



Independent Review of the State Pension Age

Smoothing the Transition

Final Report
March 2017



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Final Report

Presented to Parliament pursuant to Section 27 of the Pensions Act 2014

March 2017



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Print ISBN 9781474142014

Web ISBN 9781474142021

ID 15131722 03/17

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

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Foreword

2017 marks a centenary for Centenarians.

In 1917 King George V sent the first telegrams to those celebrating their 100th birthday. 24 were sent that year. In 2016 around 6,000 people will have received a card from Her Majesty the Queen. In 2050, we expect over 56,000 people to reach this milestone.

Three factors are at play here: a growing population; an ageing population as the Baby Boomers retire; and an unprecedented increase in life expectancy.

A baby girl born in 2017 can expect to live to be 94 years and a boy to be 91. By 2047 it could well be 98 and 95 respectively.

What will this mean for the State Pension, introduced in 1908 at age seventy, when life expectancy was nine years for the one in four who reached that age?

Next year will see the final year when people can get the State Pension at 65. Life expectancy at that age is over 20 years on average, of which half is likely to be spent in good health. Already people are retiring at different ages, both before and after the State Pension age, either because they need to or they want to. The old cliff edge of age 60 and 65 has been washed away. The world of the Third Age is now a very different one, in which those lucky enough to get the State Pension will on average spend almost a third of their adult life in retirement, a proportion never before reached.

This blessing presents us with two challenges.

How as a country are we to fund the State Pension in years to come? It is projected by the Office for Budget Responsibility (OBR) that the cost of the current State Pension will grow from 5% of GDP to 7.1% over a 45 year period, assuming that the State Pension age rises with longevity. This is an important issue of intergenerational fairness given that it is the workforce of tomorrow who will be paying for the pensions of tomorrow's retirees.

The second challenge is fairness within each generation. Behind every average figure like average life expectancy, lies a full spectrum of individual life stories, from the least to the most advantaged. The least advantaged are characterised by poorer health and lower life expectancy, as well as lower earnings and savings. The State Pension age will impact on them in different ways. One size does not easily fit all without other mitigation of these impacts.

In this review of the State Pension age, I have needed to balance up these challenges. A sustainable State Pension means a later retirement age together with a longer working life, so that on average going forward, people living longer spend the same proportion of time in work and retirement. However, a future increase in the State Pension age is harder to bear

for the least advantaged, and for others like carers, who are less able to work for longer. They need our help.

My terms of reference task me with judging the best balance for a fair and sustainable State Pension age, and this I have done. I am asked to consider pensioners and pensions in ten to thirty years' time when attitudes and needs may be different, not those of today. This is mostly the story of Generation X who were born between 1966 and 1979.

The judgements and recommendations are mine, which I have come to after weighing the balance of the evidence. In reaching them I have been greatly helped by the many organisations and individuals who have contributed to this review and responded to the consultation. I am grateful to them all, many of whom are listed in an Appendix. I have also been well supported by colleagues in the Department for Work and Pensions, the Treasury, the Office for National Statistics, and the Government Actuary's Department.

Finally I have been assisted by an excellent review team of officials ably headed by Sofia Stayte. I am very grateful to her and to Olu Akintoye, Jacob MacDonald, Sophie Macnair, Cliff Newman, Gary Gifford, Evita Souri, Andrew Ray, Flo Barnett, Sevim Ekmekci, Rachel Councill and Doris Zajer.

The Third Age is a rather new and an exciting prospect for those lucky enough to enjoy it. Every blessing brings issues and consequences. In this review, I have sought to address how we can afford to live a longer pensionable life, how we can work longer, where this is necessary and possible. Where it is not, I have sought to continue to give assistance to those who need it. I hope that my recommendations will help to achieve these three objectives. They aim to smooth the transition for tomorrow's pensioner. Working together, we have a duty to those who come after us to try and make the future both fair and sustainable.



John Cridland CBE

Independent Reviewer

A handwritten signature of John Cridland in black ink. The signature is written in a cursive style, with the first letters of the first and last names being capitalized and prominent.

Executive Summary

The Scope of this Review focuses our recommendations on State Pension age arrangements post-2028, when State Pension age will have reached 67.

Three generations feature throughout our analysis: Baby Boomers (born 1945–65), Generation X (born 1966–1979) and Generation Y (born 1980–2000).



Life expectancy

The Government established a link between longevity and State Pension age in 2013, stating that people should expect to spend on average up to one third of their adult life in retirement.

Life expectancy has risen at all ages and for all socio-economic groups. Projecting future life expectancy always carries some uncertainty, but the Office for National Statistics (ONS) currently predicts that life expectancy will continue to increase, although improvements will slow down over the next few decades. Healthy life expectancy (which measures time spent in good health) has remained roughly stable as a proportion of overall life expectancy to date. Significant variations in life expectancy and healthy life expectancy remain across socio-economic groups and across the country, most acutely at a local level.



Affordability

We are facing a significant increase in the pensioner population, driven by a relatively large Baby Boomer cohort combined with historic and future life expectancy increases. The latest OBR principal spending projections show that between now and 2036/7 annual State Pension spending is set to rise by an extra 1% of GDP, from 5.2% in 2016/7 to 6.2% in 2036/7. If the same rise in spending was faced today, this would be equivalent to a rise in taxation of £725 per household per year. Additional pressures on health and social care mean that overall age-related spending is expected to rise by 6.8% points of GDP by 2066/7, of which 1.8% is State Pension.



Patterns of pension outcomes

In future, more people will receive a private pension income because of workplace pensions policy, but the average pension in payment will be relatively lower compared to current levels, due to a reduction in higher value defined benefit schemes. As a result, we expect the gap between the richest and poorest pensioners to reduce a little across the generations, although inequality will remain.

Carers and people with ill health or disability are likely to find it more difficult to continue working up to State Pension age. These groups, along with the self-employed, black, Asian and minority ethnic people and women, are likely to have lower private pension savings which may reduce their ability to cope with State Pension age changes.



Setting the State Pension age

A universal State Pension age makes for a simple system that is important for people to plan around but the timetable must be fair to pensioners and workers. To this end the longevity link, which ensures fairness to workers, has to be seen alongside uncertainty about trends in life expectancy, which ensures fairness to pensioners. In other words there has to be a reasonable pace of change, to spread changes equally amongst the generations.

People need at least ten years notice of change and change itself should be limited to once a decade. Drawing from the proportion of adult life spent in retirement over recent years and recent life expectancy projections, State Pension age should increase to age 68 over the two year period 2037–2039, alongside the integral support to smooth the transition which we propose in Chapter 5. This would provide a greater measure of intergenerational fairness, and would also make a contribution to the fiscal sustainability of the State Pension. To create a window of stability, increases after this should not start before 2047, assuming there are no exceptional changes to the data.

This timetable means that spending on State Pension would be 6.7% of GDP by 2066/67. In the Review's judgement, this is close to the limit of what can be saved through changes to State Pension age. To ensure fiscal sustainability, uprating of the State Pension should be held to the earnings link. This would mean that spending on State Pension would be 5.9% of GDP by 2066/67.



Smoothing the transition

Several interventions are needed to smooth the transition into retirement both for those who work and those with multiple barriers to work. Carers suffer disadvantage in the labour market and the Review calls for all employers to adopt eldercare policies and for the Government to directly support a Statutory Carers' Leave programme.

To support the gradual transition to retirement a Mid-Life MoT will provide workers with holistic advice to prepare for the transition. Older workers should have a more prominent role as mentors and trainers in the Government's apprenticeship strategy.

For older workers, the conditionality in Universal Credit could be flexed to allow part time working; together with changes to the rules of deferral of State Pension, including allowing its partial drawdown. Importantly, long-term carers and people with ill-health or disabilities should have access to a means-tested pensioner benefit a year before State Pension age from the rise to 68.

We hope the 2017 Automatic Enrolment Review will prioritise improving coverage for women, for example by giving couples the option to combine their pension savings, and exploring how best the programme can support the self-employed.

Lastly, the Review makes clear that it is the Government's responsibility to communicate directly changes in State Pension age to those affected.

Summary of recommendations

Timetable

We commit to a universal State Pension age across the UK which should increase to reflect changes in life expectancy. To this end, we recommend:

- State Pension age should rise to age 68 over a two year period starting in 2037 and ending in 2039;
- State Pension age should not increase more than one year in any ten year period, assuming that there are no exceptional changes to the data.

Triple lock

If further savings are needed to ensure fiscal sustainability, they are more appropriately delivered by moving in the future to uprating the pension by earnings.

We recommend that the triple lock is withdrawn in the next Parliament. Under our recommended timetable, State Pension spending would be 6.7% of GDP in 2066/67, which is a reduction of 0.3% compared to the principal OBR projection. If the triple lock is withdrawn, spending will be further reduced to 5.9% of GDP by 2066/67.

Flexibility within a universal State Pension age

We believe that some of the funding released by changes in State Pension age and other aspects of the State Pension system should be re-invested to support disadvantaged groups:

- We recommend the main means-tested benefit for pensioners is set one year below State Pension age from the point at which the increase to 68 is introduced, for a defined group of people who are unable to work through ill health or because of caring responsibilities. This means that means-tested access to some pension income will remain at 67 and will continue to lag a year behind for rises thereafter.
- We recommend that the conditionality under Universal Credit should be adjusted for people approaching State Pension age, to enable a smoother transition into retirement. This should be included in the design of Universal Credit as it evolves currently. It would need to be in place, at the latest, by the point at which State Pension age rises to 68, in order to fulfil its mitigation objective.

Supporting working past State Pension age

We believe that there are measures which can help give people reliant on State Pension some of the same flexibilities as those who have private pension provision, by making modest changes to the benefit system:

- We recommend that people who defer their pension should have the option to be rewarded through a lump sum once they start drawing their State Pension.
- We recommend that people over State Pension age should be able to part drawdown their State Pension – leaving the balance to benefit from the deferral arrangements.

This should be introduced as soon as possible, but at least 10 years before State Pension age increases to 68.

Supporting carers

A large proportion of caring is undertaken by people approaching State Pension age, and changes in State Pension age are likely therefore to affect this group. We believe that employers and the Government should do more to help carers in the workplace:

- We recommend that all employers should have eldercare policies in place which set out a basic care offer;
- We recommend a system of Statutory Carers' Leave for people with caring responsibilities. This could be based on the Statutory Sick Pay model, for perhaps up to 5 days, to enable informal carers to provide emergency care. This should be introduced as soon as possible, but at least 10 years before State Pension age increases to 68.

Mid-life MOT

A Mid-life MOT is a useful trigger point to encourage people to take stock, and make realistic choices about work, health and retirement.

- We recommend that people should be able to access a mid-life MOT and that this should be facilitated by employers and by the Government using online support and through the National Careers Service. Work on this should begin immediately.

Contribution of older workers as trainers

With an ageing population, older workers are essential to tackling skill shortages:

- We recommend that the Government and employers make more use of older workers as apprenticeship mentors and trainers – passing on skills from one generation to the next. Work on this should begin immediately.

Communications

Government has a responsibility to communicate directly with those affected by necessary changes to State Pension age. In addition, the Government should seek to use its partnerships with stakeholders to reach a wide range of people.

The Review notes that take-up of certain National Insurance credits is much lower than it could be. The Government should also take steps to ensure that people can build as much State Pension they can.

In addition to the recommendations above the review makes particular note of the following:

Automatic Enrolment Review

The self-employed do not benefit from automatic enrolment, which is largely responsible for the expected increase in private pension saving amongst employed people over time. We are encouraged to note that the 2017 Automatic Enrolment Review will be looking at how the growing group of self-employed people can be helped to save for their retirement and we believe that tackling this issue should be a priority.

We hope that the Automatic Enrolment Review will prioritise improving pension coverage for women. One option based on the Swiss model is that couples could be given the option to combine their private pension savings into a joint pot, to help mitigate disadvantage caused by one partner taking time out of the labour market (eg for childcare). We suggest that the Automatic Enrolment review takes this idea into consideration.

Introduction

John Cridland CBE was appointed in March 2016 to carry out an independent review into factors affecting the future State Pension age timetable, as set out in the Pensions Act 2014.

The Review was given the following purpose and scope in its Terms of Reference:

1. Purpose

1.1 The purpose of the independent review of State Pension age is to make recommendations to the Secretary of State for Work and Pensions on future State Pension age arrangements. These recommendations should be affordable in the long term, fair to current and future generations of pensioners, and consistent with supporting fuller working lives.

2. Scope

2.1 This review should include:

- Robust, evidence-based analysis of the current State Pension age timetable and its impacts; and
- Recommendations on future State Pension age arrangements.

2.2 As part of this, the review will need to consider:

- What a suitable State Pension age is, in the immediate future and over the longer term;
- Whether the current system of a universal State Pension age rising in line with life expectancy best supports affordability, fairness, and fuller working lives objectives;
- And, if not, how State Pension age arrangements might better support these objectives.

2.3 In conducting its analysis and reaching recommendations, the review is to have regard to:

- Variations between different groups.
- The views of organisations and individuals on factors to be taken into account. It will consult widely to ensure that it has considered the appropriate evidence and the range of views of interested parties.

Existing changes to the State Pension age

The equalisation of the State Pension age to 65 for both genders resulted from the 1995 Act and is due to be completed by 2018. The Pensions Act 2011 subsequently increased the State Pension age to 66 by October 2020 and the Pensions Act 2014 further increased the State Pension age to 67 by April 2028. The next increase to 68 was legislated in the Pensions Act 2007 and is due to take place by April 2046. This was based on a programme of change recommended by the Pensions Commission over 10 years ago.

In 2013 the Government stated that on average people should spend up to one third of their adult life in retirement, and that the State Pension age should reflect this longevity link so long as ten years notice of changes was given. The 2014 Act put in place the requirement for independent reviews to consider this.

In this Review we will look at, in particular, State Pension age arrangements from May 2028 onwards, including the currently legislated changes to 68 in the mid-2040s.

Generations of pensioners

Given these time periods, this Review is considering three key generations, defined by their birth year:

| | |
|---------------------|-----------|
| Baby Boomers | 1945–1965 |
| Generation X | 1966–1979 |
| Generation Y | 1980–2000 |

Baby Boomers are the oldest of the generations considered. Many will now be retired, although the youngest will be reaching their State Pension age in 2032, aged 67. Most of the older workers in this group will receive a new State Pension based on their pre-2016 National Insurance contributions or credits record. The majority of Baby Boomer workers retiring in the 2030s will receive at least the full rate of new State Pension when they get to State Pension age. Only around a quarter of people in the Baby Boomer generation remained in full-time education beyond the age of 18, suggesting many began their working lives before or at 18.

Generation X are now well into their working lives, ranging in age from 38 to 51. Many of them may be already planning for retirement, whilst for others retirement planning may seem too remote. Most will be covered in the system through National Insurance contributions or credits. This period of their lives will be key to building both their entitlement to new State Pension (most will get the full amount when they reach State Pension age) and private pension savings. Around a third of people in Generation X remained in education beyond the age of 18, which represents a slightly higher proportion than the Baby Boomers before them.

Generation Y are the youngest generation we are considering, ranging in age from 17 to 37. As is evident from this age range, some of those in this generation will not have even begun their working lives. Most are predicted to gain full entitlement to the new State Pension. Many younger members will see the benefit of automatic enrolment across their working lives, but even some of the oldest should see the benefit of automatic enrolment for over 35 years of their working lives. Of those in Generation Y who have already begun their working lives, around half remained in full-time education beyond the age of 18.

All of these generations may see their State Pension age affected by this Review. However, it is worth noting that Baby Boomers born before April 1961 are not likely to be affected as their arrangements are beyond the scope of this review. There is also the potential for Generations X and Y to be affected by future State Pension age reviews as they are legislated to occur at least once every six years. Generation X are most likely to need to take account of any changes to State Pension age in their retirement planning. For Generation Y the shaping of State Pension age policy may influence the plans they will need to make.

The new State Pension

The new State Pension was introduced on 6 April 2016. It was designed to deliver a “single flat-rate state pension set above the basic level of the means-test for future pensioners [which] will simplify the state pension and better support saving for retirement”.

Maintaining the value of the full new State Pension above the basic level of the means-test is fundamental so that individuals, with even a minimal level of private savings for retirement, are less likely to need means-tested welfare support. Consequently, most recipients of the State Pension will avoid seeing any private pension saving that they have means-tested by the Standard Minimum Guarantee element of Pension Credit. In this way the new State Pension is intended to provide a foundation for private saving and give people clarity about what they can expect in retirement from the State.

Under 2016/17 rates, the full new State Pension will provide an income of £155.65 per week. In steady state this will be after 35 National Insurance qualifying years whether these are comprised of contributions or credits or, as is often the case, a combination of both. A transitional element will be in place for some years to ensure that the old system of National Insurance contributions are recognised. The Government is projected to spend £91.5 billion on the State Pension in 2016/17 and £118 billion on the State Pension and other pensioner benefits.¹

¹ Department for Work and Pensions, 2016, Autumn Statement 2016 Expenditure and Caseload Forecasts, gov.uk
State Pension includes basic State Pension, State Second Pension, and new State Pension. Other pensioner benefits include benefits such as Pension Credit, Housing Benefit, and pensioner disability benefits.

