduced by around 4% for every year it was accessed early.⁸¹ While a 4% reduction would be cost neutral over the long-term, over the short term there would be an increase in expenditure for those accessing prior to their SPa. However a 4% reduction would result in a substantially lower State Pension income. For example taking State Pension three years before SPa would reduce a pension of £155.65 a week by around 12% to around £137 a week.

Those who take up this option are likely to be eligible for Pension Credit in retirement. This would introduce a challenge for the Government, as allowing these people to access Pension Credit would result in the policy no longer being cost neutral. However, denying access to Pension Credit for these people would mean that they would have to live on an income lower than the one which the Government has stated is the minimum suitable income for pensioners to live on.

Allowing early access to an unreduced State Pension could mitigate the effects of SPa rises on disabled people

People with disabilities will be less likely to be able continue working up until higher SPas. Allowing people who are in receipt of Employment Support Allowance (ESA) in the Support Group and within 5 years of retirement to access their State Pension early could impact around 260,000 people in 2018.⁸²

The annual cost of paying an unreduced new State Pension to these people to replace their ESA in 2018 could be around £440 million more than the cost of their ESA, in 2016 earnings terms.¹³ Some of the cost could be offset by increased tax revenue, and reduction in means tested benefits. To an individual on the

⁸⁰ For women, 2014-based mortality figures

⁸¹ PPI estimate based on ONS 2014-based mortality projections

⁸² The support group contains people who are considered unable to work, with little chance of being able to work in the future

average amount of ESA in the support group the impact could be an increase in income of around £33 a week in 2016 earnings terms.¹⁴

If the policy were extended to allow people who are in receipt of Employment Support Allowance in the Work-Related Activity Group (WRAG) and within 5 years of retirement, it could impact around a further 90,000 people in 2018.⁸³ The annual cost of paying an unreduced new State Pension to these people in the WRAG group, could be around £340 million more than the cost of their ESA, in 2016 earnings terms.

Individuals in the WRAG group receive a lower average level of ESA than those in the Support group, so the net amount per individual is higher. To an individual on the average amount of ESA in the WRAG group the difference could be around £74 a week in 2016 earnings terms.

Allowing people with caring responsibilities to receive their State Pension early unreduced could reduce the impact that SPa rises have on these people

Carers may also be limited in the extent that they can work up to a delayed SPa, as a result of their responsibilities. Around a half of carers are unemployed.¹⁸

Allowing people who are within three years of their SPa and entitled to Carer's Allowance (whether or not they are in receipt of it), could impact around 60,000 people in 2018. The annual cost to the exchequer of paying an unreduced new State Pension to these people could be around £490 million in 2016 earnings terms.

Conclusions

- If the Government wishes to prioritise the sustainability of the State Pension, then SPa rises are inevitable. However, there are policy options for mitigating the effects of SPa rises on those most adversely affected.
- The PPI has explored options which have either been proposed in the UK or are used internationally:
 - Allowing people with 45 years of National Insurance (NI) contributions to claim a full State Pension
 - Freezing Pension Credit age or de-linking it from SPa
 - Allowing early access to a reduced State Pension
 - Allowing early access to an unreduced State Pension
 - Allowing people with caring responsibilities to receive their State Pension early unreduced
- Introducing one or more of these options could mitigate the impact of SPa rises on those most affected, however, some of these options could increase the overall costs to Government, increasing the cost burden of the State Pension and pensioner benefits.

⁸³ The WRAG group contains people who are considered unable to work, with a chance of being able to improve their ability to work in the future.

Appendix one: the PPI aggregate modelling

For determining the fiscal impacts of different potential State Pension age (SPa) reforms, the PPI's Aggregate Model has been used.

Overview of Aggregate Modelling of Private Pensions

The PPI Aggregate Model links changes in the UK population, the labour market and economic assumptions to project forward private (and State) pension savings. Population projections are taken from 2012-based figures published by the ONS.

Current distributions of individuals across pension scheme types are taken from the Lifetime Labour Market Database (LLMDB) – a panel dataset of 1% of UK National Insurance (NI) records. The workforce data includes numbers of individuals and average earnings split by age, gender and earnings band. The data are further split between public and private sector contracted-out schemes and those who are contracted-in to the State Second Pension (S2P).

Initial Conditions

In the base year of projection (2010), individuals with private sector pension arrangements are split between public and private Defined Benefit (DB) schemes and workplace Defined Contribution (DC) schemes. 17.5% of working individuals are assumed to be members of DC workplace pensions and 32.1% of individuals are assumed to be members of DB workplace schemes. 73.2% of those in DB schemes are assumed to work within the public sector, leaving 8.6% of the workforce in private sector workplace DB schemes.

The workforce not initially enrolled in public sector DB, private sector DB or private sector workplace DC, are considered as the eligible population for automatic enrolment. This includes individuals not in workplace pension schemes who contribute to personal pensions.

Stocks of existing assets for DB schemes and workplace DC schemes are split across cohorts by contribution levels. Initial stocks of workplace DB assets were assumed to be £890 billion in the base year. It was assumed that the stocks of DC assets in 2010 were £275 billion.

