

PPI Roundtable

State Pension age review

Roundtable write up:

The Pensions Policy Institute (PPI) held a roundtable on 7th December 2021 in partnership with Age UK. The focus was on the State Pension age (SPa) review which is due to conclude by July 2023.

The roundtable was run as an online seminar with the industry viewpoints presented by **Christopher Brooks** (Age UK), **Martin Clarke** (GAD and PPI Governor) and **Catherine Foot** (Phoenix Insights).

24 people attended this event, representing a broad range of interests within Government, the pensions industry and the research sector. **Lynda Whitney** (Aon & PPI Council Member) chaired the event.

Presentation prior to discussion

Lynda Whitney, Partner, Aon welcomed the attendees and introduced the guest speakers to the roundtable. She highlighted the potential topics the attendees and speakers would discuss which includes the main findings from the previous SPa review in 2017 and how life expectancy projections can be considered in the next review.

Christopher Brooks, Head of Policy, Age UK, introduced the considerations to be made ahead of the State Pension age review. Chris agreed with some aspects of the Cridland review, one of which being the use of a universal State Pension age. He also spoke about recommendations Age UK does not necessarily agree with, such as the raise of State Pension age to 68.

Chris highlighted inequalities in SPa and trends in healthy life expectancy as key topics to consider in the roundtable. The importance of employment support was outlined as a key consideration for those who have not retired. He highlighted the importance of paid carer's leave, improved employment support and boosting benefits as keyways of improving income for people approaching retirement.

Chris discussed the difficulties of implementing such policies including potential issues such as ensuring the group eligible is clearly defined.

He discussed the importance of private pensions and with the increase in popularity of DC schemes and how more private pension saving will interact with State Pension age rises by providing an extra source of income for those who are out of work at older ages.

Martin Clarke, Government Actuary's Department and PPI Governor, discussed the SPa review in 2017. He spoke about the thought process behind the review, looking at trends in future life expectancies and how these interact with SPa. He highlighted that the calculations performed are sensitive to the projection model. The government decided to maintain the current increases in State Pension age and to wait for further reviews for guidance.

Over time, more data on mortality improvements and healthy life expectancy, has become available. These improvements have started to plateau. Cohort life expectancy for 65 years has decreased by about 2 years. This highlights the potential need to slow down increases in State Pension age.

Martin mentioned COVID-19 as a factor to consider in the review and encouraged interested parties to look at health inequalities where the latest data shows the inequality gap has increased in the last few years.

Catherine Foot, Director, Phoenix Insights, would like to see considerations towards the fundamental policy objectives of the State Pension. She urged more public engagement in the State Pension age review as the public would be affected by the outcomes of the review. Discussions about contributions towards the State Pension and income requirements could benefit the public by increasing their engagement and could help inform the review.

She echoed factors discussed by Chris and Martin such as health inequalities, relationship between the State Pension and working-age benefits, patterns of caring at different ages and trends in labour market participation. Home ownership is also an important factor to look at.

Panel discussion and Q&A

The following points were raised in the discussion, chaired by Lynda Whitney with a panel consisting of Christopher Brooks, Martin Clarke and Catherine Foot. This session was held under the Chatham House Rule and the views expressed do not necessarily reflect the views of the Pensions Policy Institute or panellists.

- **Variable State Pension age:** The government needs to reconsider the fundamental policy objective of the State Pension and see whether variable ages align with current times. GAD would need to consider the actuarial calculations for those who retire at different times under a variable age but one of the practical obstacles for the government would be additional funding from the exchequer. The government might not be too keen on this as those on lower incomes who take their state pension early could claim pension credit to top up their income.

A fixed age is justified, and it has upwards flexibility. If there is full flexibility, then poorer people might take the money earlier and receive a lower amount and lock themselves into poverty. There is a financial imperative for increasing State Pension age with improving longevity, as not doing so would increase the burden of State Pension in aggregate for the working population that may not be able to fund it.