This new system replaced the basic State Pension and additional State Pension. The old system was already in a process of reform to implement the recommendations of the Pensions Commission, which had recognised the crucial role that State Pension has in underpinning private pensions. The April 2016 changes retain the objectives of the Commission but introduce a radically reformed structure designed to be simple and to get as many new pensioners over the means-test as possible.

The new State Pension should be seen in partnership with increased coverage of workplace pensions through automatic enrolment. The Government advocates that this arrangement, where the state delivers a basis for retirement while promoting opportunities to save privately, provides better chances for adequacy of income in later life.

01 Changing Longevity





By 2040, nearly one in seven people is projected to be aged over 75. In 2016, this currently stands at almost one in twelve people. This demographic shift will change the landscape for households, employees and employers and inevitably create pressures on a range of the UK's public services. Ageing adults' need for state support, for care and for medicines, could be the defining issue of our times.

Such a significant demographic shift will inevitably prompt changes to pension saving and provision, as there will be a larger proportion of adults dependent on varying combinations of state support and their own savings.

Improvements in life expectancy and health in the last 50 years have transformed our entire view of older life. This Chapter describes how life expectancy is measured and why it has increased. We describe how life expectancy has changed over time and the key sensitivities in projected changes in the future. We also discuss regional variations in life expectancy. The Chapter also covers healthy life expectancy. It describes how healthy life expectancy is measured, trends over time and the relationship between life expectancy and healthy life expectancy.

1.1 Life expectancy

1.1.1 How life expectancy is measured

There are two measures of life expectancy:

- Period life expectancy estimates how long people live on average. It is based on mortality rates at a fixed point in time, and does not take into account improvements in mortality rates beyond that point;
- Cohort life expectancy includes estimates of expected improvements in life expectancy. The cohort approach is used by financial companies to calculate annuity rates and products like life insurance. It is also the approach used by the Government to determine State Pension age. The Government Actuary's Department uses cohort life expectancy in its report on State Pension age.

The Office for National Statistics (ONS) provides the base data for the Government and is the source of life expectancy information used in this report. ONS provides projections of life expectancy rather than forecasts and to do this makes assumptions about how mortality rates will change in the future. Information on how mortality rates have changed in the past is a key determinant in estimating the current rate of mortality improvement by age and

sex, and in making assumptions about improvements in mortality rates in the future. ONS also consults a range of demographic and health experts to decide how long historic trends will continue into the future.

1.1.2 The drivers of life expectancy

The UK has seen rapid increases in period life expectancy in the first part of the 20th century and then a slower, steady increase which has continued into the 21st century.² Improvements in life expectancy at birth in the first half of the 20th century came from falling infant and child mortality, which reached very low levels by about 1950.

All age groups have seen increases in life expectancy, but the primary causes have been different. From around 1940, the increasing control of infectious diseases has reduced the number of early adult deaths, while there has recently been a reduction in the number of those dying early from circulatory diseases.³ The steepest fall in mortality rates for older people has occurred since the 1970s.

Mortality rates for heart disease and strokes fell over the 1990s and 2000s for men and women aged 40–64. Older groups saw slight falls in the 1990s which then accelerated. Deaths from circulatory diseases had fallen to similar rates as the ‘all cancers’ mortality rate by 2008.

The life expectancy gap between men and women has closed since the 1970s. The ONS states that “a partial explanation for [closing of the gap] may be the different historical patterns in cigarette smoking between men and women, with a higher proportion of males smoking in the past than females and the peak consumption for males being earlier (1940 to 1960) than for females (around 1960).”⁴

Looking just at the last 50 years, life expectancy has increased at a fairly steady rate for both men and women. In the past, projections have consistently assumed that the rate

² ONS, Mortality, 2014-based national population projections reference volume, Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/compendium/nationalpopulationprojections/2014basedreferencevolumeseriespp2/chapter4mortality2014basednationalpopulationprojectionsreferencevolume#constituent-countries-of-the-uk>

³ Griffiths C and Brock A., 2003, Twentieth Century Mortality Trends in England and Wales. Health Statistics Quarterly 18, pp 5–17. Available at: <http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/hsq/health-statistics-quarterly/no--18--summer-2003/index.html>
 General Register Office for Scotland, 2015, Scotland’s Population 2014 – The Registrar General’s Annual review of Demographic Trends 160th Edition. NRS: Edinburgh. Available at: <http://www.gro-scotland.gov.uk/statistics-and-data/statistics/stats-at-a-glance/registrars-general-annual-review/2014>
 Northern Ireland Statistics and Research Agency, 2015, Registrar General Northern Ireland Annual Report 2014. NISRA: Belfast. Available at: <http://www.nisra.gov.uk/demography/default.asp22.htm>

⁴ Gjonca A, Tomassini C, Toson B and Smallwood S, 2005, Sex differences in mortality, a comparison of the UK and other developed countries. Health Statistics Quarterly 26, pp 6–16. Available at: <http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/hsq/health-statistics-quarterly/no--26--summer-2005/index.html>

Pampel F, 2004, Forecasting sex differences in mortality in high income countries: the contributions of smoking prevalence. Working Paper Pop 2004-0002. Institute of Behavioural Science, University of Colorado. Available at: <http://www.demographic-research.org/volumes/vol13/18/>

of improvement in life expectancy would slow, meaning that life expectancy has been consistently underestimated. Projections from the mid-1970s in particular underestimated actual improvements in life expectancy. More recent projections have made increasingly optimistic mortality assumptions but have still consistently under-projected life expectancy.

Figures for England and Wales show that in 1948, when the basic State Pension was introduced, the cohort life expectancy of a 65 year old man was around 12 years compared with 21.3 in 2014.

For the UK as a whole, the latest data from the ONS shows that women’s cohort life expectancy at age 65 has risen 4.6 years from 18.9 in 1989 to 23.5 in 2014. Men’s cohort life expectancy at age 65 has risen 5.8 years from 15.3 in 1989 to 21.2 in 2014.⁵

These rises are expected to continue: UK cohort life expectancy for men/women at age 65 is projected to rise from 21.5/23.7 in 2016 to 22.9/24.9 in 2028 and 24.8/26.8 in 2046 (when the State Pension age increase to 68 was timetabled in the 2007 Pensions Act).

As discussed later in this chapter, although the gap in life expectancy between regions has closed over the period 1991–2014, there remain substantial differences between and within the regions and nations of the UK.

Improvements in life expectancy have been significant for men and for women. Overall improvements have more recently been driven by better health care, diet and lifestyle, including reductions in smoking, alongside deindustrialisation and rising levels of income and education.



Some demographers believe that, despite the possibility of advances in medical practices and of encouraging healthy lifestyles, a law of diminishing returns will apply to mortality rate reductions at advanced ages, partly because no more than a minority of the population will adopt truly healthy lifestyles. It is also possible that new diseases, or the re-emergence of existing diseases such as tuberculosis, may serve to temper future improvements in mortality.”



ONS 2014 population projections

The ONS’ Panel of mortality experts has observed that obesity would rise but not have a significant effect on life expectancy, while new bio-medical technology, improved effectiveness of health care and behavioural changes related to health would drive improvements. There is of course uncertainty, and the ONS produces estimates which look at different long run estimates of life expectancy growth.

⁵ ONS, Past and projected data from the period and cohort life tables: 2014-based, UK, 1981 to 2064 Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/pastandprojecteddatafromtheperiodandcohortlifetables/2014baseduk1981to2064>

We know countries similar to the UK have achieved higher levels of life expectancy. We also note that while there are significant disparities within the UK, if as a nation we can reduce inequality in life expectancy, particularly for those in less wealthy areas, this would improve overall life expectancy. We note that this is a target in Public Health England's outcomes framework for England.⁶

Although historically we have tended to underestimate improvements in life expectancy, when considering State Pension age we need to consider the possibility that life expectancy increases will slow. For instance, looking at ONS population estimates for 2010, 2012 and 2014, the projections for the first time have not undershot subsequent actual improvements in the data.

ONS assumes that mortality improvements slow down to an annual rate of 1.2% for most ages 25 years into their projection. This is in line with the average mortality improvements over the past 100 years, but below the average improvement seen over the last 30 or 50 years.

Recent years have seen higher than expected mortality rates which have impacted on life expectancy. The period between 2012 and 2013 was relatively high in terms of mortality. While this did not cause ONS to revise down its long term assumptions about life expectancy, it did affect the level of life expectancy reached in the latest (2014-based) projection.

The latest data for 2015 shows a rise in mortality rates on the previous year.⁷ ONS had access to the interim version of this data when producing the 2014-based population projections and in fact the projected number of deaths for 2015 matches very closely the latest actual data. Mortality rates for older age groups do fluctuate but are lower now than in the early 2000s.

Whatever the long-term trend, life expectancy based purely on actual reported death rates has risen so steeply that even without significant improvements from current levels we would still see a substantial increase in the old age dependency ratio in the 2030s, with implications for spending on State Pensions. Given that it seems likely there will be further improvements into the medium term, the question then becomes, what is the path of these improvements, and what impact do changes in that path have on the appropriate State Pension age and the affordability of the State Pension system?

⁶ Public Health England, 2013, Improving outcomes and supporting transparency: A public health outcomes framework for England, TSO. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263658/2901502_PHOF_Improving_Outcomes_PT1A_v1_1.pdf

⁷ ONS, Provisional analysis of death registrations: 2015. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/articles/provisionalanalysisofdeathregistrations/2015>

1.2 Factors that influence life expectancy

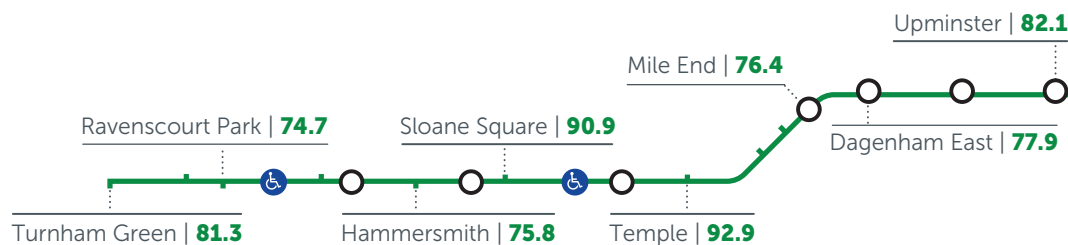
1.2.1 Geographical variation

ONS produces period life expectancy estimates at regional and local authority level. While cohort life expectancy is regarded as the best estimate of life expectancy, in order to compare across different factors (region, economic status etc) we use period life expectancy as cohort data is not available. These breakdowns of period life expectancy data are best used to look at trends over time, or relative differences between different characteristics. They will underestimate levels of life expectancy when compared to cohort based estimates.

While these figures suggest that there are variations amongst the UK's constituent countries and English regions, they also suggest that significant disparities exist between neighbourhoods within local authorities.

Transport maps for all four UK nations, showing life expectancy disparities at a local level (London, Manchester, Newcastle, Cardiff & Central Valleys, Greater Glasgow and Clyde, and Belfast). These are period life expectancies. They do not reflect improvements which are projected when assessing the State Pension age timetable using cohort life expectancy.⁸

LONDON | District Line



Period life expectancy for men at birth in Greater London is 79.6

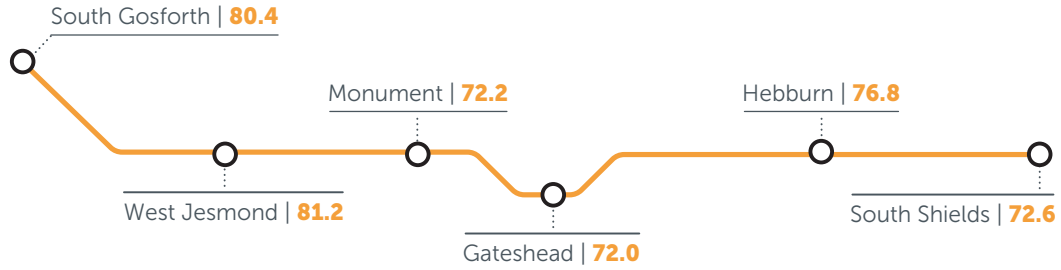
MANCHESTER | Tram Network



Period life expectancy for men at birth in Greater Manchester is 77.2

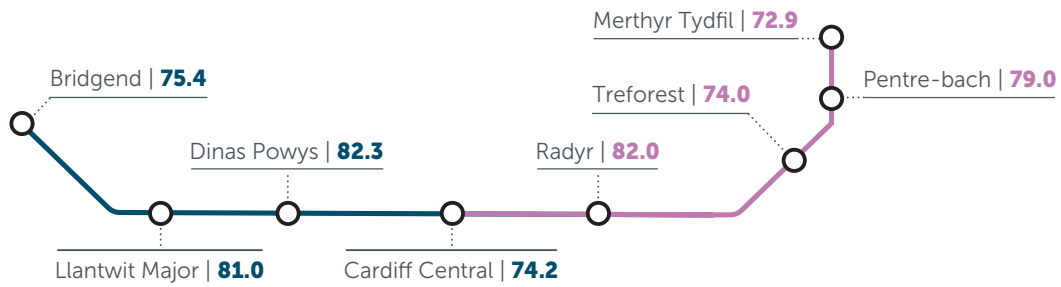
⁸ Life expectancy data by selected middle layer super output areas (MSOAs) in England & Wales, Scotland and Electoral Ward data for NI, for 2009 to 2013. Data Provided by ONS, Public Health Information & Research Branch – Department of Health NI, ScotPHO Health & Wellbeing profiles tool. At smaller sample sizes the data will be subject to a greater extent of imprecision, but for illustrative purposes serves to quantify substantial variations in life expectancy at a local level compared with regional or national averages.

TYNE AND WEAR METRO | Yellow Line



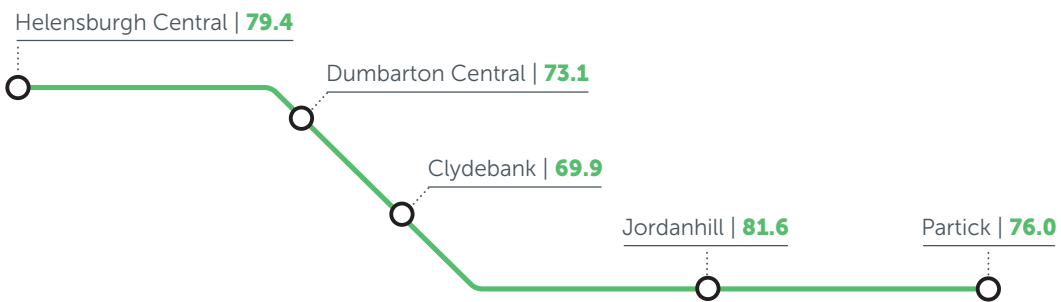
Period life expectancy for men at birth in surrounding Local Authorities is 77.5

SOUTH WALES | Selected Rail Lines



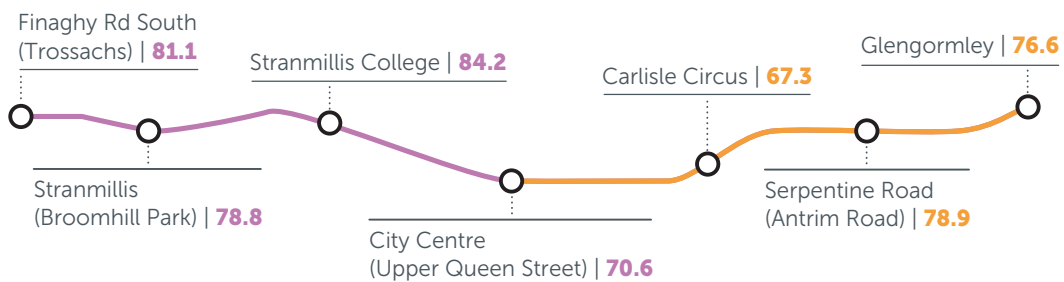
Period life expectancy for men at birth in surrounding Unitary Authorities is 77.6

GREATER GLASGOW | Argyll Line



Period life expectancy for men at birth in greater Glasgow and Clyde is 74.5

BELFAST | Combined Bus Routes (South to North)



Period life expectancy for men at birth in Belfast is 75.4

1.2.2 Socio-economic factors

The next part of the chapter looks at how life expectancy varies for different socio-economic groups and trends over time.

