PENSIONS POLICY INSTITUTE

PPI

The Guarantee Credit and state pension age: A PPI paper for the TUC

PENSIONS POLICY INSTITUTE

PPI

Executive Summary

1. The Government proposed in the recent White Paper that state pension age (SPA) should be increased to age 66 by 2026, 67 by 2036 and age 68 by 2046. One concern often expressed about increases in SPA is that there is variation in life expectancy by social class. This suggests that any change in SPA will disproportionately affect these individuals.

2. Eligibility for means-tested Guarantee Credit (GC) is currently set at age 60 but is intended to rise to 65 by 2020, and then to rise in line with SPA from 2024. The TUC commissioned the PPI to provide an independent assessment of potential implications of retaining a lower eligibility age for the means-tested GC as SPA increases.

3. Life expectancy varies by social class. Professional people live longer than manual workers. However life expectancies for all socio-economic groups are usually understated.

4. Future life expectancy is uncertain, and measuring life expectancy by social class is difficult. If there is no change in the gradient in life expectancy by social class between now and 2026, a man in Social Class V reaching age 65 in 2026 would on average be expected to live to age 83. The average man in Social Class I reaching age 65 in 2025 would be expected to live to age 89.

5. Similarly, life expectancy can vary by area. However, the gap in life expectancy between the most deprived and least deprived areas is smaller than the gap by social class.

6. The gap in life expectancy by social class or area should decrease if the Government is successful in reducing health inequalities.

7. If SPA increases as proposed in the White Paper and life expectancy continues to improve as expected, people in all social classes can expect no fewer years above SPA, and probably slightly more.

8. Raising SPA would mean that low income individuals (who are more likely to be in lower social classes) could be worse off at age 65 than they would have been with no change in SPA. Given that this group may also have a lower life expectancy, they may not get the full value from the higher state pension also proposed in the White Paper.

9. Keeping the eligibility age for Guarantee Credit at 65 as SPA increases has been suggested as a safety-net for those with no other means of support (most likely those in lower social classes).

10. Current claimants of Guarantee Credit aged below state pension age are predominantly disabled, with little attachment to the labour market. Guarantee Credit is a safety-net benefit, rather than an early-retirement benefit.

11. If the eligibility age for Guarantee Credit were kept at age 65, the most likely claimants would still be those incapable of work.

12. There is a wide funnel of doubt for how many individuals could qualify for Guarantee Credit if the eligibility age was kept at 65. However, the additional cost is likely to be small relative to total spending on state pensions, building up to around 0.1% of GDP a year by 2046. Even in a pessimistic scenario, the maximum likely cost is only 0.2% of GDP.