Prospect Pensions Briefing Note 2017/00552

March 2017

State Pension Age – Initial summary of Review Papers

23rd March 2017 saw the publication of two reports on the future of the State Pension age (SPa). These were commissioned by the Department for Work and Pensions (DWP) as part of their legal requirement to keep the SPa under review every five years. The outcome of the first such DWP review is expected to be published in May 2017. The two reports, published by as a result of separate reviews conducted by John Cridland and the Government Actuary's Department, are likely to heavily influence the position adopted by DWP.

As a reminder the current legal position is that SPa will reach 65 for women by 2018. For both men and women the equalised SPa will then rise to:

- 66 in 2020
- 67 in 2028
- 68 in 2046.

Cridland's Report

The report can be viewed at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/602145/independent-review-of-the-state-pension-age-smoothing-the-transition.pdf

The headline recommendation is that the increase to age 68 should be brought forward by seven years to happen by 2039. No recommendation for further increases has been suggested in his report.

He also believes that any future increases to SPa should be limited so that it doesn't increase by more than one year in any ten year period.

Cridland does not seem to be convinced that early access to State Pensions should be allowed, however he does propose a range of measures to help people cope with increasing State Pension ages:

- From 2039, the means tested Pension Credit should be available to anyone who is within one year of SPA (i.e. 67)
- From 2039, Universal Credit should be adjusted for people approaching SPa to allow improved payments for part time workers.

Cridland also believes that (by 2029 at the latest) those working past SPa should be given flexibility in how they take their State Pension, with partial drawdown a possibility and for any State Pension that is not drawn immediately to available later as a lump sum.

Cridland does make some seemingly progressive suggestions regarding working at old age, including:

- Employer duty to have eldercare policies to help carers in the workplace
- The introduction of Statutory Carer's Leave by 2029 at the latest
- The availability of a "Mid-Life MOT" which allows people to take stock and make choices about work, life and retirement. This does not seem to extend to the provision of free training or education for someone who wants to re-skill.
- A recommendation that more use is made of older workers in training apprentices.

Cridland also outlines Government's responsibility to communicate directly with citizens about any changes to State Pension age and to promote National Insurance vehicles that will ensure maximum amounts of State Pension can be built up.

Moving slightly beyond his remit, but within the legitimate bounds of pension policy, Cridland also opines that the Triple Lock (which ensures Basic State Pension and New State Pension are increased each year in line with the better measure of price inflation, average pay rises or 2.5%) should be replaced after 2020 by a measure that reflects average pay rises only. He also advocates the extension of Automatic Enrolment to ensure more pension saving amongst women and the self-employed.

Government Actuary's Department Report

The GAD review, which is accompanied by a plethora of tables and charts can be seen at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/601722/periodic-review-of-rules-about-state-pension-age-gad-report.pdf

This report focusses solely on the actuarial dark art of trying to predict future life expectancies. Government's previously stated aim was for State Pension age to be set at a level that would allow one-third of average adult life to be spent in retirement. Adult life is said to begin at 20. DWP asked GAD to measure what State Pension age would be needed to ensure 33.3% of adult life would be spent in retirement.

GAD's estimations say that to meet this measure State Pension Age would have to rise:

- To 68 by 2041 (rather than 2046 as currently or 2039 as recommended by Cridland), and
- To 69 by 2055

DWP also asked GAD to use a different measure for "one-third" - namely 32%, reflecting the average proportion of working life spent in retirement for those reaching age 65 in the last 20 years..

Using this measure, GAD suggests that State Pension age would have to rise:

- To 68 by 2030
- To 69 by 2042, and
- To 70 by 2056.

GAD has not given any consideration to further changes beyond 2064.

GAD believe that in 2020 88% of people are expected to survive between age 20 and State Pension age, whereas by 2064 they would expect this proportion to increase to 90%.

GAD also recognises that any assessments of future life expectancies are effectively a guess, and that the actual position is likely to change. To this end, they give a "sensitivity analysis" setting out the position if life expectancies were to change. Underpinning this is the central assumption that life expectancies are expected to improve in the long term at a rate of 1.2% per annum. They offer two other assessments, which are summarised below (based on the 33.3% measure for proportion of adult life spent in retirement):

SPa rise	**Higher Life Expectancy assumption (life expectancy improves at 1.4% pa)**	**Central Assumption (life expectancy improves at 1.2% pa)**	**Lower Life Expectancy assumption (life expectancy improves at 1.0% pa)**
Rise to 68	By 2037	By 2041	By 2051
Rise to 69	By 2049	By 2055	Not needed by 2064
Rise to 70	By 2062	Not needed by 2064	Not needed by 2064

Conclusion

These reports will undoubtedly be pored over by the officials and Ministers at the DWP in advance of any official announcement. The Ministers will also have to take a political judgement on whether the country will support such a move.

It is also worth noting that the earliest change mooted in either report is in 2037 – i.e. 20 years away. Whilst it is commendable for long term Government planning to be undertaken (regardless of whether we like the outcome or not), it is a racing certainty that matters will change over those two decades – Governments will change, economic conditions will change, life expectancies will change, attitudes to work and retirement will change. Whilst these reports may be well informed it is unlikely that they will dictate policy in 20 years' time.