ONS looks at period life expectancy by socio-economic group. This is broadly described as people’s occupation. This measure incorporates a number of factors such as whether a person’s job is physically demanding, risky or has health implications, but it is also a broad measure of their income and education levels. The table below sets out typical occupations for the different socio-economic groups.

| Socio-economic group | Typical occupations |
|---|--|
| Higher managerial and professional | Senior officials, directors, managers (government, large organisations, etc) lawyers, doctors, etc |
| Lower managerial and professional | Managers (typically smaller organisations than above) |
| Intermediate | Secretaries, clerks, clerical officers, skilled trades |
| Small employers and own account workers | Construction trade, agricultural |
| Lower supervisory and technical | Operatives (eg transport), non self-employed trades people (such as electricians, chefs) |
| Semi-routine | As routine below, but with more discretion in performing their role |
| Routine | Sales, service, production, childcare |

ONS data for England and Wales shows that for both men and women, those in professional occupations have the highest average life expectancy at 65, while those in routine occupations have the lowest, with a difference of 3.9 and 3.1 years for men and women in 2007–11.⁹

However life expectancy has increased in the past across all socio-economic groups and both genders, but without a clear trend of narrowing or widening of the relative gap across groups.

For men, groups ranging from the routine to managerial and professional classes saw rises in life expectancy at 65 of between 3.5–5 years (an increase of 27–36%) between 1982–86 and 2007–11. The group which had the lowest increase in life expectancy at age 65 between 1982–86 and 2007–11 was the routine group (an increase of 3.5 years or 27%), while men in semi-routine occupations saw the fastest rise at 36%.

⁹ ONS, Trend in life expectancy at birth and at age 65 by socio-economic position based on the National Statistics Socio-economic Classification, England and Wales: 1982–1986 to 2007–2011. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/trendinlifeexpectancyatbirthandage65bysocioeconomicpositionbasedonthenationalstatisticsocioeconomicclassificationenglandandwales/2015-10-21>

Women's life expectancy rose between 1.4–3.4 years (an increase of 7%–19%) across most groups with the supervisory group seeing the smallest and slowest rise (an increase of 1.4 years or 7%). But life expectancy for women in routine and semi routine occupations rose marginally faster (an increase of between 15% and 17%) than for those in professional occupations where the increase was 14%.

1.2.3 Areas of deprivation

An alternative measure, which combines regional and socio-economic factors, is to look at life expectancy by splitting up the population by measures of social deprivation in a given area. This is based on "neighbourhoods" of roughly the same population (so 10% of neighbourhoods is roughly 10% of the population) ranked by a range of measures which determine relative deprivation. These include:

- Income Deprivation
- Employment Deprivation
- Education, Skills and Training Deprivation
- Health Deprivation and Disability
- Crime
- Barriers to Housing and Services
- Living Environment Deprivation

ONS analysis from the census data shows that while there are differences between the nations of the UK, the differences within those nations are larger. **The table below** shows life expectancy across the UK nations, and the difference between the top 10% least and top 10% most deprived areas. As an example, the difference between life expectancy at age 65 for men was less than a year between England and Wales, but within Wales there is a difference of 4.4 years between the top and bottom decile of area deprivation.

Life expectancy at 65 overall, and by national deciles of area deprivation, 2010–12

| | | LE (years) | Least deprived | Most deprived | Difference |
|----------------|------------------|------------|----------------|---------------|------------|
| Males | England | 18.4 | 20.4 | 15.7 | 4.8 |
| | Wales | 17.9 | 19.9 | 15.5 | 4.4 |
| | Scotland | 17.1 | 19.8 | 14.1 | 5.6 |
| | Northern Ireland | 17.8 | 19.6 | 15.6 | 4.1 |
| Females | England | 20.9 | 22.8 | 18.6 | 4.2 |
| | Wales | 20.5 | 22.6 | 17.9 | 4.7 |
| | Scotland | 19.4 | 21.9 | 16.9 | 5.0 |
| | Northern Ireland | 20.5 | 21.7 | 18.3 | 3.4 |

Source: ONS, 2016, *Health state life expectancy (general health) and life expectancy, 2010–12*

The latest ONS release,¹⁰ for 2013–15 provides evidence on life expectancy and healthy life expectancy broken down by Local Area.¹¹

These show that in England, the difference between the local areas with the highest and the lowest life expectancy at birth is 9.1 years, with Blackpool, an area we visited as part of the review’s stakeholder engagement strategy, having the lowest life expectancy of just 74.3 years compared to 83.4 years in Kensington and Chelsea, the area with the highest life expectancy.

Differences in the spread of socio-economic groups (described here by occupation) across the country may explain some regional differences. The National Statistics Socio-economic Classification (NS-SEC) distribution is not uniform across the country. ONS also finds that areas with higher life expectancy have a higher proportion of people in advantaged socio-economic groups and areas with lower life expectancy have a higher proportion of people in disadvantaged socio-economic groups in comparison to the overall average across England.

The data above suggests that regional differences cannot be considered in isolation. Building on this, there is a range of evidence to suggest that socio-economic factors are a key driver of geographical disparities in life expectancy.

10 ONS, 2016 Health state life expectancies (general health) for males and females at birth and men and women at age 65, 2010 to 2012: United Kingdom (UK). Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/datasets/healthstatelifeexpectanciesgeneralhealthformalesandfemalesatbirthandmenandwomenatage652010to2012unitedkingdomuk>

11 Local areas are Local Authorities in Wales, Council Areas in Scotland and Local Government District in Northern Ireland.

1.3 Healthy life expectancy

We have frequently heard in representations made to the Review that healthy life expectancy, the number of years people live in good health, should be assessed alongside life expectancy when considering State Pension age. The most common question asked in our engagement with stakeholders was whether healthy life expectancy was improving at a similar rate to life expectancy or were people living longer periods in poor health and disability.

We have seen evidence that healthy life expectancy has improved proportionately to life expectancy but there is still a substantial gap in healthy life expectancy across areas within the UK. Gaps are most pronounced between the least and most deprived areas within each constituent country.

1.3.1 What does healthy life expectancy stand for and how is it measured?

Healthy life expectancy adds a quality of life dimension to estimates of life expectancy by dividing expected lifespan into time spent in different states of health. The health assessments are, in part, subjective and, for ONS estimates, based upon the following survey question:

“How is your health in general; would you say it was... very good/good/fair/bad/very bad?”

Stakeholders have raised the issue of using a subjective measure of health. Academic research^{12,13} finds poor reported health is associated with objective health problems, and is predictive of more serious chronic illnesses.

Estimates from the 2011 Census show that men born in the UK between 2010 and 2012 could expect to live 80.3% of their lives in “very good or good health”, and women could expect to live 78.2%, if they experienced the same mortality patterns and rates of good health by age observed at the time.¹⁴ These are period estimates – i.e. they account for current rates of morbidity (the chance of falling ill) and mortality (the chance of dying) based only upon the current prevalence of poor health (equivalent to period life expectancy) and do not account for future changes either to mortality or morbidity. This means that they do not represent the future number of years a member of the population can expect to spend in good health. When interpreting these figures, it is important to remember that the central assumption from the ONS is that we will see further improvements in mortality rates and therefore life expectancy. Furthermore, the fact that healthy life expectancy is only produced on a period basis creates limitations as we cannot compare it to cohort life expectancy.

¹² Wu et al, 2013, *The relationship between self-rated health and objective health status: a population-based study*, BMC Public Health

¹³ Doiron et al, 2015, *Does self-assessed health measure health*, Applied Economics vol.47

¹⁴ ONS, Health expectancies at birth and at age 65 in the UK, based on 2011 Census health and disability prevalence data: 2010 to 2012. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/bulletins/healthexpectanciesatbirthandage65intheukbasedon2011censushealthanddisabilityprevalencedata/2010to2012>

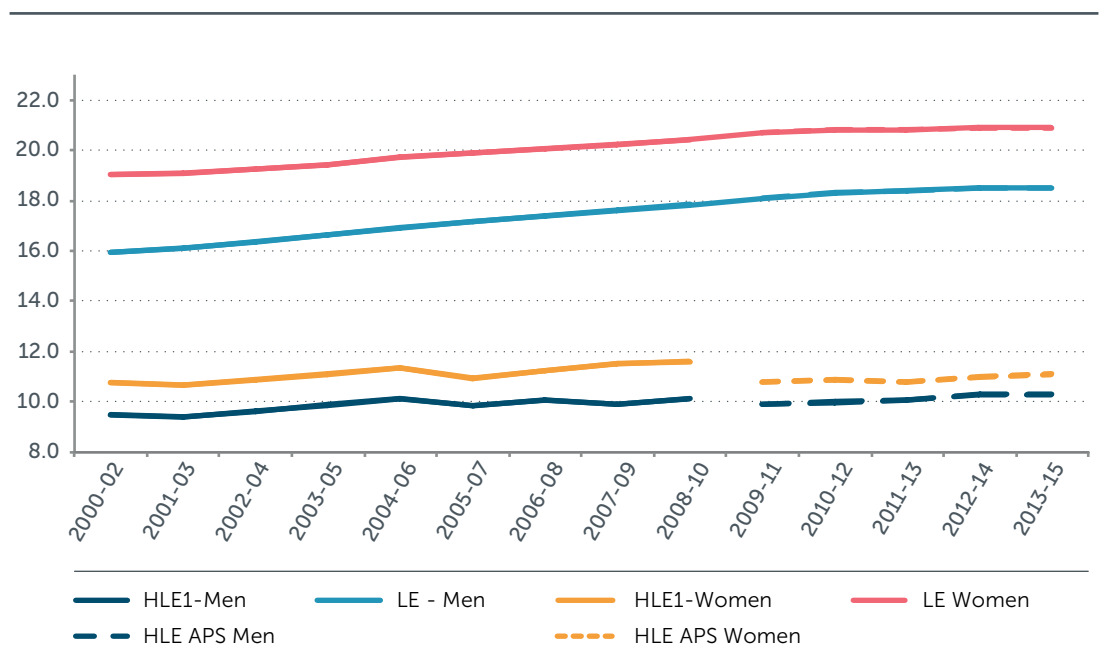
We believe more work is needed to understand healthy life expectancy, as it affects a range of policy areas. Projecting healthy life expectancy into the future is not currently possible, but would be valuable for future Reviews, as well as in work around health and caring.

Stakeholders are concerned that people reaching State Pension age are not in good health. The data from the ONS which is used to calculate healthy life expectancy shows almost 68% of people reaching State Pension age (age 60–64) reported good health, 22% fair health and 10% bad health.¹⁵ To give further context, our analysis of Survey data shows 33% of people aged 65 as having reported a disability.¹⁶

If surviving to age 65 and observing the same mortality patterns and rates of good health, men and women could expect to live a further 18.3 years and 20.8 years respectively, of which around half would be in “Very good or good” health (9.1 years and 9.6 years respectively).

While we can use census data to look at healthy life expectancy in greater detail, it does not give us a time series, and therefore does not allow us to compare the progress of healthy life expectancy over time. There are other data sources available, such as the Annual Population Survey (APS), and the General Lifestyle survey (GLS). While the General Lifestyle Survey has been shown to slightly overestimate good general health compared to the Census, it is useful for tracking healthy life expectancy with life expectancy over time across the whole of the UK.

Life expectancy vs. healthy life expectancy at age 65 (Men and Women) over time and under different methodologies



Source: General Lifestyle Survey 2009–11 & Annual Population Survey 2013–15

¹⁵ ONS, Health state life expectancies, UK: 2013 to 2015. Available at: <https://www.ons.gov.uk/releases/healthstatelifeexpectanciesuk2013to2015> Prevalence estimates calculated using APS 2015 data.

¹⁶ ONS, Annual Population Survey, UK, Q2 2015 to Q1 2016

The above chart looks at whether healthy life expectancy is moving in line with life expectancy. While these are two series from different sources so they are not directly comparable, they broadly show that over time healthy life expectancy has increased both in absolute terms, and at the roughly same rate as overall life expectancy, so that the proportion of life after 65 spent in good health is broadly constant or even improving slightly. For the period between 2009–11 and 2013–15, for both men and women there has been a relative and absolute rise in healthy life years at 65.

Looking further back, for both men and women at birth, healthy life expectancy rose over the decade up to 2011 faster than life expectancy, suggesting people were living more of their lives in good health. The same is true for women at age 65. For men, at age 65 healthy life expectancy rose at roughly the same rate as overall life expectancy. There is research which looks at different data over a longer time period from 1991–2011 and concludes that, although in general people live longer, healthier lives than previously and have compressed morbidity into a shorter period, the way that health is measured is key to the final conclusion of the level to which Healthy and Disability – free life expectancies have been improving.¹⁷

1.4 Factors that influence healthy life expectancy

1.4.1 Geographic variation

Like life expectancy, healthy life expectancy varies across the UK constituent countries. Based on observed mortality (i.e. not assuming any improvements) between 2010 and 2012, at age 65, men in England could expect to live another 9.2 years in “Good” health; 1.2 years higher than in Wales, which was the lowest, and broadly similar to Scotland (9.3 years).

When looking at the proportion of life spent in “bad” health, Wales had the highest figure (19.5% for men and 20.1% for women). Figures for Scotland were 13.9% for men and 14.1% for women; figures for England were 15.4% and 16.4% and for Northern Ireland were 14.0% and 15.2%.

As with life expectancy, the variations in healthy life expectancy are most acute at a local level. At local authority level, the variation of healthy life expectancy at birth within England for men is 17.1 years.¹⁸ The London Borough of Tower Hamlets presents the lowest figure of 54.0 years compared to Rutland, the area with the highest healthy life expectancy at birth for men of 71.1 years. For women, the area with the lowest Healthy life expectancy within England is also Tower Hamlets at 52.4 years, while Richmond upon Thames has the highest, with healthy life expectancy at 71.1 years.

¹⁷ C. Jagger et al, 2016, “A comparison of health expectancies over two decades in England: results of the Cognitive Function and Ageing Study I and II” *The Lancet*, vol. 387, N.10020, p.779–786

¹⁸ ONS, Health State Life Expectancies: UK, 2013–2015. Available at: <https://www.ons.gov.uk/releases/healthstatelifeexpectanciesuk2013to2015>

There are similar levels of variation in other parts of the UK. For example, for men at birth, in Scotland Glasgow city is the area with the lowest healthy life expectancy (55.9 years) and Perth and Kinross is the one with the highest (i.e. 66.7 years). Likewise, in Wales the gap between the area with the lowest and the highest healthy life expectancy is 11.5 years between the authorities of Blaenau Gwent and Monmouthshire (55.0 and 66.5 years respectively). In Northern Ireland, the area of Causeway Coast and Glens has the lowest healthy life expectancy of 54.0 years while in Lisburn and Castlereagh the figure goes up to 68.5 years; a difference of over 14 years.

1.4.2 Socio-economic Factors

Lower life and healthy life expectancy are clearly associated with higher levels of deprivation. Data from the Public Health Outcomes Framework,¹⁹ shows that high smoking prevalence and larger than average alcohol related hospital admissions, were associated with areas of lower healthy life expectancy, as were lower rates of exercise and health enhancing dietary factors.

Wider determinant risk factors are also relevant to health status such as the relative skills base of those of working age, the support available for accessing the labour market, a buoyant economy and affordable, good quality housing. It is the synergy between these wider determinants and how they influence attitudes to health and manifest themselves in health-related behaviours which largely account for the contrasts between areas of high and low deprivation.

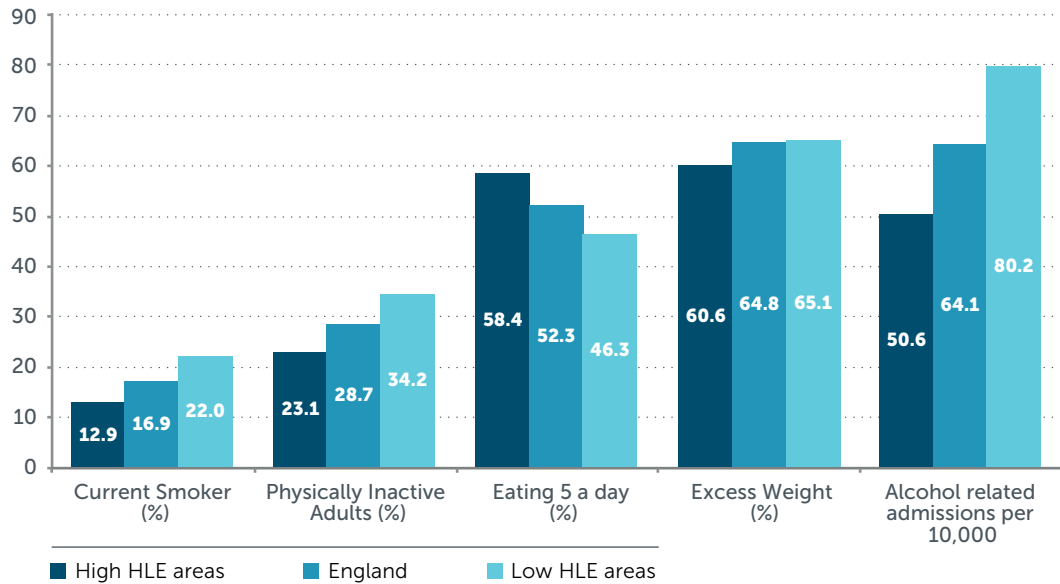
1.4.3 Combining geographical and socio-economic factors

As shown in this review, in the interim report and elsewhere, both life expectancy and healthy life expectancy vary significantly geographically, and there are clear differences when we look at socio-economic factors. A range of studies²⁰ note the inverse relationship between wealth and occupational class, and physical, psychological and overall frailty for people aged over 65. Public Health England publish details on the risk factors across England and these can be linked to Healthy Life Expectancies.

