

Introduction

The State Pension Age (SPA) is the age at which people are first eligible to claim a state pension. The Coalition Government has recently passed legislation to raise the SPA more quickly than was legislated for by previous Governments. This briefing note explores the potential implications of recent and future SPA increases.

The current State Pension Ages were introduced in the 1940s at age 60 for women, age 65 for men

In 1908, the Old Age Pensions Act introduced first state pension, which was non-contributory, means-tested, conditional (for example, on not having a criminal record) and available to people over the age of 70 (the first SPA).

After undergoing several changes, in 1948 the state pension had become a contributory, non means-tested, unconditional old age pension payable from the age of 60 to women and the age of 65 to men.

The choice of SPAs was based on political negotiation and lobbying. Women's SPA was set 5 years below men's due to several factors. Women were, on the whole, likely to be dismissed at younger ages than men and less likely to be able to regain employment at older ages. A further relevant factor concerned married women, who were, on average, around 4 years younger than their husbands and less likely

than unmarried women to be employed. A single state pension was considered too small for a couple to live on, so women's SPA was originally set at age 60 with a view to enabling women with older husbands to start receiving their state pension around the same time as their husband might be leaving work (around age 65) and claiming his state pension.¹

The SPA is rising due to the cost implications of increases in life expectancy

In 1948, when the SPA was 60 for women and 65 for men, the average life expectancy for a 60 year old woman was 18 years, (age 78).² By 2010, a 60 year old woman's average life expectancy had increased by around 11 years, to nearly 29 years (age 89).³

Improvements in life expectancy mean the Government has to

pay a state pension to each individual for longer, resulting in both greater costs to Government, and increases in the amount taxpayers need to pay to meet the costs of state pensions (when compared to previous, older cohorts).

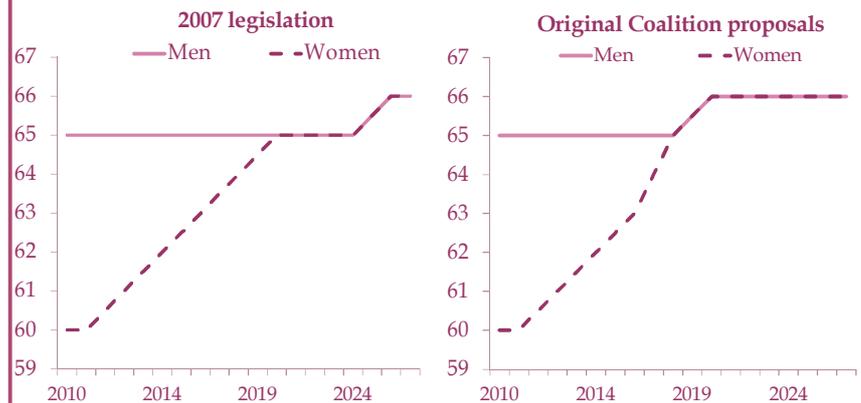
In the Pensions Act 1995 legislation was passed to equalise women's SPA with men's SPA. The Act set out the Government's legislation for women's SPA to increase from age 60 starting in 2010 to become equal with men's SPA at age 65 by 2020.

In the Pensions Act 2007, the Labour Government legislated for the then equalised SPA to increase for both men and women to 66 between 2024 and 2026, to 67 between 2034 and 2036 and to 68 between 2044 and 2046 (Chart 1).

SPA is rising more quickly

Chart 1: The original Coalition proposals speed up the SPA rise to 66 by six years

Timetable for State Pension Age rises under the original (Labour) legislation in 2007 and under the original Coalition draft legislation in the Pensions Bill 2011



after changes made by the coalition Government

Since SPA rises were legislated for in the Pensions Act 2007, official projections for average life expectancy have gone up by nearly one and a half years for both men and women (aged 65).⁴ The Coalition Government has said that the SPA needs to rise faster in order to compensate for faster than expected increases in life expectancy and originally introduced draft legislation in the Pensions Bill 2011 to bring the increase of women's SPA forward so that it would have reached 65 by November 2018, and men and women's SPA would have risen to 66 by April 2020.

There was particular concern about the impact of the original draft legislation on women

The timetable originally proposed in the Pensions Bill 2011 would have meant that almost 5 million people (2.6 million women and 2.3 million men) would have had to wait longer to claim their state pension than under the timetable legislated for in 2007 (Table 1).

There was particular concern about the impact of the original draft legislation on women. No men would have had to wait more than an extra year to claim their state pension under the original draft legislation, however around 500,000 women would have had to wait more than a year extra to claim their state pension.