Movement of individuals between schemes due to decline in DB schemes

The proportion of individuals in each scheme is not stable over time: the proportion of the total workforce who are enrolled in a private sector DB scheme is assumed to decline by 80% between 2010 and 2030 and these individuals are moved into the existing DC workplace schemes.

Movement of individuals between schemes post automatic enrolment

From 2012, employees in the private sector without workplace DC provision are placed in a scheme to represent automatic enrolment, which is split further into master-trust schemes and other DC schemes, assuming 57% are automatically

enrolled into master-trusts and the remaining into other DC schemes. Individuals are enrolled in proportion to the likely number of employees becoming eligible each year due to staging of their employers. Similarly, during the staging period, employees in existing DC schemes who become eligible for automatic enrolment either remain in the existing scheme or are moved to a new automatic enrolment workplace DC scheme (again split into master-trusts and other DC schemes in the same proportions as mentioned above). It is assumed that 80% of existing members remain in their current scheme, and 20% are expected to move to the new automatic enrolment scheme. New members to DC schemes who have an employer with an existing scheme either join the new automatic enrolment scheme (80%) or join an existing DC scheme (20%).

Overall, after 2012 the private sector workforce is assumed to contribute to either private sector DB pension schemes. DC schemes which were existing prior to automatic enrolment. DC which were set up for automatic enrolment, or schemes set up for those that are eligible for automatic enrolment that did not contribute before the implementation of automatic enrolment. It is assumed that 14%⁸⁴ of the workforce change jobs from year to year, which causes individuals to shift from existing DC schemes into new DC automatic enrolment schemes over time.

Contributions

Contributions are taken as a percentage of total earnings for employer provided schemes (both existing schemes and those set up after automatic enrolment) and are taken across band earnings for individuals automatically enrolled who previously were not saving. The earning band is taken to be £5.824 to £42.385 with an earnings trigger of £10.000 (all in 2015-16 terms).

When automatically enrolled, individuals and their employers are assumed to contribute at the minimum levels required under automatic enrolment legislation (phased in from a combined contribution of 2% of band salary in 2012, rising to 8% of band salary in 2018 in accordance with existing regulations) unless otherwise stated.

General assumptions

Fund charges are assumed to be 0.75% for existing workplace DC schemes,⁸⁵ and 0.5% for Other DC/master-trust schemes set up for automatic enrolment.⁸⁶

Long-term financial and population assumptions are in line with Office of Budget Responsibility (OBR) assumptions. The earnings band for automatic enrolment contributions and minimum salary assumption are assumed to grow

⁸⁴ Average annual workforce churn. DWP (2010)

⁸⁵ Average charges for trust-based schemes are 0.71% and for contract-based schemes 0.95%, DWP (2012), and a 0.75% charge cap was introduced for any DC default funds being used for automatic enrolment from April 2015 onwards.

⁸⁶ Equivalent Annual Management Charge for multi-employer/Mastertrust schemes such as Legal and General's Worksave, NEST and The People's Pension.

with average earnings. These assumptions are consistent with those used across the PPI modelling suite and are the result of consultation with the PPI's modelling review board, which consists of a number of experts in the field of financial modelling.

Appendix two: the PPI individual modelling

The project makes use of stylised case study calculations of the impact of current and potential tax relief systems on individual savers.

Example savers

In this report we have used example individuals to explore the impact of a change to SPa upon an individual currently aged 40 and likely to be impacted by SPa reform. The profiles considered are:

1. A median earning woman, £520 a week in 2016 terms,⁸⁷ contributing 8% of earnings a year to a DC pension.
2. A median earning woman, £520 a week in 2016 terms, contributing 8% of earnings a year to a DC pension and working for two years beyond SPa.
3. A median earning woman, £520 a week in 2016 terms, contributing 8% of earnings a year to a DC pension. They leave the workforce at age 65 and receiving working age benefits until retirement.

Figures in the body of this report are for the impact in retirement for individuals currently age 40. It is assumed that they are continuously in employment and are subject to a SPa of 67 under current legislation or 68 under potential reforms.

Modelling pension contributions

The calculation assumes contributions are made throughout the individual's working life as a percentage of their gross salary. The contributions are then projected forward with investment returns to retirement age at which point the net pension value is calculated. The calculation assumes that the net contribution rate remains constant in any alternative scheme, maintaining the level of take home pay.

Mortality

The survival probabilities are derived from ONS 2014-based mortality projections.⁸⁸

Assumptions

Long-term financial are in line with Office of Budget Responsibility (OBR) assumptions. The earnings band for automatic enrolment contributions and minimum salary assumption are assumed to grow with average earnings. These assumptions are consistent with those used across the PPI modelling suite and are the result of consultation with the PPI's modelling review board, which consists of a number of experts in the field of financial modelling.

⁸⁷<http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2015provisionalresults#earnings-by-age-group>

⁸⁸<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/pastandprojecteddatafromtheperiodandcohortlifetables/2014baseduk1981to2064>

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