¹⁹ Public Health England, Public Health England Outcomes Framework data tool. Available at: <http://www.phoutcomes.info/>

²⁰ Eg Nazroo, J., Zaninotto, P. and Gjonça, E. (2008) Mortality and healthy life expectancy. In Banks, J., Breeze, E., Lessof, C. and Nazroo, J. (eds) *Living in the 21st Century: Older People in England. The 2006 English Longitudinal Study of Ageing*. The Institute for Fiscal Studies: London, pp. 253–280.

Lifestyle risk factors in the worst and best health areas of England



Source: Public Health England and Active People Survey²¹

Areas where people spend the greatest proportion of their life not in good health are typically subject to relatively higher social deprivation, and in particular are places where risk factors such as smoking and alcohol consumption are higher and where there are differences in diet and physical activity.

1.4.4 Areas of deprivation

Ranking small areas of roughly the same population by relative measures of social deprivation makes it possible to look at how healthy life expectancy varies from the most deprived areas to the least deprived areas. The results are clear: people in the least deprived areas are likely to live longer overall, and spend half the time that people in the most deprived areas live in bad health.

²¹ ONS, Behavioural and Lifestyle Indicators by area type in England, 2015. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthinequalities/adhocs/006767behaviouralandlifestyleindicatorsbyareatypeinengland2015>

Proportion of life expectancy at 65 spent in different states of health

Men at 65

| | National Decile of Area Deprivation | Good Health | Fair Health | Bad Health |
|-------------------------|-------------------------------------|-------------|-------------|------------|
| | | % | % | % |
| England | Most deprived | 34 | 40 | 26 |
| | Least deprived | 60 | 30 | 10 |
| Wales | Most deprived | 30 | 39 | 31 |
| | Least deprived | 56 | 31 | 13 |
| Northern Ireland | Most deprived | 29 | 44 | 27 |
| | Least deprived | 63 | 29 | 7 |
| Scotland | Most deprived | 37 | 38 | 25 |
| | Least deprived | 67 | 25 | 8 |

Women at 65

| | National Decile of Area Deprivation | Good Health | Fair Health | Bad Health |
|-------------------------|-------------------------------------|-------------|-------------|------------|
| | | % | % | % |
| England | Most deprived | 31 | 43 | 27 |
| | Least deprived | 56 | 33 | 11 |
| Wales | Most deprived | 28 | 42 | 31 |
| | Least deprived | 51 | 35 | 14 |
| Northern Ireland | Most deprived | 26 | 46 | 28 |
| | Least deprived | 58 | 33 | 8 |
| Scotland | Most deprived | 36 | 40 | 24 |
| | Least deprived | 66 | 26 | 8 |

Source: ONS, 2016, Health state life expectancies (general health) and life expectancy (LE) for men and women at age 65 by national deciles of area deprivation, 2010 to 2012

1.5 Prospects for healthy life expectancy

Healthy life expectancy outcomes vary like life expectancy outcomes. The data is more uncertain, and a formal set of projections is not available, but looking at trends over the longest time period suggests that, while there have been variations upwards and downwards in healthy life expectancy at 65, it has been roughly stable as a proportion of overall life expectancy. This is also partly true at older ages: for people aged 85+, the proportion of life spent in good health has improved for women over the decade between 2000 to 2002 and 2009 to 2011 by 4.2%, while men's has declined by 1.2%. The proportion of life spent in good health for men and women aged 85+ converges in 2009–11 to a level slightly higher than 50%.²²

The Office for Budget Responsibility (OBR) assumes that healthy life expectancy will remain constant as a proportion of overall life expectancy in old age. It calculates this on the basis of trends over the past 20 years²³ and this report includes data supporting this finding.

As people age, they are more likely to suffer from multiple health conditions (co-morbidity), and figures for healthy life expectancy show how the proportion of people in bad health rises from 1 in 10 people in their 60s to 1 in 6 for the over 80s. The OBR note that the number of people aged over 85 is a key driver of social care expenditure projections.

Historic increases in life expectancy at older ages have been driven by falls in circulatory diseases (heart disease and strokes). ONS expects that future changes in mortality will be driven by changes in chronic and degenerative conditions. There is an increasing pattern of multiple morbidity, with some older people suffering from a range of long term conditions including dementia, diabetes and the consequences of obesity. In future, it is possible that increases in years of healthy life will not match improvements in life expectancy. It will depend how the improvements in life expectancy are achieved.

For healthy life expectancy to rise alongside life expectancy, treatment for conditions such as dementia will need to delay the onset of symptoms or manage them. If the Government is able to meet its objectives, set out in the Public Health England framework, of reducing inequalities in health and overall life expectancy,²⁴ this would to help support continued improvements in healthy life expectancy alongside overall life expectancy.

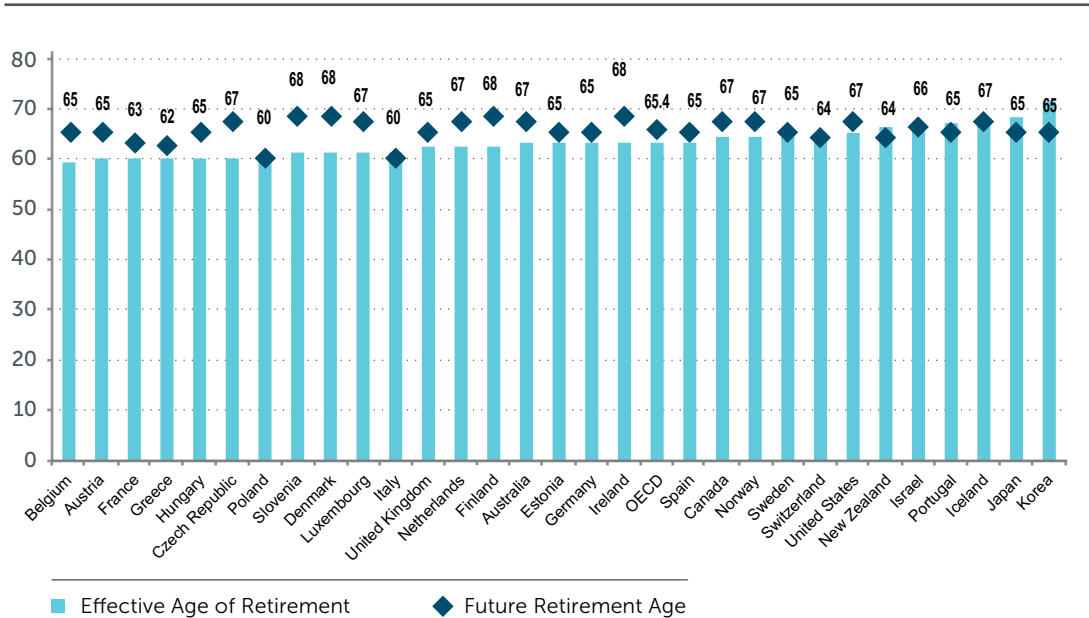
²² ONS, Expectancies at Birth and at Age 65 in the United Kingdom: 2009–11. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/bulletins/healthexpectanciesatbirthandage65intheunitedkingdom/2014-11-18>

²³ C. Jagger, Lancet Paper "A comparison of health expectancies over two decades in England: results of the Cognitive Function and Ageing Study I and II"

²⁴ Public Health England, 2013, Improving outcomes and supporting transparency: A public health outcomes framework for England, TSO. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263658/2901502_PHOF_Improving_Outcomes_PT1A_v1_1.pdf

International experience

Average Effective retirement age and the future Retirement Age for women, 2009–2014 across OECD countries²⁵



Source: DWP 2016 FWLs Evidence base & OECD Pensions at a glance 2015

As demonstrated by the chart above, the average effective age of exit from the labour market varies substantially across the OECD countries. The UK is below the OECD average, with workers leaving the labour market earlier than their counterparts in most other countries.

The UK may appear towards the top end of State Pension age ranking currently but a number of countries have already introduced a link between State Pension age and longevity. That means that their legal State Pension age will automatically increase as life expectancy increases. Since the interim report both Denmark and Netherlands have raised their State Pension age (to 68 from 2031, and 67 and 3 months from 2022 respectively). So, when legislated changes are taken into account, the UK appears to be in the front of the line. However, this might not be the case when considering countries which raise their State Pension age automatically in response to increasing life expectancy.

Another conclusion that can be drawn from the OECD comparison is the reasonable expectation of some further improvements in life expectancy in the UK. The current life expectancy (period data) in the UK is close to the OECD average, while other developed economies, such as France, Italy, Spain, Australia and Iceland, have already achieved a higher life expectancy than the UK. This suggests that the same improvements could also be achieved in the future by the UK.

²⁵ Available at: https://www.ssa.gov/policy/docs/progdesc/int_update/2017-01/index.html

02 Affordability





In this Chapter, building on analysis from the interim report and incorporating the new 2017 Fiscal Sustainability Report from the Office for Budget Responsibility, we summarise the main economic issues associated with an ageing population and where the pressures come from.

2.1 Measuring Affordability

Affordability can be measured in different ways. In our Interim Report, we looked at two key measures – the old age dependency ratio and spending as a proportion of GDP.

The old age dependency ratio is the simplest way to show the potential impact of an ageing society. It is also an internationally used statistical and demographic concept. If the proportion of older people – past State Pension age or more generally over 65 – to working age people goes up, then other things being equal so does the burden on working age people of supporting older people not in work.

However there has been criticism (from stakeholders) that factors such as participation in the labour market by older people (but also younger people for example if staying on in education) need to be accounted for. We have heard from stakeholders that the idea of an economic dependency ratio has been developed based on the number of people in employment.

But a similar critique can be applied to this alternative measure as it does not account for the number of hours worked, the level of productivity of workers and projected improvements in future productivity and therefore living standards.

Using Gross Domestic Product (GDP) to give a relative measure of spending on pensioners over time avoids this problem. GDP accounts for employment (which will be linked to the size and age structure of the population, meaning it is already closely aligned with the old age dependency ratio), and it also is affected by hours worked, and productivity, and shows the share of the nation's output (value of the goods and services produced in the UK) going to pensioners via the State Pension system.

Although we will use the dependency ratio to illustrate the demographic shift towards an ageing society, for the majority of this report we have chosen to use spending as a proportion of GDP as our primary means of assessing affordability. It enables us to measure the concrete impacts of changes in State Pension spending on the UK's financial position. We can see how spending changes over time and in the context of economic growth, as well as draw comparisons with other government spending.

2.2 Key drivers of ageing society expenditure

The simple underlying demographic issue at the heart of this Review is an ageing population. An ageing society has a direct impact upon the affordability of any State Pension system by increasing the number of pensioners, both absolutely and relative to the working age population. The old age dependency ratio (the number of workers paying in at any one time compared to the number of pensions being paid out at the same time) is increasing. Today there are 305 pensioners for every thousand people of working age. By the time Generation Y are approaching retirement nearing 2050, there will be 357 pensioners for every thousand people of working age.²⁶

There are some distinct drivers for this:

1. The Baby Boomer generation is a historically large cohort of people, both in relation to those already past State Pension age and (because the fertility rate has fallen, although not consistently) to younger working age cohorts. The same is true for the older part of Generation X. They are currently starting to reach State Pension age but will continue to have an impact into the 2030s.
2. On average, individuals live longer and spend longer in retirement. Historical increases in life expectancy are already a reality, which enhances the impact of the larger Baby Boomer cohorts reaching retirement age.
3. Future improvements to life expectancy will further increase the age of the population over time.

The absolute and relative size of the population above State Pension age will interact with the State Pension system to determine spending and affordability. Recent changes to the pension system mean that, in future, the vast majority of people will get a full State Pension, which affects costs.

The new State Pension sets a baseline for the future value of the State Pension to be above the basic level of the means-test. In the long term, the triple lock acts to increase this value by more than earnings (and therefore GDP). The impact of these different drivers changes over time.

OBR projections suggest spending on State Pension will rise by 1% of GDP between 2016/17 and 2036/7.²⁷ This represents almost a 20% increase in State Pension spending (by which point Baby Boomers will have reached State Pension age).

²⁶ ONS, Old-age dependency ratio data based on 2014 Population projections and OBR principle scenario. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/2014basednationalpopulationprojectionstableofcontents>

²⁷ OBR Fiscal Sustainability Report Table 3.7. Available at: <http://budgetresponsibility.org.uk/fsr/fiscal-sustainability-report-january-2017/>

Even without further increases in life expectancy, the combination of historic improvements in mortality and Baby Boomers reaching retirement accounts for more than half of this rise. ONS projections show that without any further improvement in life expectancy, and with State Pension age rising to 67, the number of pensioners would rise by 13% between 2017 and 2037.²⁸ Further improvements in life expectancy account for one-quarter of the rise in spending, while the impact of the triple lock accounts for the remaining quarter.²⁹

Over time the impact of improvements in life expectancy and the triple lock account for increasing proportions of the rise in State Pension spending. In particular the triple lock is projected to account for around half of additional State Pension spending projected in 2066/67.

2.3 Latest OBR spending projections

Since our interim report was published, the OBR has released a new set of long term projections on the government finances.³⁰ These include estimates of pension spending, and also spending on health and social care. All of these areas of public expenditure are clearly linked to an ageing population.

The OBR uses a range of economic assumptions, along with those on population, when assessing the sustainability of the UK fiscal position (how much of the UK's income is being spent by the Government and on what). Usually this is shown as government spending as a proportion of GDP.

Probably the most important economic assumptions for State Pension age review purposes are population (working age versus pension age) and productivity growth. Both will affect the size of the economy, spending on pensions, and therefore "affordability" and the Government's fiscal position, as measured by spending as a proportion of GDP.

Assumptions about productivity growth (which the OBR assumes matches earnings growth) and prices are important for determining the cost of triple lock uprating, as lower earnings growth can increase the relative cost of the triple lock.³¹ The link to earnings means that upward changes in (labour) productivity growth in the economy will (at least in OBR projections) automatically feed through to State Pensions.

28 ONS 2014-based population projections. Available at: www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/tableq21nomortalityimprovementvariantukpopulationinagegroups

29 ONS data, DWP and Review team analysis, and OBR Projections

30 OBR Fiscal Sustainability Report 2017.

31 Legislation requires that the basic State Pension and new State Pension are increased annually by earnings growth. There is a Government commitment that these amounts are increased annually by the triple lock for the remainder of this Parliament. The triple lock is the higher of price or earnings inflation with a floor of 2.5%, and is used by the OBR in its projections.

Population projections, economic forecasts, and fiscal sustainability estimates are intertwined. The ONS makes a range of assumptions when making projections of the UK's future population and these are then combined under different scenarios. In the long term, differences in assumptions on life expectancy, fertility and migration can have a substantial effect on the size and age of the population. The ONS therefore produces a range of population projections including where net migration, fertility and life expectancy all move in a way that delivers a "young" and "old" population structure. For example, higher net migration of working age people, higher fertility and higher mortality rates mean the population structure is "younger" than the principal projections.

Changes to the age structure of the population, especially the ratio of the working age population to pension age people can change the measure of spending on State Pension as a proportion of GDP. Similarly changes to the proportion of people in work could also affect the fiscal position – if there are more people working and paying taxes that would mean higher tax revenues to pay a given number of pensioners. We would need to see substantial changes in working patterns to offset the likely increases in the number of people living past State Pension age.

Stakeholders have raised questions about the impact of the UK leaving the European Union on the State Pension and the State Pension age. In the new projections, the OBR does not specifically model scenarios for the UK leaving the European Union, beyond noting an increase in uncertainty and a slower return to trend growth.