Of these 500,000 women, the ones who would have been the most

Table 1: Around 245,000 women would have had to wait longer than 18 months to claim their state pension under the Government's original draft legislation

Original Pensions Bill 2011 draft legislation and Pensions Act 2011, number of people by length of additional time to State Pension Age from previous legislation (rounded to nearest 1,000)

| | 1 year or less | Between 1 year and 1½ years (13 - 17 months) | 1½ years exactly (18 months) | Between 1½ years and 2 years (19 - 23 months) | 2 years exactly |
|---------------------------|----------------|--|------------------------------|---|-----------------|
| Men (draft legislation) | 2.3 million | 0 | 0 | 0 | 0 |
| Men (Pensions Act 2011) | 2.3 million* | 0 | 0 | 0 | 0 |
| Women (draft legislation) | 2.1 million | 197,000 | 57,000 | 214,000 | 33,000 |
| Women (Pensions Act 2011) | 2.1 million | 197,000 | 303,000 | 0 | 0 |

Source: DWP data

* The number of men waiting a year or less for their SPA does not change, however under the Pensions Act 2011 240,000 men will have a lower SPA than under the original draft legislation

substantially impacted by the Government's original draft legislation were the around 245,000 women who would have had to wait longer than 18 months to claim their state pension.

The Government estimates that their original draft legislation would have saved £31.7 billion

The Government recognises that bringing SPA rises forward could cause hardship for some women however they were reluctant to agree to substantially slow down the proposed timetable of increases due to the cost implications of agreeing to pay state pensions to more people from an earlier date. The Government estimated that their original draft legislation would have saved £31.7bn between 2016/17 and 2025/26.⁵

The Government has amended the timetable, reducing the maximum wait to 18 months

In October 2011 the Government amended the Pensions Bill

(now the Pensions Act 2011) revising the timetable of SPA rises so no women would have to wait longer than 18 months to claim their state pension (Chart 2). The Government confirmed that the amendment was introduced in response to the concerns of women most affected by the proposed SPA rise to 66.⁶

The amended legislation in Pensions Act 2011 reduces the impact of SPA changes for around 500,000 people and will cost around £1.1 billion

Table 1 shows that as a result of the final legislation in the Pension Act 2011, 2.3 million men will still have to wait 1 year or less to claim their state pension, although of these 2.3 million men 240,000 will now need to wait slightly less time to claim their state pension due to the knock-on impacts of the amended legislation.

Following the final legislation, 2.1 million women will still need

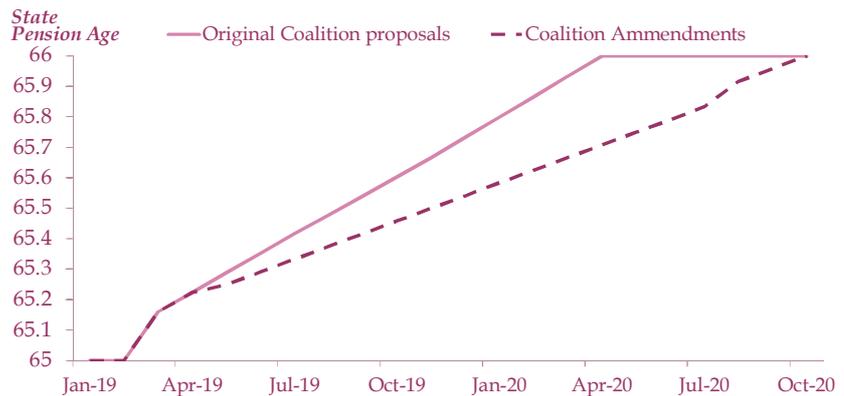
to wait an extra 1 year or less to claim their state pension, 197,000 women will still need to wait more than a year but less than 18 months, and 303,000 women will now have to wait exactly 18 months to claim their state pension. Of the around 303,000 women who now have to wait 18 months to claim their state pension, around 245,000 women would have had to wait for longer than 18 months under the original proposal. These women are the main beneficiaries of the Government's amendment.⁷

While recognising that the amended legislation provides some help to those most affected, critics of the Governments' policy feel the amended legislation does not go far enough and that the rises still place an unfair burden on women (especially those born between 6 October 1953 and 5 October 1954) who will have to wait between a year to 18 months to claim their state pension. The Government estimates that the amended legislation in the Pensions Act 2011 will cost the Government an extra £1.1 billion in spending on state pensions and benefits than under their original draft legislation.⁸

The Opposition tabled several amendments, including a compromise amendment which would have capped the maximum wait at 1 year. However, these amendments were rejected in parliament and the Coalition Government argued that any further decreases to the timetabled SPA rise would be too costly, for example, the cost of a cap at 12

Chart 2: The Coalition amendment caps SPA rises at a further 18 months

Timetable for State Pension Age rise from age 65 to 66 for men and women under the original Coalition draft legislation in the Pensions Bill 2011 and under the recent amendment



months would be around £4 billion compared to the £1.1 billion cost of the 18 month cap.⁹

Bringing SPA rises forward reduces the notice time people have to adjust

An adequate amount of notice regarding SPA rises is necessary in order to allow people to adjust their working and saving plans accordingly.

