

Time to raise State Pension Age?

Raising State Pension Age could point the way out of the current pensions crisis, says a report published today by the Pensions Policy Institute.

Raising State Pension Age: Are We Ready? is an authoritative and detailed review of the issues around the policy nobody likes to think about: raising the age at which we receive a pension from the state. But it could provide good news for the amount of state pension we receive in future.

Alison O'Connell, author of the paper and Director of the PPI said: "People are living significantly longer. Health and job prospects for the over 65s are improving. Working longer can help to fund better retirement income. And the real prize is that, with a higher State Pension Age, a better state pension can be afforded, at no extra cost.

These are valid reasons for considering a rise in state pension age *now*, even though it cannot take effect for another 20 or 30 years.

There are only two ways out of the pensions crisis: saving more or working (and saving) longer. Working longer is the more attractive solution for many people, and it fits with the fact that we are all living longer."

The key findings in the report are:

1. Raising State Pension Age is a legitimate and timely subject for proper debate – the UK cannot afford to avoid it any longer.
2. 90% of people now live to collect their pension, compared with 66% when the current pension system was set up, and people are living to collect their pension for 8 years longer. To take full account of these startling improvements in longevity the State Pension Age would be in the region of 72 to 75.
3. Raising State Pension Age opens up options to increase the level of the state pension. If SPA were 70, then at no extra cost, the state pension could be around £110 per week, or around £130 for over 75s (in today's prices). Raising SPA could mean that older pensioners no longer have to rely on means-tested benefits.
4. It would take many years to raise the State Pension Age, so that people have time to adjust their work and savings plans. A practical solution would be for the change to take place between 2020 and 2030. Then only people currently aged 42 or less would have to wait to 70 for their state pension.

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5. Raising State Pension Age should not be announced without activating policies to support those potentially disadvantaged by the change. Better understanding of health trends is required; as are policies to help older people take suitable jobs.

Tom Ross, Chairman of the Pensions Policy Institute said "This paper gathers together new data and rigorous assessment on an extremely important issue. It demonstrates the value of the Pensions Policy Institute. I hope it contributes to a wider understanding of the issues and informed debate on raising State Pension Age and the role of the state pension."

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For further information please contact -

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Notes For Editors -

- The current State Pension Age is 65 for men and 60 for women, due to equalise to 65 for all by 2020.
- A full summary of the report's conclusions is attached. A copy of the complete report, and information on the PPI can be found at: www.pensionspolicyinstitute.org.uk/. Copies can be obtained from the PPI on 020 7848 3744 or info@pensionspolicyinstitute.org.uk
- The PPI is an independent research organisation, focused on pension provision. Its aim is to improve information and understanding about pensions (state and private) through research and analysis, discussion and publication. 67 governors from a wide range of pension-related backgrounds support the Pensions Policy Institute.
- Alison O'Connell, author of the report and Director of the PPI, is an actuary with over 15 years experience in financial services and in pensions policy.
- The report builds on new longevity data from the Government Actuary's Department and analysis of the financial implications of raising SPA by PricewaterhouseCoopers.

Raising State Pension Age: Are We Ready? Conclusions

1. **Raising State Pension Age is a legitimate - and timely - subject for debate.**
 - There are enough valid reasons for raising SPA that the UK should be ready to consider it now.
 - The analysis and commentary in this paper are directed towards helping to build a fact-based consensus around a decision on whether or not to raise SPA.
 - This paper also suggests that the SPA issue should prompt debate with the aim of achieving long-term consensus on the role and level of the Basic State Pension (BSP).

2. **Startling longevity improvements suggest a significant hike in SPA is overdue.**
 - Many more people are living to collect their state pension: 90% compared to around 66% when the current social security system was set up around 1950.
 - People are living longer after collecting state pension: around 8 years longer than in 1950.
 - Benchmarking suggests a new SPA in the region of 72-75, so a catch-up in one step may not be practical. Further longevity improvements are forecast, so further increases in SPA may follow.

3. **Raising SPA allows a higher Basic State Pension at higher ages, clarifying its role as insurance against living longer than expected.**
 - It is hard to justify raising SPA for cost reasons alone. On current policy, state spending on pensions is projected to increase by only around 1 percentage point of GDP over the next 50 years.
 - But for no additional cost, the level of state pension benefit could be increased if SPA were raised. Raising SPA to 70 could free up resources to increase BSP by nearly 50% by 2030.
 - Alternatively, raising SPA allows the BSP to be increased by more at older ages: by up to 70% at ages 75 and over, at no extra cost.
 - Further increases could take older pensioners off means-tested benefits, for a small temporary extra cost. State pension resources would then be focused on giving a meaningful BSP to older pensioners, instead of a small amount to all.
 - Raising BSP at older ages clarifies the role of the BSP as a guaranteed insurance against poverty caused by living longer than expected. This role is increasingly relevant as longevity continues to improve.

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4. **Raising SPA should be a strong signal for today's younger workers to be prepared to work longer.**
 - Raising SPA should only affect people today in their 40s or younger who should be able to adjust work and savings plans.
 - Raising SPA will reinforce other policies encouraging greater workforce participation at older ages in future. *Not* raising SPA appears to contradict these policies.
 - Raising SPA may prompt occupational schemes to increase normal pension age which would help relieve some of the current cost pressure on such schemes.

5. **Raising SPA does not significantly alter the distribution of state pension money between income groups.**
 - Life expectancy and health prospects are improving for all socio-economic groups, although lower-income people on average are unhealthier and die younger.
 - However, any relative financial disadvantage to lower-income groups on raising SPA is hard to quantify.
 - Inequalities have always been inherent in the pension system. The socio-economic disadvantage is no worse than men, who die younger on average, receiving fewer years of pension than women.
 - If other policies are in place to support those potentially vulnerable to any future increase in SPA, it would seem unreasonable *not* to raise SPA only because of redistributive concerns.

6. **Any announcement of plans to raise SPA would need to be accompanied by activity to ensure other policies will be effective in time.**
 - Communication of a decision to raise SPA is difficult because the issue tends to arouse immediate emotional responses. Clarity is important on who will be affected, when the change will take place and the reasons for the change.
 - Further research is necessary into the trends in those factors about which we know little, but are important for an increased SPA to be workable. These include the future health, caring and job prospects of people over 65.
 - The government needs to ensure that policies to help older people take suitable jobs, and to support those that cannot, are effective before any SPA change takes place.
 - The government will need to check that the private and occupational scheme sectors will be ready for a change in SPA.