It is worth noting that the OBR takes the ONS long term central assumption of net migration of 185,000 per annum. The ONS has a low net migration scenario of 105,000 per annum. All other things being equal, using this low net migration estimate will increase the costs to people of working age of paying the State Pension. While the OBR did not show State Pension expenditure projections under this lower net migration scenario in their main report, they can be found in supplementary tables; the July 2015 Fiscal Sustainability Report (FSR) included an estimate;³² and in the interim report we looked at the impact on the old age dependency ratio.³³ These pieces of analysis suggest that lower net migration would increase the cost of the State Pension, but not dramatically, perhaps by 0.1% of GDP per year in the 2030s rising to 0.2% in the 2040s.³⁴

³² OBR Fiscal Sustainability Report 2015. Available at: <http://budgetresponsibility.org.uk/fsr/fiscal-sustainability-report-june-2015/>

³³ Independent State Pension Age Review Interim Report 2016. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/559943/independent-review-of-the-state-pension-age-interim-report.pdf

³⁴ OBR Fiscal Sustainability Report 2017, Supplementary tables 1.1 and 1.5

2.3.1 State Pension spending

In the principal OBR projection, spending rises from 5.2% of GDP in 2016/17 to 6.2% in 2036/7, 6.3% in 2046/7 (by which time State Pension age would be 68) and 7.1% in 2066/7 (by which time State Pension age would be 69). This is based on the OBR assumption on the maintenance of the Government's longevity link whereby the State Pension age rises to ensure that, on average, pensioners spend up to one third of their adult life in retirement.

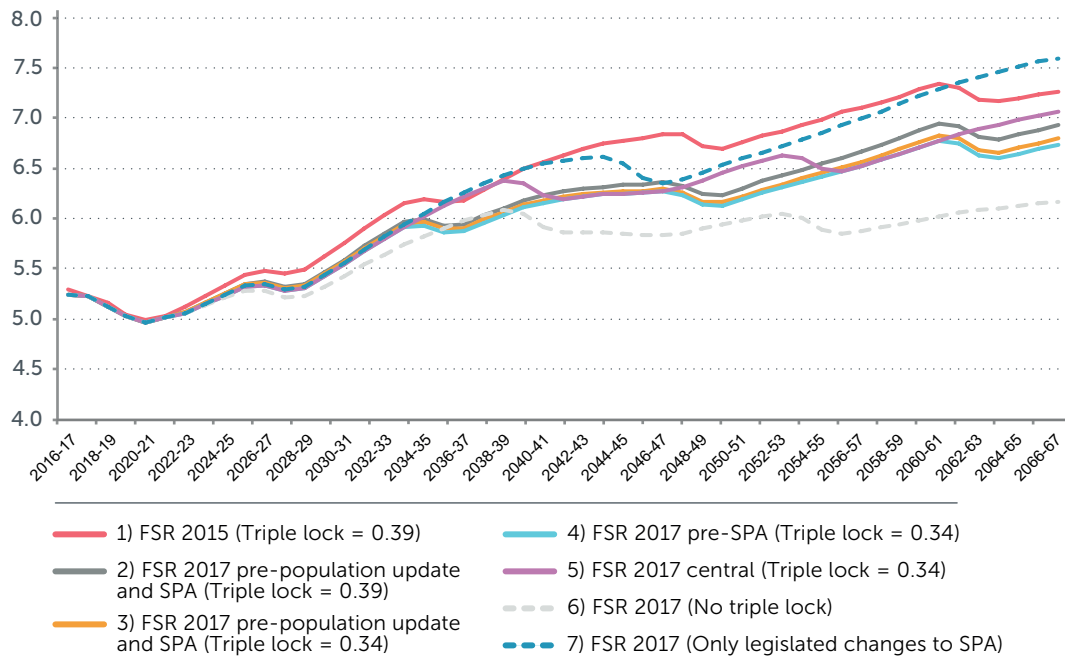
There has been some change to the OBR's projections since 2015, in part as a result of using the latest ONS population projections based on 2014 data which include an increase in mortality.

Over the period of the projections, the impact of slower falls in mortality rates in the 2014 population projections, which reduce pension spending, is more than offset by rises in State Pension age which will happen later. The savings from a smaller population slowly rise to 0.1% of GDP per annum. However under the longevity link it is assumed that the rise in State Pension age to 68 would move back from 2034–6 (under 2012-based assumptions) to 2039–41, raising spending by up to 0.3% of GDP over several years. As the OBR noted in its interim projections (July 2016), in the very long term – beyond 2066/7 and the projection period – these will offset each other, but they raise spending at a time when it is already rising sharply.

The chart below shows the latest cost projections of State Pension spending.³⁵

³⁵ The spending includes State Pension spending includes basic State Pension and new State Pension, State Earnings-Related Pension Scheme, State Second Pension, Pension Credit, and other elements of State Pension.

State Pension spending as % of GDP³⁶



We provide below an overview of the OBR’s analysis of the drivers of change since FSR 2015:

1. **Red line** – This shows the OBR’s central projection from 2015. This uses 2012-based population estimates (with a longevity link for State Pension age), while the triple lock is assumed to mean that, on average, State Pension rises by 0.39% above earnings every year.
2. **Dark grey line** – If we take the red line as the baseline for comparison, the first change is to the **dark grey line** – where **modelling changes** reduce projected spending by **0.3% of GDP in 2066–67**.
3. **Orange line** – If we then look at our assumptions about the costs of the triple lock in future, new data suggests that on average it means State Pension rises by 0.34% above earnings instead of 0.39% as assumed in FSR 2015. We then end up at the **orange line**, so a **lower triple lock assumption** has reduced spending by a further **0.1% of GDP by 2066–67**.
4. **Light blue line** – The 2014 population projections assumed that life expectancy would not rise as quickly as in the 2012 population projections. This means that if we compare FSR 2015 with FSR 2017 there are fewer people alive claiming the State Pension, and we end up at the solid **light blue line**. This shows that the individual effect of moving to the **2014-based population projections** lowers spending by another **0.1% of GDP in 2066–67**.

³⁶ OBR Fiscal Sustainability Report 2017 P58 Chart 3.10

5. **Purple line** – However these changes in life expectancy have another impact via the longevity link. As shown in the report by the Government Actuary, which we discuss in Chapter 4, with a longevity link set at 33.3% of adult life spent above State Pension age, the 2014 population assumptions imply that State Pension age rises later than under the 2012 assumptions, for example rising to 68 by 2041 rather than in 2036. This takes us to the **purple line** – which demonstrates how the effect of the lower population under **2014 projections** in 2066–67 is offset by the **impact on the longevity link**, which by delaying the State Pension age rise **adds 0.3% of GDP** to spending in that year. To put it another way, it represents the OBR 2017 central projection under the new population projections and the resulting State Pension age profile.³⁷ This shows that the effect of the new population projections in 2066–67 is more than offset by the effect of the new State Pension age path, which adds 0.3% of GDP to spending in that year.
6. **Dashed grey line** – Finally the OBR look at the impact of the triple lock compared to a simple link to earnings in the **dashed grey line**. This shows that the individual cost of the **triple lock** (relative to the earnings uprating) is estimated to be **0.9% of GDP by 2066–67**.

From the above we can conclude that while modelling changes have reduced the total level of spending, under all of these scenarios we see a substantial rise in spending on State Pensions throughout the 2030s.

2.3.2 Spending projections in the context of an ageing society

In the section above we focussed on the costs of State Pension over time. However, two key drivers of State Pension spend, increases in life expectancy and the large number of Baby Boomers reaching State Pension age, also drive up public spending elsewhere.



We project total non-interest public spending to rise from 35.8 per cent of GDP at the end of our medium-term forecast in 2021–22, to 43.8 per cent of GDP by 2066–67. That would represent an overall increase of 8.0 per cent of GDP – equivalent to £156 billion in today’s terms. Of that, 4.5 per cent of GDP (£88 billion) reflects our new assumption about additional non-demographic cost pressures pushing up growth of health spending.”

OBR FSR 2017

Office for
**Budget
Responsibility**

³⁷ OBR Fiscal Sustainability Report 2017, Page 57

The OBR provides projections of a range of age-related spending.

Age-related spending³⁸ & overall non-interest related spending projections as % of GDP

| | Per cent of GDP | | | | | | |
|-----------------------------------|-----------------|-------------|----------------|-------------|-------------|-------------|-------------|
| | Estimate | | FSR projection | | | | |
| | 2016–17 | 2021–22 | 2026–27 | 2036–37 | 2046–47 | 2056–57 | 2066–67 |
| Health | 7.3 | 6.9 | 7.6 | 9.1 | 10.3 | 11.5 | 12.6 |
| Long-term care | 1.0 | 1.1 | 1.3 | 1.6 | 1.8 | 2.0 | 2.0 |
| Education | 4.4 | 3.9 | 4.0 | 3.9 | 3.8 | 3.8 | 3.8 |
| State pension | 5.2 | 5.0 | 5.3 | 6.2 | 6.3 | 6.5 | 7.1 |
| Pensioner benefits | 0.9 | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 |
| Public service pensions | 2.0 | 2.1 | 2.0 | 1.7 | 1.5 | 1.4 | 1.3 |
| Total age-related spending | 20.8 | 19.8 | 21.0 | 23.4 | 24.6 | 26.1 | 27.7 |
| Other welfare benefits | 5.1 | 4.5 | 4.5 | 4.4 | 4.3 | 4.4 | 4.3 |
| Other spending | 11.9 | 11.5 | 11.5 | 11.5 | 11.7 | 11.8 | 11.8 |
| Spending³ | 37.8 | 35.8 | 37.0 | 39.3 | 40.6 | 42.3 | 43.8 |
| Increase since 2016/17 | | | | | | | |
| Age-related increase | 0.0 | -1.1 | 0.1 | 2.6 | 3.7 | 5.3 | 6.8 |
| Total increase | 0.0 | -2.1 | -0.9 | 1.5 | 2.8 | 4.5 | 5.9 |

1 Spending consistent with the November 2016 Economic and fiscal outlook.

2 Includes many items in addition to the basic State Pension and single-tier pension, such as pension credit, winter fuel payments and the Christmas bonus.

3 Excludes interest and dividends.

As a whole, age-related expenditure is expected to rise as a percentage of GDP, from 20.8% in 2016/17 to 27.7% in 2066/7 (an increase of 6.8% points). This includes a rise (as a % of GDP) of 5.3% in health spending, 1.1% in spending on long-term care, and 1.8% in State Pension spending. By 2036/7 an overall rise in age-related spending of 2.6% of GDP is projected.

Key assumptions

Again these projections require assumptions to be made. Here the OBR assumes healthy life expectancy maintains the trend over the past two decades, where the proportion of life spent in good health above State Pension age remains roughly constant.

³⁸ Spending consistent with the November 2016 Economic and fiscal outlook. State Pension spending includes many items in addition to the basic state pension and single-tier pension, such as pension credit, winter fuel payments and the Christmas bonus



International institutions typically assume some compression of morbidity. For this projection, we have assumed that increases in life expectancy are split between extra time spent in good health and in ill health... This change means that health spending is around 0.7 per cent of GDP lower in 2066–67 than it would have been under our previous methodology.”

OBR FSR 2017 Page 52

Given the demographic factors driving the costs of an ageing population, it is worth noting that for health spending, the lower GDP outturns noted by the OBR above are more than offset by the impact of “non-demographic” cost pressures. This is effectively the cost of better technologies combined with greater demand for healthcare from an ageing, wealthier population. The ageing of the population pushes health spending steadily higher, but the process slows towards the end of the projection as the proportion of the population aged 80 and above (who consume relatively more health services) stabilises. Overall the rises in health spending are formidable.

Impact on households

To give an idea of the kind of pressures an increase in State Pension spending could cause, we have contextualised the impact in today’s terms. The projections suggest we will need to spend an additional 1% of GDP on the State Pension by 2036/7. In 2016/7 the whole of GDP is forecast to be £1951 billion, so in today’s terms 1% of GDP is equivalent to £19.5 billion.

In 2016 there were 27.1 million households,³⁹ so if this additional spending was met through taxation on households, this would be equivalent to £725 per household per year, or £60 per household per month.

2.3.3 Other levers to control affordability

State Pension age is not the only lever the Government has to control State Pension expenditure. The amount people receive can be just as important as when they receive it. As part of considering the affordability of the State Pension age timetable, we have therefore looked at whether there are alternative ways to reduce State Pension expenditure and ensure that the system remains sustainable. Uprating, the mechanism by which the State Pension is increased each year, should be considered alongside the State Pension age.

³⁹ ONS, Families and households in the UK: 2016. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2016>
See also work on raising revenue by the IFS for the 2015 Green Budget https://www.ifs.org.uk/uploads/gb/gb2015/ch10_gb2015.pdf

The triple lock means that State Pension rises by the higher of inflation, earnings or 2.5%. This Government is committed to maintaining the triple lock until the end of this Parliament, while the OBR includes the triple lock in its principal projections. It is a significant driver of future State Pension expenditure. The cost rises over time from 0.2% of GDP in 2036/7 to 0.4% in 2046/7, rising to 0.9% of GDP by 2066/7. By comparison, raising State Pension age under the longevity link in 2039/41 reduces spending by around 0.3% to 0.4% compared with spending under a scenario with the legislated rise in 2046/7.

The ratcheting effect of the triple lock benefits all pensioners. The majority of respondents to our consultation who saw a trade-off between a lower State Pension age and maintaining the triple lock believed that not raising State Pension age was more important, particularly for those with lower life expectancy. However, several respondents highlighted that removing the triple lock would hit people wholly dependent on State Pension income hardest. We come back to this issue in Chapter 4.

There are other non-core elements of pension spending. For instance, the Winter Fuel Payment which is not targeted or means-tested. The expenditure on these payments is over £2bn per year, which is equivalent to 0.1% of GDP. Alongside the triple lock, the Government may need to consider all aspects of non-core spending in response to the spending pressures to come.

03 Patterns of pension outcomes





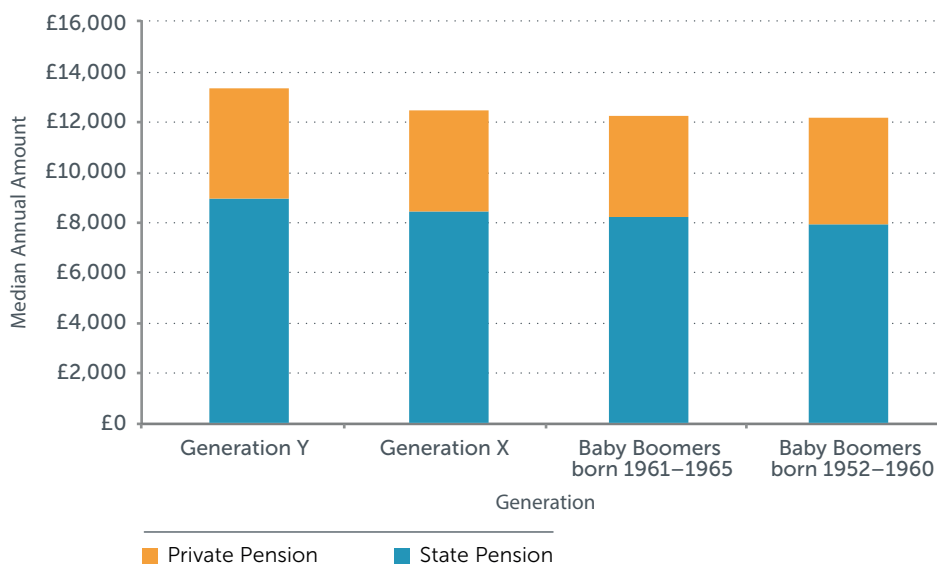
In this chapter, we first look at intergenerational and intragenerational fairness over time, considering pension outcomes, life expectancy and the balance of public spending. We then focus on the groups within each generation which are likely to be left behind if State Pension age increases too fast or without the right mitigations.

3.1 Intergenerational fairness

3.1.1 Pension outcomes across generations

In recent years, there has been a considerable levelling of working age and pensioner income. In 2014/15, the average weekly pensioner income was 7% lower (around £23 per week in 2014/15 prices) than that of working age people. In contrast the position 20 years earlier was that pensioner income was 38% lower (around £96 per week in 2014/15 prices) than working age income. Working age incomes were flat ahead of the financial crisis and have declined since then. Meanwhile all pensioners have experienced above-earnings growth in their State Pension income due to the triple lock.⁴⁰

Projected median average amounts of State and Private Pension in 1st year of retirement, by generation



Source: PENSIM2 Figures in 2016/7 earnings terms

⁴⁰ DWP Pensioner Income Series 2014/15 Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/563425/pensioners-incomes-series-2014-15-report.pdf

If we look at pension outcomes across the generations, total median pension values are projected to increase for later generations. As we discuss in more depth in section 3.2, a detailed analysis suggests a more complex shift in private pension savings. In the future we expect that more people will receive a private pension income, but the average pension in payment will be relatively lower compared to current levels. This reflects the fact that more people will be saving into a private pension as a result of automatic enrolment, but the proportion of people who have access to higher value defined benefit schemes will decline. We also expect State Pension coverage to increase, so that by the mid-2030s over 85% of people will be entitled to the full new State Pension.⁴¹ Overall Generation X will have the lowest private pension outcomes, as they are less likely to have defined benefit schemes than the Baby Boomers, but have had fewer years to benefit from automatic enrolment than Generation Y. Further analysis on this can be found in our Interim Report.⁴²

3.1.2 Balance of spending

The State Pension system is a 'pay as you go' system, which means that today's workers pay for today's pensioners. Additional spending on pensions is likely to mean a reduction in spending elsewhere, higher taxation, funding through further borrowing or a combination of the three, which will impact on younger generations.