People who are already economically inactive, or have reduced hours when an SPA rise is announced may find it difficult to respond to policy changes by working longer or saving more. Some people may only have enough savings to support themselves until the SPA that they had on leaving paid work. It might be difficult for older people to compensate by re-entering the labour market.

SPA changes in the past have aimed to avoid this issue by

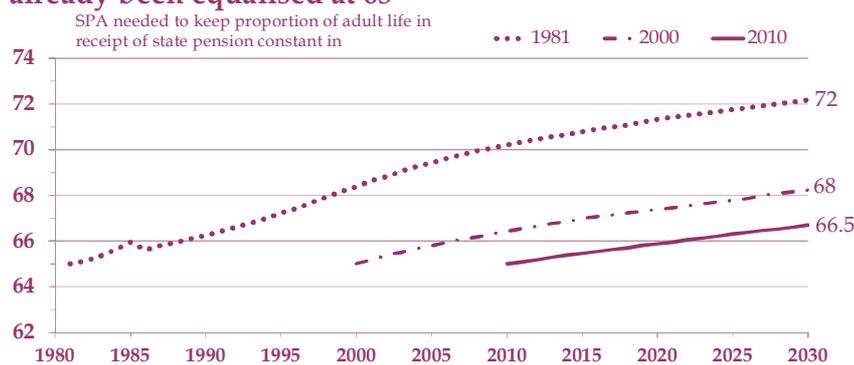
using long lead-in times. Women were given at least 15 years' notice in relation to the equalisation of male and female SPAs between 2010 and 2020.

The evidence on participation rates at older ages would suggest that if less than five years notice is given of changes to male SPA, many men might find it difficult to adjust. Within 5 years of the current SPA of 65, only 60% of the male workforce are still economically active. Men may need at least 5 years notice and ideally 10 years notice of an SPA change, because within 10 years of the current SPA of 65, around 75%¹⁰ of men are still economically active and could therefore respond to the policy change by delaying their retirement if they need to.

A smaller proportion, around 65% of women aged 50-59 were economically active in 2010¹¹ suggesting that women may need more than 10 years' notice

Chart 3: State Pension Age rises needed to keep proportion of adult life in receipt of state pension constant

State Pension Age required to keep stable the proportion of adult life spent in receipt of a state pension if SPAs had already been equalised at 65



Source: PPI calculations based on ONS, 2010 based cohort life expectancy projections (UK) 2011

of any future SPA changes.

There will be further increases in SPA

The Government has made it clear that they intend to review the timetable for further SPA rises (to age 67 and 68). They have proposed either setting up a review committee to consider further SPA rises, or creating a formula which would link further SPA rises to increases in projected life expectancy, or a combination of both. Issues to consider in any further changes to SPA will include notice periods, as well as any distributional impacts, for example on people with characteristics that mean they have shorter than average life expectancies.

There is no clear objective way

to measure 'fairness' in determining the timing of future SPA rises, however one possible way to attempt to ensure that there is fairness between the generations is to keep the proportion of the average pensioners life spent in receipt of the state pension constant. For example, if policymakers want to keep the proportion of adult life (beginning at age 18 and assuming a combined average life expectancy for men and women) spent receiving the state pension constant at:

- the 2010 level of 32% of adult life then given 2011 expectations of future life expectancy, the SPA would need to rise to 66.5 by 2030 (Chart 3)
- the 2000 level of 30% of adult life, then the SPA would need to rise to 68 by 2030

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- at the 1981 level of 25% of adult life, then the SPA would need to rise to 72 by 2030, representing a very substantial increase in SPA over a short time frame.

Conclusions

The SPA is rising due to increased costs brought about by increases in life expectancy. The Coalition Government has legislated in the Pensions Act 2011 to bring SPA increases forward. The initial draft Bill legislation generated concern that some people, especially women, were not being given enough time to adjust to changes by working longer or saving more. Therefore the Coalition Government amended the initial legislation before the Bill passed into an Act, capping any increase in the length of time a woman will need to wait for her state pension at 18 months. Under the Pensions Act 2011 legislation around 500,000 women will still have to wait more than a year longer before being able to claim their state pension. It is difficult to determine the fairest way to calculate SPA rises. One potential method is to attempt keep the proportion of the average pensioner's life spent in receipt of the state pension constant.

¹ Salter *et al.* (2009) *100 years of state pension*

² GAD Decennial Life Tables (2000-02), period expectation 1950-52

^{3,4} ONS UK cohort life expectancy tables, 2010-based principal projections

⁵ www.dwp.gov.uk/docs/pensions-bill-spa-info.pdf

⁶ www.dwp.gov.uk/newsroom/press-releases/2011/oct-2011/dwp119-11.shtml

⁷ DWP data

⁸ Hansard, Commons debates 18 Oct 2011

⁹ Hansard, written answers, 12 Oct 2011 12 Oct 2011 : Column 437W

^{10,11} ONS, Pension Trends, Chapter 4 (2011)