Going forward there are several important factors to consider on setting State Pension age. Consensus between all relevant stakeholders about the purpose of State Pension and the intentions of State Pension policies will be crucial for delivering holistic policy support to pensioners. Another key factor will be managing inequalities in the system, potentially through other policy moves during working-life. Ensuring that employment and benefits are accessible to people is a third key factor, particularly in relation to those who want to work at older ages.

- **Employment support:** Raising SPa has led to increases in benefit receipt – the number of people aged 65 on means-tested benefits rose by over 130,000 with rises in SPa, with 110,000 of those being people on the Employment and Support Allowance 'no work requirements' group in Universal Credit - i.e., due to ill health etc. But claiming for this is incredibly demanding and demeaning. We should not have to rely on the Work Capability Assessment and Universal Credit to provide income support to older people who cannot work. Employment rates do rise when SPa goes up, e.g., from 35-45% for men aged 65 and from 20-35% for women aged 65. But of course, most do not work even with those rises. We need to do a lot more to improve employment support at those points of transition, and to work better with firms on recruitment, retention, and job design for older workers. It is difficult to say how long people should be expected to work until as many people leave work involuntarily and/or cannot find a job at older ages when they want to work. So, the important thing will be to ensure that those who can and want to work are given support and those who cannot, receive sufficient benefits.
- **Retirement:** The concept of retirement is changing with market and policy changes. People used to retire around their SPa, however rises in SPa mean that people are leaving work at a wider range of ages due to a variety of factors such as ill health or needing to provide care. We have also seen a rise in the number of people who say that they are retired when they are actually still working in, for example, consultancy roles or boardships. Alongside this, more people are “unretiring”, leaving work and then returning at a later date as circumstances change. Therefore, the concept of retirement is changing and the way people plan for retirement is likely to change also.
- **Private pensions and the role of the State Pension system:** The State Pension cannot be considered in isolation from aspects of the system such as automatic enrolment and private pensions. The latest figures suggest that there have been falls in labour market participation for those over 50. We have seen a million fewer people in the labour market. Reasons include potential hits to particular industries during COVID-19, particularly those in insecure employment and the self-employed. At the same time these people are having to wait longer

to receive their State Pension. More focus is needed on how to get people back into work, through supporting employment, re-entry, retraining, and improved employment practices as well as how to fill income gaps for those under State Pension age who are out of work.

In the future, the State Pension is likely to provide a higher proportion of retirement income to people than it does today, as a result of fewer people retiring with DB entitlement. However, industry and the majority of people are unaware of the role that State Pension will play in the future and are focused mainly on their private pension savings, if they think about it at all.

- **Mortality reviews and review process:** ONS population projections are based on current and short-term mortality trends blended with longer-term trends. Shorter-term mortality is heavily affected by recent events. Small adjustments to longer-term trends in mortality are typically not made. These longer-term trends are based on the best extrapolation and best estimate, so this needs to be taken into consideration when making decisions based on these figures.
- **Carers and the role of social care:** We have seen a huge increase in carers during the pandemic. This partly accounts for the loss of workers in the labour market. Social care is underfunded and this has forced individuals to become carers. There needs to be greater support for carers approaching State Pension age. Pre-retirement needs and experiences, including caring need to be considered as a normal part of people's lives, but this requires the involvement of multiple departments which is very difficult. More coordination from departments is needed. An income enhancement for those caring and approaching State Pension age would be the preferred mechanism.
- **Nature of poor datasets for certain areas of public policy:** Data on the needs and experiences of older people is sorely lacking, particularly data on attitudes about money and the future. Datasets typically provide data on individuals, but money discussions and decisions are often made on a family basis. An excellent Social Market Foundation report in 2015 looked at what the government could do to address known data gaps (The publication is called "Golden Years? What freedom and choice will mean for UK pensioners?").

Closing Remarks

- Inequality is the main factor to be considered in the review - making sure everyone achieves a decent standard of living.
- We need to better understand data and use evidence for policy-making.

A Pensions Policy Institute roundtable

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