Levels of State Pension spending should therefore be considered as an issue of intergenerational fairness. Paying State Pensions is overall a transfer of wealth from younger people to older people. Although, of course, every generation of pensioners will have supported the previous generation of pensioners during their working lives, a significant shift in the intergenerational balance could lead to perceived unfairness. For example, if there were a significant shift in spending on pensioners or a significant change in the proportion of adult life spent in retirement. It makes sense therefore to cap the percentage of adult life, as the Government intend, and maintain the link between the State Pension age and longevity. This will help to ensure that successive generations receive a similar deal in terms of work and retirement.

⁴¹ DWP, 2016, Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSP, gov.uk

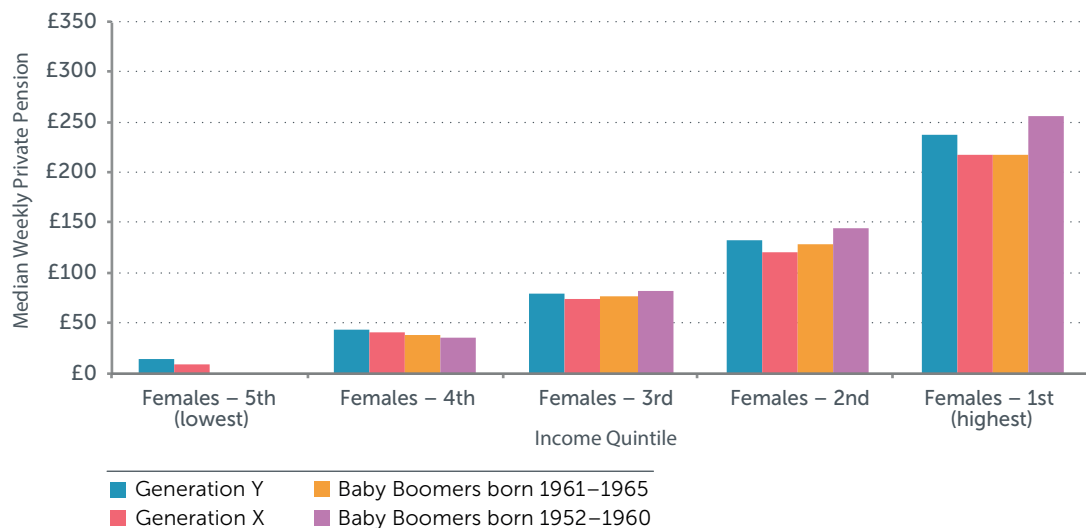
⁴² Independent State Pension Age Review Interim Report 2016 Page 37

3.2 Intragenerational fairness

As described above, in the future we expect more people will be saving into private pensions, improving pension outcomes for those on lower incomes. Meanwhile, fewer pensioners will have higher incomes from defined benefit schemes and the new State Pension will also flatten outcomes. As a result, pensioner income inequality is forecast to reduce a little for future generations. The gap between the richest and poorest pensioners will be smaller for Generation Y than it will be for Baby Boomers.⁴³

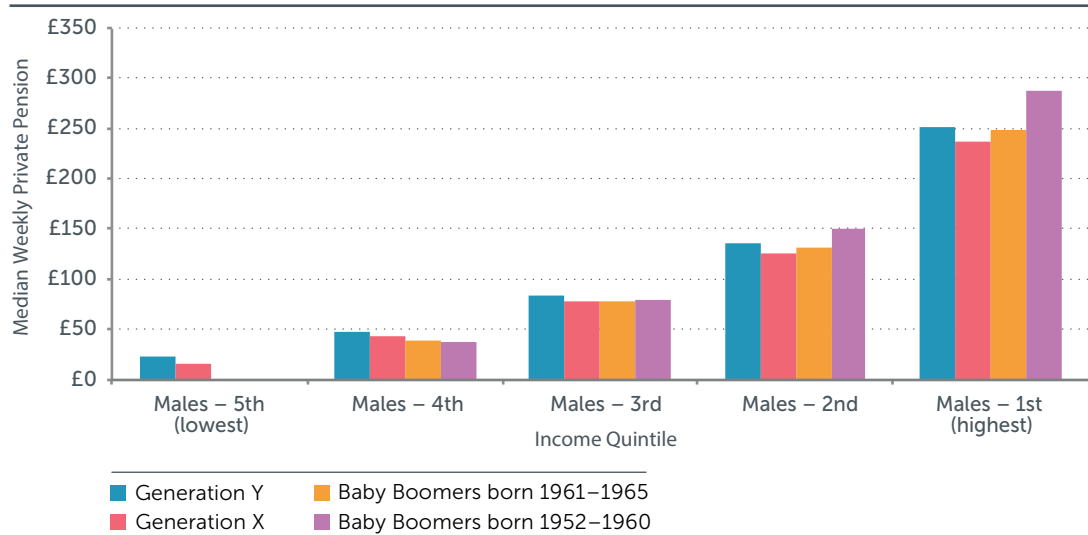
However, inequality in pension outcomes remains, with certain groups at particular risk of lower incomes in retirement. The adequacy of individuals' overall pension outcomes are relevant to setting the State Pension age because the amount of private pension a person has affects the extent to which they rely on the State Pension. Particularly in an age of pension freedoms, this may affect how someone is able to cope with changes to their State Pension age. During our consultation we heard from people with little or no private pension savings who felt that they would find it relatively more difficult to adjust to changes in State Pension age than those with more generous private pensions.

Median weekly private pension incomes in 1st year of retirement, by gender, generation and pension income quintile (women)



⁴³ Analysis using DWP PENSIM model: a micro-simulation model which allows us to project forward using current pension policy and OBR assumptions, to estimate future pensioner incomes based on modelled private pension savings and coverage.

Median weekly private pension incomes in 1st year of retirement, by gender, generation and pension income quintile (men)



The charts above model projected median weekly private pension incomes in a person’s first year of retirement.⁴⁴ Based on their total pension income in their first year of retirement, men and women are then apportioned into quintiles. The charts show that, over time, those in the lowest two income quintiles are projected to see an increase in median private pension incomes. This is due to the introduction of automatic enrolment increasing private pension coverage amongst low earners.

Those in the top two pension income quintiles will see a reduction in median private pension incomes between the Baby Boomer generation and Generation X, due to the lessening effect over time of higher value defined benefit schemes. An increase is then projected for Generation Y. Again, this is likely due to increasing private pension coverage brought about by the introduction of automatic enrolment.

Another important element to intragenerational fairness is the issue of life expectancy. As we discussed in Chapter 1, there are significant variations in life expectancy across socioeconomic groups. We have heard concerns from individuals and organisations that increases in State Pension age could exacerbate the impact of these intragenerational inequalities in life expectancy.

To assess variation in life expectancy across groups, we use period life expectancy estimates. As discussed previously, this relies on current mortality rates. We therefore do not have projections for how socioeconomic differences in life expectancy may change in the future, and what the gap will be by 2028 and beyond.

⁴⁴ Analysis using DWP PENSIM model:

Some stakeholders have raised concerns that increases in State Pension age will mean that more people will not live long enough to claim their State Pension. Even accounting for State Pension age increases, the proportion of people reaching State Pension age is set to improve over time:

- 81.6% of men and 87.5% of women born in 1951 reached age 65 in 2016.
- For men and women born in 1972 (Gen X) 84.7% and 89.6% will reach 68 in 2040.
- For men and women born in 1981 (Gen Y) 86.1% and 90.5% will reach 69 in 2050.

It will be important for future reviews to monitor life expectancy developments, to assess whether intragenerational equality is improving. However, State Pension age is not the cause of life expectancy inequalities. The primary focus should be on improving life expectancy for disadvantaged groups through improved health, employment and education, rather than attempting to adjust State Pension age to compensate.

3.3 Reliance on State Pension

3.3.1 Income reliance

The changes in private pension saving described above affect pensioners' projected reliance on the State Pension across the generations. For the lowest income quintile, the State Pension makes up the vast majority of a person's total pension income (over 80%) for all generations, although reliance is decreasing with each successive generation (due to automatic enrolment). Meanwhile in the top two income quintiles, State Pension makes up a greater proportion of total pension income for those in Generations X and Y compared to Baby Boomers, as fewer people have access to higher value defined benefit schemes. For the highest income quintile in both generations, the State Pension is projected to make up an average of 40% of their retirement incomes in the first year of retirement.

Some submissions to our consultation suggested that means-testing the State Pension could be an alternative way to reduce the overall cost of the State Pension, which could delay any rises in State Pension age. Supporters of this option perceive it to be a fairer way to maintain the affordability of the system, as they argue wealthier individuals do not need the State Pension and are better placed to cope with its withdrawal than people on lower incomes who are approaching State Pension age.

As our analysis above shows, the State Pension makes up a significant proportion of retirement income for Generations X and Y, even for those in the top two income quintiles. In the context of increasing reliance on the State Pension for those on higher incomes, we do not believe that means-testing would be appropriate. Any meaningful attempt to means-test the State Pension could have a significant impact on individuals' ability to achieve adequate retirement incomes. At the heart of the Pension Commission's comprehensive analysis of pension provision in 2005 was the conclusion that means-testing pensioners was a real disincentive to people to save privately. Only a small

proportion of pensioners are likely to be in the highest tax bracket in the future. Setting up a system to means-test the State Pension would be complex and it is likely that it would not deliver large enough savings to offset the expense of running it. The consensus reached on means-testing was renewed in Pensions Act 2014 which introduced the new State Pension and there has been no further evidence to support breaking the consensus.

3.3.2 Housing

Housing costs are the largest single expense in most working age household budgets, and for private renters now average 35% of household income.⁴⁵ Changes to housing in the future are therefore likely to affect the adequacy of retirement income and the importance of State Pension in retirement.

For people looking for their private pension savings to top up State Pension and fund an adequate retirement, being rent and mortgage free in retirement will be a significant concern. For those on lower incomes, who still rent, Housing Benefit can offset some or all of their housing costs but may affect their incentives to saving into a private pension.

After rising for decades, homeownership peaked at 71% in the early 2000s, helped in part by the right to buy, but has subsequently fallen to 63%.⁴⁶

The recent overall decline is partly a result of long-term high house prices (exacerbated by the financial crisis), but also reflects that the right to buy may have led to a one-off increase that cannot be repeated for subsequent generations.

Current DWP and OBR projections assume a small rise in the proportion of people who are still renting when they reach State Pension age. We do not have a specific estimate of the future proportion of pensioners with mortgages, although current data shows this proportion has been stable in the past decade.⁴⁷ On the other hand, rising house prices relative to earnings (rising population and lags in housing supply) combined with other factors such as later entry to the labour market, have pushed back the age at which people buy their first home, (rising from 30 in 2006/7 to 32 in 2015/16).⁴⁸

⁴⁵ Mortgage payments and rent are 18%/35%/28%/29% of household income for owner-occupiers, private renters, council tenants, housing association tenants respectively, in 2015/16; Department for Communities and Local Government (DCLG) English Housing Survey 2015 to 2016: headline report, Fig 1.8 and table AT 1.13. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/595786/2015-16_Section_1_Households_Annex_Tables.xlsx

⁴⁶ DCLG English Housing Survey 2015 to 2016: headline report: Fig 1.1. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/595786/2015-16_Section_1_Households_Annex_Tables.xlsx

⁴⁷ DWP: Family Resources Survey financial year 2014/15. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/531260/frs-tenure-data-tables-2014-15.xlsx

⁴⁸ DCLG English Housing Survey 2015 to 2016: headline report: Page 11. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/595785/2015-16_EHS_Headline_Report.pdf

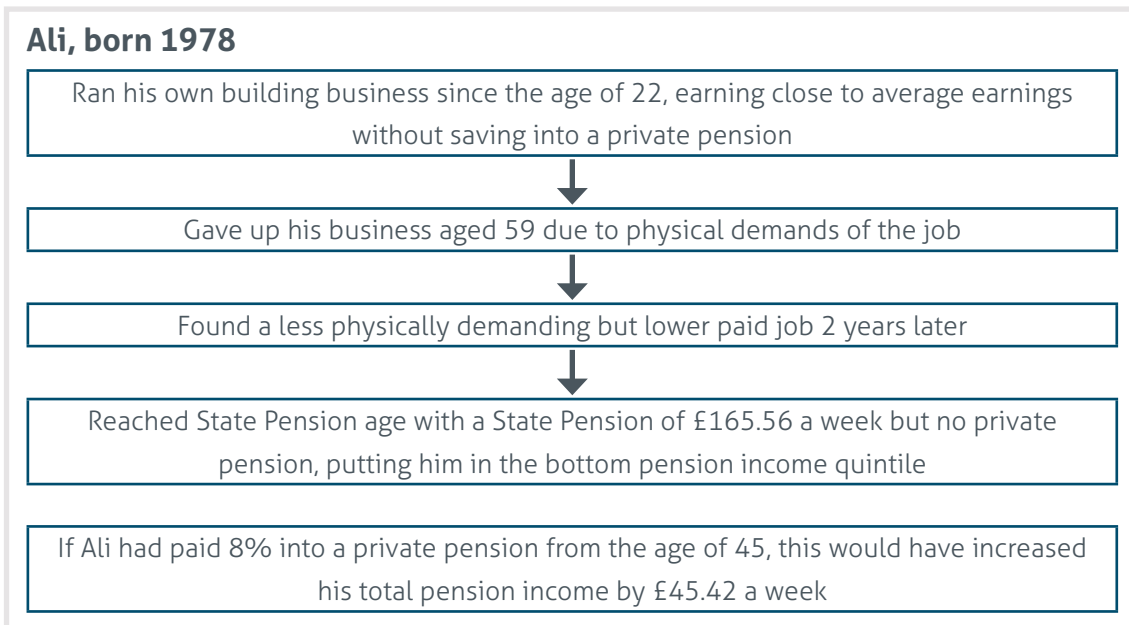
Current data on people’s expectations is mixed.⁴⁹ For example, the proportion of renters aged under 45 expecting to buy their own property fell, but rose for those aged 45–54.

We have noted that some financial providers are offering later mortgages, which suggests that there is rising demand for mortgages at older ages. This may mean that in the future some people will not have paid their mortgages off by 65, in the way that they would have today.

There is therefore a risk that in future a larger proportion of people either side of State Pension age could still be renters, or still be making mortgage payments. This may affect their pension needs and also cause people to continue working for longer.

Illustrative examples

Here are some illustrative examples to demonstrate the position of people who face some of the barriers discussed in this chapter. All the (hypothetical) individuals are from Generation X.⁵⁰



⁴⁹ DCLG English Housing Survey First Time Buyers and Potential Home Owners Report, 2014–15. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/539256/First_Time_Buyers_and_Potential_Home_Owners_Report.pdf

⁵⁰ These examples have been modelled using the DWP iPen model.

Fiona, born 1973

Started working in retail at the age of 20, with low earnings and no private pension provision



Left work aged 40 to care for her father



Returned to work aged 48, with low earnings due to the gap in her work history but saving into a private pension through automatic enrolment (at an 8% contribution rate)



Reached State Pension age with a State Pension of £163.87 a week plus a private pension of £33.93 a week, putting her in the lowest pension income quintile

If Fiona could have been supported to stay in work while caring or could have improved her earnings by re-skilling she would have been able to increase her contributions to her private pension

Mike, born 1973

Started working in a low-median paid job in insurance at the age of 20, with no private pension provision



By the age of 30, he had above average earnings and started paying into a private pension (at 8% contribution rates)



Suffered a car accident age 35 and had to leave the labour market due to his resulting disability



Found a new job aged 41 in a less skilled role, working part-time due to his disability



After a few years, income gradually increased to average earnings and was able to start saving via automatic enrolment (at 8% contribution rates)



Left his job aged 61 due to a deterioration of his health



Reached State Pension age with a State Pension of £163.87/week, plus a private pension amount of £65.32/week

3.4 Affected groups

In our Interim Report, we compared the difference in weekly income for carers and for people with disabilities with their expected outcomes once they started to receive State Pension. We also noted that those most affected by State Pension age changes also face disadvantage in private pension outcomes.

Many of the people in these groups have particular difficulties in getting the best out of the labour market – in terms of the barriers they face, the wages they are likely to earn and the pension savings they are then able to make. Almost all parties agree that more must be done to help these groups of people to have the same opportunities as other workers. This section reports on the responses we have seen to our call for evidence on these groups and notes the sorts of barriers they face.

The groups we previously identified as likely to be particularly affected were carers, people in poor health or with a disability, women, the self-employed and black, Asian and minority ethnic (BAME) people. Based on consultation responses and further analysis we believe this accurately captures the people within each generation that are most likely to be disadvantaged if State Pension age increases.

