

PRESS RELEASE

For IMMEDIATE release - Thursday 8 September 2016

“Uncertainty in life expectancy projections could result in State Pension age increasing more quickly than longevity.” says Pensions Policy Institute

The Pensions Policy Institute (PPI) has today published *The distributional impact of State Pension age rises*, a report that explores the potential effects of current and future rises in SPa on people of different regions, ethnicity, gender and socio-economic class and on Government costs/savings.

Daniela Silcock, Head of Policy Research at the PPI said “Longevity increases and demographic changes have caused the cost of the State Pension to rise, bringing its long-term sustainability into question. As a result, the Government has introduced several State Pension reforms, key among them being rises to the State Pension age (SPa).”

“SPa rises, calculated to allow people to receive State Pension for a third of adult life on average, are based on life expectancy projections. However, these projections are surrounded by uncertainty as they are based on current mortality rates which change over time. For example, 2010-based projections predicted life expectancy increasing more quickly than 2012 and 2014-based projections. Using 2010 based projections within the Government formula would imply SPa increasing to 68 by 2035, 7 years earlier than if the 2014 based projection are used.”

“The Government’s formula also calculates SPa increases using an average which is affected by people with very high life expectancies. This means that in the year that SPa rises, less than 50% of people reaching SPa that year might expect to spend a third of adult life receiving the State Pension. If a median were used to calculate increases, so that 50% of people received State Pension for a third of adult life and 50% received it for less, then SPa would need to rise more slowly.”

“SPa rises do not affect everyone equally. Lower average life and healthy-life expectancies mean some people living in certain areas, ethnic minorities and people from lower socio-economic classes will receive their State Pension for a shorter time on average and some are less likely to be able to work up until SPa than the average person. There are policy options for mitigating the effects on those most severely impacted, such as tackling inequalities which lead to lower average life expectancies and healthy life expectancies. Other options involve allowing people early access to state pensions or pensioner benefits. These policies could reduce the level of saving from SPa rises, thereby increasing the cost burden on the state, but would ensure that there is some protection in the system for people with lower than average life and healthy life expectancies.”

ENDS

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Notes for editors

1. The Pensions Policy Institute (PPI) is an educational research charity, which provides non-political, independent comment and analysis on policy on pensions and retirement income provision in the UK. Its aim is to improve the information and understanding about pensions policy and retirement income provision through research and analysis, discussion and publication. Further information on the PPI is available on our website www.pensionspolicyinstitute.org.uk.
2. *The distributional impact of State Pension age rises* provides a factual, unbiased account of changes to SPa to date and the effects of current and future rises in SPa, focussing on the cost/savings implications for Government and the impacts on people of different regions, ethnicity, gender and socio-economic class.
3. The modelling uses the PPI suite of models for both individual and aggregate cash-flow projections, supplemented with further analysis of ONS population and mortality projections (2010, 2012 and 2014-based).

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Executive Summary

State Pension age

The first State Pension age (SPa) was introduced in 1908 at age 70. SPa went through several changes before settling at age 60 for women and age 65 for men in 1940 and remaining at these ages for 70 years. In 2010 the SPa began rising again, in stages, and is currently scheduled to reach age 68 for both men and women by 2046. In March 2016 the Government launched an independent review into options for bringing forward the rise to age 68, and investigating options for further SPa rises.

Costs

The Government expects the cost of State Pensions to increase from 5.5% of GDP in 2014/2015 to around 7.3% of GDP in 2065/2066. For every year of SPa rises, yearly costs are reduced by 0.1% to 0.3% of GDP. The triple-lock increases the cost of State Pensions more quickly than an earnings index would do, though it could help the State Pension to regain some of the relative value that it lost when it was de-linked from earnings in 1980. However, the Government Actuary has warned that the triple-lock may become unsustainable by the late 2020s.

Calculating a third of adult life

The Government's formula of increasing SPa so that people will spend a third or more of adult life in receipt of their state pension is based on a mean average, which is affected by very low and very high life expectancies. Another way to measure a third on average is by using the median, which shows when 50% of people will spend more than a third and 50% of people will spend less than a third of adult life in receipt of the State Pension.

For at least 50% of people to spend a third or more of adult life in receipt of the State Pension, SPa would need to rise to age 67 in 2034 and age 68 in 2047.

There are inherent uncertainties in life expectancy projections, and projections change over time. Projections in 2010 indicated that life expectancy was increasing more quickly than 2012 and 2014 projections indicated. If SPa rises were set on 2010 projections rather than 2014-based ones, then SPa would rise more quickly as a result, potentially resulting in fewer than a third of people receiving State Pension for a third of adult life on average (Table Ex1).

Table Ex1:¹ SPa rises in line with the three most recent mean average life expectancy projections

Life expectancy projections	SPa rise to age 68	SPa rise to age 69
2010-based	2035	2048
2012-based	2036	2049
2014-based	2042	2055

¹ PPI calculations based on ONS population projections

Impact of SPa rises

Life Expectancy (LE) varies by region, gender, ethnicity and socio-economic class. Therefore, while SPa rises are calculated to ensure that people spend the same amount of time in receipt of the state pension on average:

- Those with lower LEs are more likely to receive their state pension for less than a third of their adult life while,
- Those with higher LEs are more likely to receive their state pension for more than a third of their adult life.

Variations in Disability-Free Life Expectancy (DFLE) also mean that some people will find it harder to work up until higher SPas than others, and may have to live on a lower income from working-life benefits than they would have received from the State Pension.

People with certain characteristics are more likely to have low LEs and DFLEs:

- People living in parts of the North of England, Scotland, Wales and Northern Ireland,
- People from lower socio-economic classes,
- Ethnic minorities.

Mitigating the effects

Differences in LE are not necessarily a reason not to increase SPa. However, it is clear that, in the absence of other changes, some groups will be more adversely affected by SPa rises than others.

If the Government wishes to prioritise the sustainability of the State Pension, then SPa rises are inevitable. However, there are some policy options for mitigating the effects of SPa rises on those most adversely affected. One option would be to tackle inequalities within society which lead to lower LEs and DFLEs for people from particular groups.

The PPI has also explored some state pension policy options which have either been proposed in the UK or are used internationally:

- Allowing people with 45 years of National Insurance (NI) contributions to claim a full State Pension
- Freezing Pension Credit age or de-linking it from SPa
- Allowing early access to a reduced State Pension
- Allowing early access to an unreduced State Pension
- Allowing people with caring responsibilities to receive their State Pension early unreduced

Some of these options could reduce the level of saving from SPa rises thereby increasing the cost burden on the state, but could ensure that there is protection in the system for people with lower than average life and healthy life expectancies.