The rationale for focusing on these groups arises from two key issues. Firstly, all of the groups mentioned are likely to have poorer private pension provision due to poorer labour market outcomes, lower savings rates or a mixture of the two across their lives. Many in these groups may also have lower amounts of other wealth, such as property wealth. These factors combined may give them more limited flexibility to cope with a change in State Pension age than a similar individual with higher private pension who can draw down on their savings.

Secondly, individuals in these groups may find it more difficult to continue working up until State Pension age. This applies primarily to people in the first two groups mentioned – those with caring responsibilities or those with a disability and/or in poor health.

3.5 Carers

As the population ages, we expect an increasing number of working age people to be caring for an elderly relative. This may be at the same time as looking after children or grandchildren. Around one in ten adults currently have some caring responsibilities, and with an ageing population this could increase to as many as one in six in the 2030s. More than a third of people aged over 85 receive informal care, and 15% of those aged 75–84.

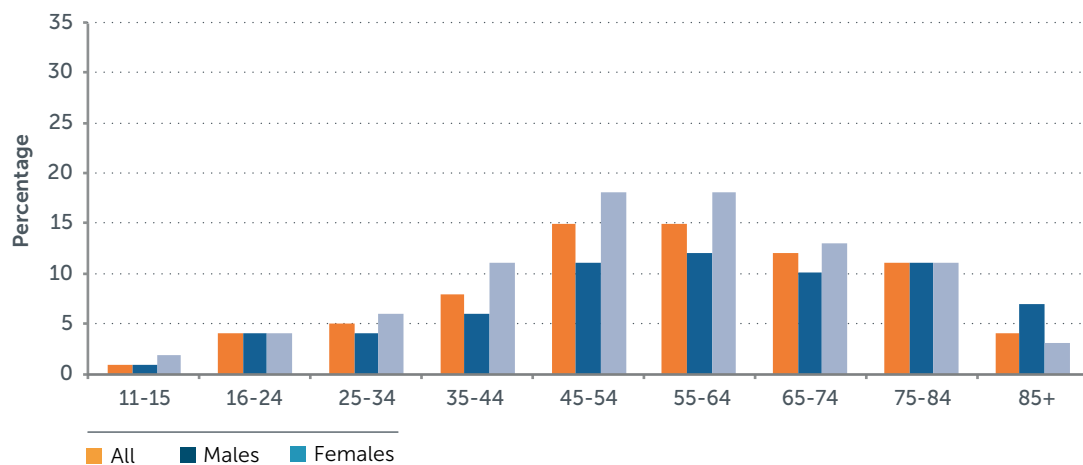
In Chapter 2, we used the dependency ratio to illustrate the shift in demographics as the population ages. We have mainly focused on the projected impact on State Pension spending. However, we recognise that a further consequence of a growing population of

older people is an increase in the number of people who will require care. Looking forward to 2028, one of the most significant developments we expect therefore is an increase in the number of people with caring responsibilities.

We recognise that people can become carers at any age and that caring is not solely a State Pension age issue. However, a large proportion of caring is concentrated in the ten years leading up to State Pension age. As some respondents highlighted in our consultation, even if someone’s caring responsibilities finish several years before State Pension age, it can be challenging to rejoin the labour market if they have been out of work as a result of those responsibilities.

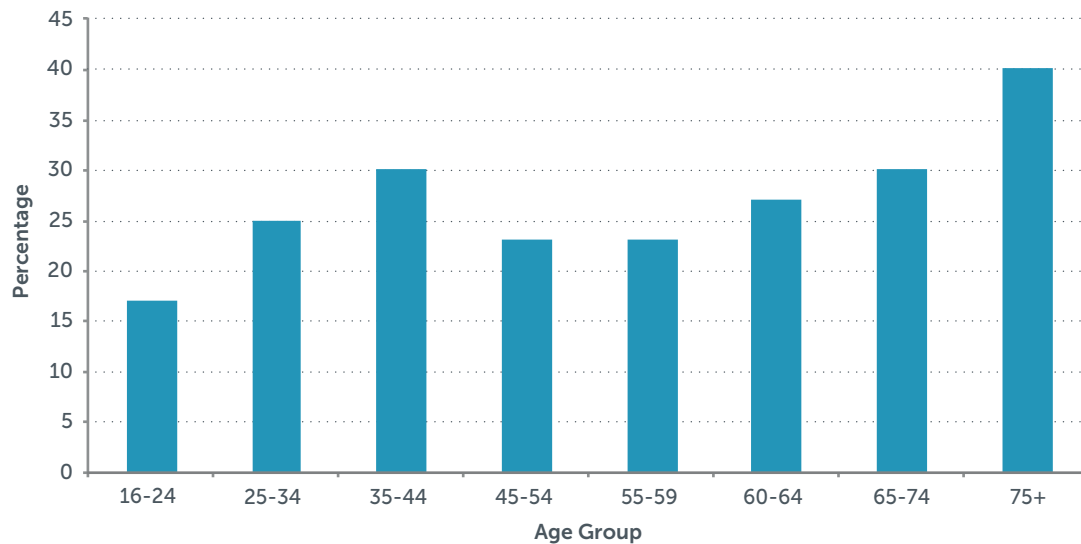
As we described in our Interim Report, carers currently face lower employment rates, are more likely to work part-time and are likely to have lower pension savings than equivalent non-carers. Carers UK’s State of Caring Survey 2016 identifies a range of barriers carers face to remaining in employment. These include the stress of juggling work and care, a lack of suitable care services, insufficient time off work and an inability to negotiate suitable working hours. If carers have to leave the labour market because of their caring responsibilities, this not only affects their current income but is also likely to impact upon their pension provision.

Proportion of Age group that provide informal care



Data from the Family Resources Survey shows 10% of adults provide some informal care. When we look at the proportion of people providing care in the chart above, it is most common to have caring responsibilities between the ages of 45 and 65, with 15% of people in those age groups providing care. Women are more likely than men to be caring for someone at those ages.

Proportion of carers providing 35 or more hours per week informal care



Source: FRS 2014/15

Although we recognise that even a few hours of caring can impact on employment prospects, people caring full-time are likely to be the most affected. The graph above shows that carers over 75 are most likely to be caring longer hours (usually for spouses). In the decade approaching State Pension age, between 20 and 30 per cent of carers are caring for more than 35 hours a week. This suggests that there is a sizeable group of people caring for a significant number of hours in the years leading up to State Pension age, who would be impacted by changes to State Pension age.

Concern that people with caring responsibilities would find it difficult to continue working up until State Pension age was a common theme in the consultation responses we received. There is a sleeping tiger here. The ONS shows that between 2005 and 2014, the total number of hours of unpaid care given increased by 25% from 6.5 to 8.1 billion hours a year.⁵¹ Personal Social Services Research Unit (PSSRU) projections from 2015⁵² suggest that, based on current demand for care, and ONS projections, between 2015 and 2035, the number of people aged over 65 who need informal (unpaid) care will grow by more than one million.

This could also mean a shortfall of 160,000 unpaid carers in England by the early 2030s.

⁵¹ Government Office for Science "Future of an Ageing population" Page 83. Available at: <https://www.gov.uk/government/publications/future-of-an-ageing-population>

⁵² Personal Social; Services Research Unit <http://www.pssru.ac.uk/>, cited in in Government Office for Science "Future of an Ageing population" page 82.

The age of carers is likely to get older. Current data shows that the age groups most likely to be caring are between the ages of 45–64.⁵³ The groups seeing the largest projected increases (90% of the increase in the period to 2035) are people over 65 being cared for by their spouses (who may be of similar age) or by their child and spouse, with increases of more than 100% for people aged over 75.⁵⁴

Whilst a later State Pension age can be mitigated by longer working, the two objectives of unpaid caring, and longer working are not easy to reconcile. It is the same group of people, at the same age, needing to allocate their time in two different ways. Both contributions are important to society and to the Exchequer. Family social care is essential, and its reduction would lead to increased State social care. However, carers in their 50s and 60s also need an income; they need to build up a pension; and they need to save. If they do, they add to national wealth. We need to value their unpaid contribution to a decent society.

This is already a major social policy issue. By the late 2030s it will be a much bigger issue. Of all the changes between now and then relevant to the setting of the State Pension age, the Review considers this to be the most significant. Carers cannot easily work and care. Waiting longer for the State Pension is a major concern for them.

3.6 Ill health and disability

The ability of people with ill health and/or a disability to adjust to changes in State Pension age was also frequently raised by consultation respondents. We heard from many individuals concerned about their own ability to work up to State Pension age. Many highlighted that this problem was more likely to affect people with physically or mentally demanding occupations. For example, the TUC cited analysis showing that up to a third of older people from manual occupations who are economically inactive ahead of retirement cite sickness or disability as the reason. There are about 3.6 million people out of work (economically inactive and unemployed) between the ages 50–64. 1.2 million of these people are out of work because of ill health.

We know that the prevalence of disability and long-term health conditions which limit day to day activity increases with age. We can therefore expect that an increase to State Pension age could result in an increase in the number of people with a long-term health condition and/or disability leading up to State Pension age. This in turn affects their employment prospects. For people aged between 50 and 64, the employment rate for disabled people is 42% compared with 81% for non-disabled people.⁵⁵

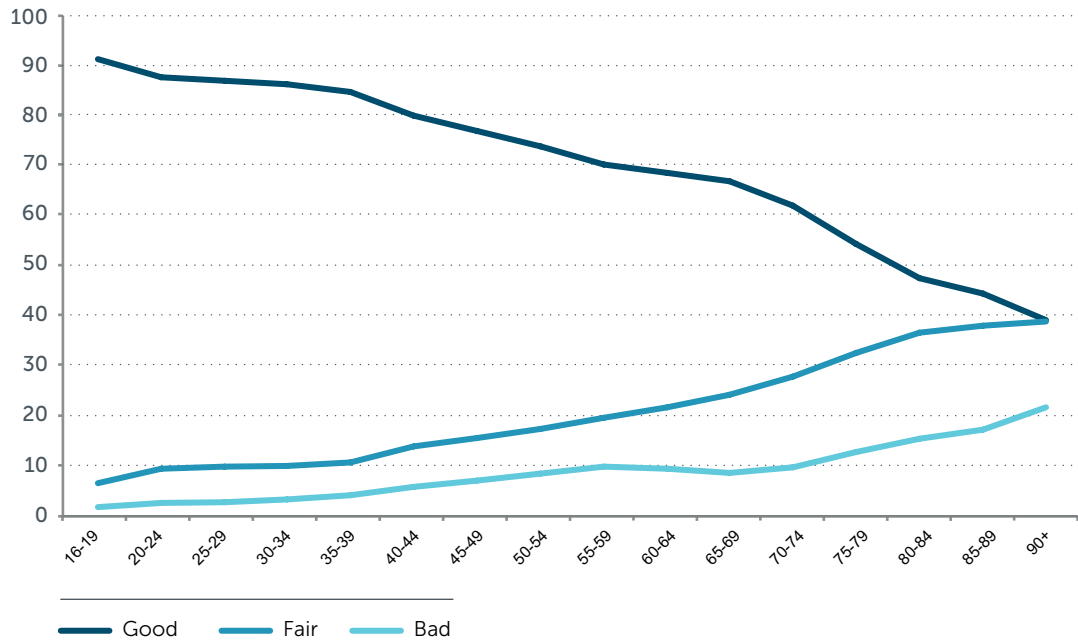
⁵³ DWP Family Resources Survey: financial year 2014/15 Table 5.3. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/531353/frs-carers-data-tables-2014-15.xlsx

⁵⁴ Government Office for Science, Future of an Ageing population p73

⁵⁵ Department for Work and Pensions, Disability Work and Health Green paper Table 1b. Available at: <https://www.gov.uk/government/statistics/work-health-and-disability-green-paper-data-pack>

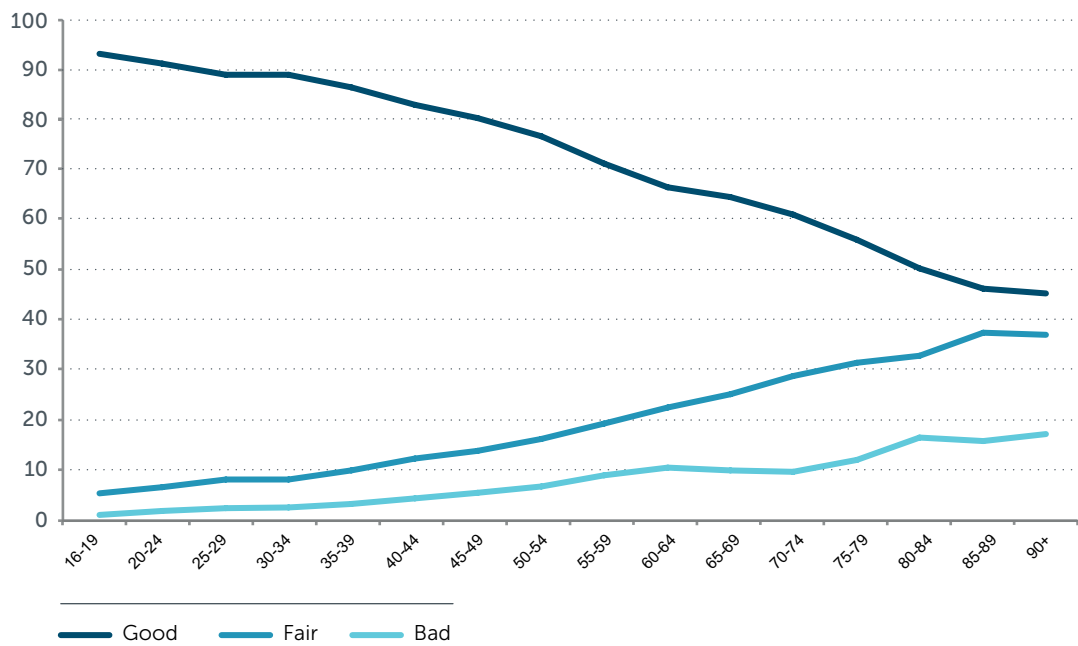
The charts below demonstrate how health varies by age for men and women.

Women % in different health states by age



Source: ONS Health state life expectancies

Men % in different health states by age



Source: ONS Health state life expectancies

As with carers, we are concerned that people who exit employment before State Pension age due to ill health or disability risk falling into poverty and will have fewer opportunities to build an adequate retirement income. We agree with the consensus from the consultation responses that any rises in State Pension age are likely to have a disproportionate impact on people who struggle to work due to ill health or disability.

Part of the transition to an ageing society is recognising that an increasing number of people in the working age population will have some degree of health issues. As the charts above show, most men and women in their 60s report being in good health. However it also shows that the proportion of people in bad health or only fair health rises with age (as does disability and the likelihood of suffering from multiple health conditions). Around 10% of people in their 60s report bad health, compared with around 5% of people in their 40s.⁵⁶ Health needs to be embedded in any approach targeted at this age group. We therefore set out policy options to support people with ill health or disability as part of our broader set of policy recommendations in Chapter 5.

Going forward, the Government will also need to be mindful of the adequacy of the support packages for those carers and disabled people who have permanently left the labour market for good reason and are at risk of being left behind the rest of society.

3.7 Self-employed

The self-employed are a diverse group with widely varying incomes and employment experiences. Any impact of State Pension age rises on this group will be heavily dependent on individual circumstances.

The latest data shows there are 4.8 million self-employed people. In recent years, the self-employment rate has been growing faster than the employment rate, while the probability of being self-employed also increases with age.

Our analysis shows that self-employed people have similar levels of median State Pension income as employed people, suggesting that they are no less likely to receive a full State Pension. However, they are less likely to have private pension savings, which reduces their overall projected pension incomes. For the 45 to 54 age group, 80% of those who are employed have some private pension wealth, compared to 65% of those who are self-employed. This gap is widening over time, as those who are self-employed become less likely to have private pension wealth and those who are employed become more so. Over half of those who are self-employed have less than £12,000 in private pension wealth.

⁵⁶ ONS, Health state life expectancies, UK: 2013 to 2015. Available at: <https://www.ons.gov.uk/releases/healthstatelifeexpectanciesuk2013to2015>. Prevalence estimates calculated using APS 2015 data.

Our analysis suggests that the self-employed do have more property wealth on average, but this does not compensate for the lack of private pension savings.⁵⁷

Several consultation responses noted that the self-employed do not benefit from automatic enrolment, which is largely responsible for the increase in private pension saving amongst employed people. We believe that making recommendations in this area would fall outside the scope of this Review, but are encouraged to note that the 2017 Automatic Enrolment Review will be looking at how the growing group of self-employed people can be helped to save for their retirement and we believe that tackling this issue should be a priority.

3.8 Black, Asian and minority ethnic groups

Respondents to our consultation generally agreed with our assessment in our Interim Report that black, Asian and minority ethnic people were at risk of disadvantage in pension savings. We know that disparities in pension savings are often a reflection of employment prospects rather than a pension-specific issue.

We would hope that an increase in employment rates and improvement in labour market outcomes would lead to a corresponding improvement in pension outcomes. However, this will need to be monitored to ensure that this happens. There is some evidence from looking at the self-employed, that people in the white ethnic group are more likely to have a private pension and have higher private pension savings. 50% of self-employed white people have a private pension, compared to 33% of self-employed people from other ethnic groups⁵⁸ which could suggest that an improvement in labour market engagement will not be sufficient to eliminate the gap in pension provision. We would suggest that this may be an area where further research is needed and that pensions communications strategies need to be inclusive and reach a broad range of groups.

3.9 Women

Women are likely to have lower pension outcomes than men, with men projected to have around a 25% higher income on average than women in their first year of retirement. This is as a result of lower levels of saving during their working lives, as a result of a number of disadvantages.

In the Interim Report, we asked whether we should take household income into account when assessing women's pension income. Although some respondents said that household income would be a more accurate reflection of real-life retirement decision-making,

⁵⁷ ONS Wealth and Assets Survey. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/earlyindicatorsfromthewealthandassetssurvey/july2014todec2015>

⁵⁸ ONS Wealth and Assets Survey. Available at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/earlyindicatorsfromthewealthandassetssurvey/july2014todec2015>

the general consensus was that pensions should be considered on an individual basis. Encouraging household retirement provision leaves people vulnerable to inadequate retirement income due to bereavement, divorce or separation.

Our own analysis suggests that looking at equivalised household income across all working age couples does not lead to a significant increase in projected pension income. However, women in a couple do tend to benefit, seeing their projected pension income boosted by around 15% across all generations when taking their partner's income into account.

There is evidence to suggest that for some people who appear to be at risk of having an inadequate retirement income, their situation is improved when their partner's income is considered. 52% of people in a couple and in the lowest income quintile move out of the lowest quintile when their partner's pension income is taken into account. However, as indicated by the consultation, it is important to maintain the principle upheld by the recent State Pension reforms that people should aim to build a sufficient retirement income in their own right. Relying on household income, especially under informal agreements and understandings, for an adequate retirement income could lead to people, particularly women, ending up disadvantaged in retirement.

Women have lower pension outcomes due to disadvantage they face in the labour market during their working lives, such as lower paid work or employment breaks due to caring (whether for children or older people). We believe that for future cohorts of pensioners efforts should be focused on addressing these root causes rather than trying to redress the balance at State Pension age. We hope the Automatic Enrolment Review will prioritise improving pension coverage for women.

One approach to a more formalised sharing of pension saving is the model which we observed in Switzerland of "income-splitting". The occupational pension contributions of two people in a couple are evenly divided between the two, which could go some way towards compensating for income inequality. This could also be a useful model if one partner took time out of the labour market to raise children for example, or look after elderly relatives. Most couples make work and childcare decisions as a household, so it is fair that they are given the option to make private pension choices at a household level. This is to ensure that partners, most often women, who take on caring responsibilities are not penalised. We do not think that the mandatory Swiss system could be replicated exactly in a UK context. However, the principle is worth considering if it could be made available to couples on a voluntary basis in the private pensions system. Couples could be given the option to combine their private pension savings into a joint pension pot. This would help mitigate pension disadvantage arising from taking time out of the labour market for caring responsibilities, as well as increasing the overall pension income by reducing the amount spent on fees and charges. We recognise that there would be difficulties bringing this into the UK system, as employers choose the pension scheme rather than employees. We suggest that the Automatic Enrolment review takes this idea into consideration.

04 Setting the State Pension age





In this chapter we set out our approach to the State Pension age timetable and the principles we believe should underpin the State Pension age policy in the future.

4.1 The principles for setting State Pension age

4.1.1 Universality of State Pension age

We have received representations from different areas across the UK on regional variations in life expectancy and the expected variation in the impact of any State Pension age rises as a result. As we have set out in Chapter 1, there is clear evidence of regional variation in life expectancy across the country. However, the largest differences occur at a local level rather than a regional or national level.

Although there is consensus that regional variations exist, we have not received any submissions which suggest any workable ways for State Pension age to address this. The differences exist at a local level and appear to be largely driven by socioeconomic factors. Given the mobile nature of the UK population, trying to account for this when setting a State Pension age would be complex. It is also unclear whether regional National Insurance, and the complexities and burdens this would introduce, would be a feature of regional State Pension age. While we are sensitive to regional variations in life expectancy, and would expect subsequent Independent Reviews to give this issue the attention it requires, the crucial challenge is investing in improving people's life chances. We do not believe that regional variation of State Pension age would be an effective or practical way of improving fairness in outcomes.

In the interim report we noted representations to allow access to the State Pension before State Pension age and for this reason the following questions were included in our call for evidence:

“What are the alternatives to a universal State Pension age? How can they be designed and implemented so that both the principles of Affordability and Fairness are retained?”

“What approach is more appropriate in your view, if we were to protect impacted groups? Should we consider ways to remove any barriers to building their own private retirement income or to support them through the welfare system or is there another approach altogether? Why?”

The responses we received were in the main sympathetic to older workers who had limited means and also suffered from disabilities or ill health, or were carers. Many responses

suggested offering additional support to these groups before they reached State Pension age. The Association of Consulting Actuaries described a system where disadvantaged groups could gain entitlement to a new benefit before State Pension age that would have the same value as the State Pension. Age UK made a similar point.



In terms of ESA claimants... we believe it has to be accepted that for some people work is not realistic or beneficial and it is better for the individuals and the system that such individuals are able to draw their State Pension and retire early with dignity.



Being a full-time carer is often physically and emotionally draining, it would therefore be reasonable to consider earlier access to a State Pension when someone had been caring for say at least 5 years. Even if caring responsibilities subsequently end before they reach the standard State Pension age, it is likely to be difficult to return to work and we believe it would be right to enable someone to continue to receive their pension rather than having to attempt to go back to work again for a short period – unless of course they wished to.”

Age UK

Some correspondents suggested that people who had long working lives (measured in terms of National Insurance qualifying years) should gain entitlement to State Pension early. Other respondents suggested that access to the State Pension should be more flexible for all older people in the same way as other pension products.



As the SPa rises, we strongly believe that the Government should offer individuals the choice of taking their pension from an earlier age. Those taking their State Pension early should receive a reduced amount, for life, calculated by the Government Actuary on actuarially neutral terms.”



Aegon

The Association of Consulting Actuaries described a scheme where older workers could have entitlement to an actuarially reduced State Pension in say a 5 year window below State Pension age – suggesting this would be the inverse of State Pension deferral where the pension is increased if not taken, rather than reduced if taken early. There is a clear symmetry to this proposition but the Association recognised that this system would leave some people at permanent disadvantage.



The amount of pension would be reduced for early payment just as it is increased for late payment. However, there are difficulties with this option. If the State Pension is intended to provide a minimum acceptable level of income in retirement, then paying a reduced State Pension would, by definition, mean that individuals would receive less than a minimum acceptable level of income from the state.”



Association of Consulting Actuaries

Other submissions described the advantages of a universal State Pension age in keeping the system simple.



It has been suggested that the State Pension should be used as a mechanism through which to tackle some of the inequalities (addressed above) by providing a variable or actuarially-adjusted flexible State Pension age. However, we believe that such an approach would sacrifice the simplicity of the current system and would be challenging to communicate to savers.”



The Pensions and Lifetime Savings Association

There are two related ideas here. The first is to provide extra resources to allow certain people to access the universal State Pension early at the normal rate, generating additional cost. The second is to allow universal early access but on a reduced rate, so that the effect is cost neutral. We address each idea in turn.

In the interim report we noted that early access schemes had to be seen within the context of our terms of reference where affordability had to be considered alongside fairness. In the report we highlighted that the costs of early access would have to be met by people of working age. This issue is now in sharper relief as we develop our understanding of the costs of an ageing society, as we describe in Chapter 2.

That said, from the representations we have received, there is a real sense of unfairness that some people, because of low life expectancy, will be disadvantaged if the same universal rules apply to them as to the rest of their age peers.

On this issue, analysis from the Pensions Policy Institute (PPI) suggests that many people do get back from the State Pension what they put in through National Insurance. The PPI analysis suggests that, even accounting for lower life expectancy amongst socioeconomically disadvantaged groups, on average people reaching State Pension age can expect to draw significantly more State Pension than they have contributed. This remains true for the lowest income and the highest income quintiles, although unsurprisingly the proportion contributed increases as income increases. For example, taking two men aged 40 in 2016, one in the 10th income percentile will pay 26.7% of what

they will receive in State Pension through National Insurance contributions, while one in the 90th will pay 94.3%. This does not suggest that there are significant proportions of people who are paying more in National Insurance contributions than they will receive.⁵⁹

To an extent therefore, the State Pension appears to reconcile systemic variations in life expectancy, which are in the main a symptom of inequalities experienced over the course of people's working lives, through the contributory benefit system.

On a practical level, and taking into account suggestions like varying State Pension age with lifetime earnings, there is no effective mechanism that has been tested that would be able to target those with lower life expectancy, and in such a way that people could be given fair warning of their State Pension outcomes. However Independent Reviews in the future will want to note future trends.

Tackling this degree of inequality at the margins of working life and pension life might introduce a new sense of fairness when it comes to disadvantaged groups. However, using State Pension to cover gaps in working age provision would be a completely new element of social insurance. In Chapter 2, we noted that the dependency ratio is increasing and that as a nation we will be asking people to pay for an increasing number of pensioners. It seems likely that extending the scope and costs of State Pension in this way will erode some of the goodwill between generations that is intrinsic in a pay as you go system.

Another proposal is to allow earlier access to those who have had a longer working record and, therefore, have worked longer than those who entered the labour market later. However justifiable, it involves extra cost, and seems not to be targeted on the most disadvantaged groups which the review has identified. There are two main ways we could define the long contributions group. We can either include all National Insurance contributions, including credits from periods on the welfare system, or we can narrowly define the group to people with a long employment record paying full National Insurance contributions and having worked from a young age. We understood the spirit of the proposal to target the latter group who some believe have contributed their fair share. However deserving someone with a long contributions record may be, they will, by the very fact of having worked their whole career, have had more opportunity to save than those with multiple disadvantages.

The second idea, proposing that certain groups could access the State Pension early on a reduced basis, raised concerns in the consultation because it seems to risk leaving those individuals with an inadequate pension. By definition they are likely to be those with lower savings and not well positioned to cope with receiving a lower pension. As a result they may then need further support from the benefit system.

⁵⁹ Pensions Policy Institute, 2017, Contributions into the State Pension system versus receipts for people of different income and employment profiles. Available at: <http://www.pensionspolicyinstitute.org.uk/publications/responses-and-submissions/ppi-submission-to-the-independent-state-pension-age-review>

Consequently the review considers that the spirit behind these ideas, of targeting help on the most disadvantaged, can be tackled with support in the benefit system rather than through variations to the State Pension age.

For these reasons, we believe that the principle of having a State Pension age that is the same for everybody has a fundamental place in the UK's model of social insurance. It has the merit of simplicity and clarity, and provides an important trigger moment for planning purposes.

4.1.2 The 'up to one third' principle

The Government established in 2013 that people should expect to spend "up to one third of their adult life in retirement".⁶⁰ The Government reconfirmed this principle when it commissioned the Government Actuary report on State Pension age in November 2016.

This approach means:

- That each generation gets the same deal overall as the previous generation – this sense of fairness is important as each generation of workers funds each generation of pensioners
- For each extra year in life, the 'up to one third' principle means that we work 8 months more for 4 months more in retirement
- There is an active stabiliser – State Pension age increases as life expectancy increases – the funding requirement for each generation should, all else being equal, be broadly the same.

The Government Actuary was tasked to report to the Government on the implications for the State Pension age timetable of following a policy where up to one third of adult life was spent in retirement. Two scenarios were requested. In the first, 33.3% of adult life was covered by State Pension entitlement. The Government requested an estimate based on 33.3% as it broadly reflects the average proportion of adult life that people reaching age 65 in the last 10 years were expected to spend in retirement.⁶¹ The Government Actuary reports that to achieve the proportions required by the one third principle, the following timetable should be implemented:

- State Pension age should increase from 67 to 68 over the two-year period from 6 April 2039 to 5 April 2041;
- State Pension age should increase from 68 to 69 over the two-year period from 6 April 2053 to 5 April 2055.

⁶⁰ HM Treasury, 2013, Autumn Statement, TSO

⁶¹ Terms of Reference for GAD review 2014-Based

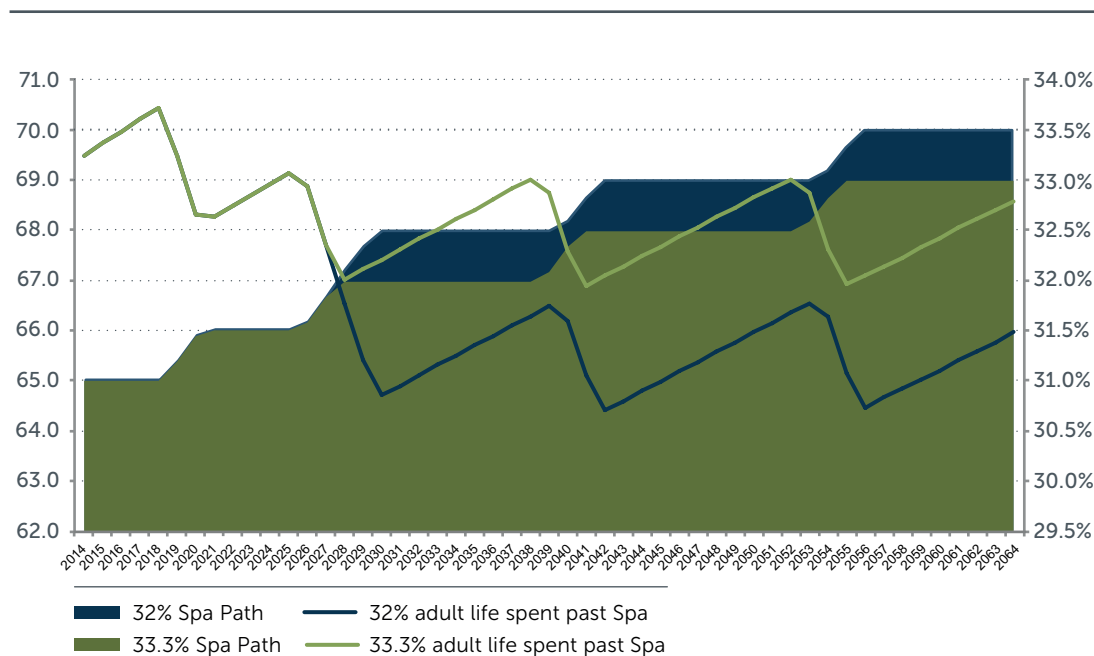
The Government Actuary reported that under this scenario there should be no further increases to State Pension age over the period to 5 April 2064/66 – the end of the projection period used by the ONS.

For the second scenario, the Government commissioned the Government Actuary to report on a timetable where pensioners spent 32% of their adult life with State Pension entitlement. This number broadly reflects the average proportion of their adult life that people reaching age 65 in the last 20 years were expected to spend in retirement.⁶² The Government Actuary reported the following timetable:

- State Pension age should increase from 67 to 68 over the two-year period from 6 April 2028 to 5 April 2030;
- State Pension age should increase from 68 to 69 over the two-year period from 6 April 2040 to 5 April 2042;
- State Pension age should increase from 69 to 70 over the two-year period from 6 April 2054 to 5 April 2056.

The chart below shows State Pension age timetables and the proportion of adult life spent in retirement under the two scenarios considered by the GAD Report (i.e. 32% and 33.3%).

State Pension age timetable & proportion of adult life spent past State Pension age (32% vs. 33.3%)



⁶² Terms of Reference for GAD review, based on average UNISEX life expectancy and male State Pension age over 1997–2016

Sensitivity

In his report 'Periodic review of rules about State Pension age', the Government Actuary notes how sensitive the timetables were to changes in life expectancy. Had the timetables been based on the Office for National Statistics projections covering information on life expectancy up until 2010 or 2012, instead of the latest information available from 2014, the projections in the timetable could move by up to 8 years. Similarly, changing the long run assumption on growth in life expectancy from 1.2% by 0.2% in either direction means that the calculated timetable for State Pension age increases over the projection period move up by 10 years. In his report the Government Actuary describes a number of scenarios comparing how the timetable would differ if different information sets had been used. As an example, using the 2012 information set to produce a timetable based on 33.3% would see an increase to 68 over the 2 year period from 6 April 2034 to 5 April 2036 instead of the 6 April 2039 to 5 April 2041 timeframe based on the 2014 information set. This represents a difference of five years, following a relatively minor change in life expectancy projections.⁶³

The 2016-based Office for National Statistics information set on life expectancy will be published later this year (2017) and the Government Actuary notes that the next Independent State Pension age review (which has to report within 6 years of this report) will have up to three further sets of information by the time it is required to report in 2023. The Government Actuary then makes two important points:

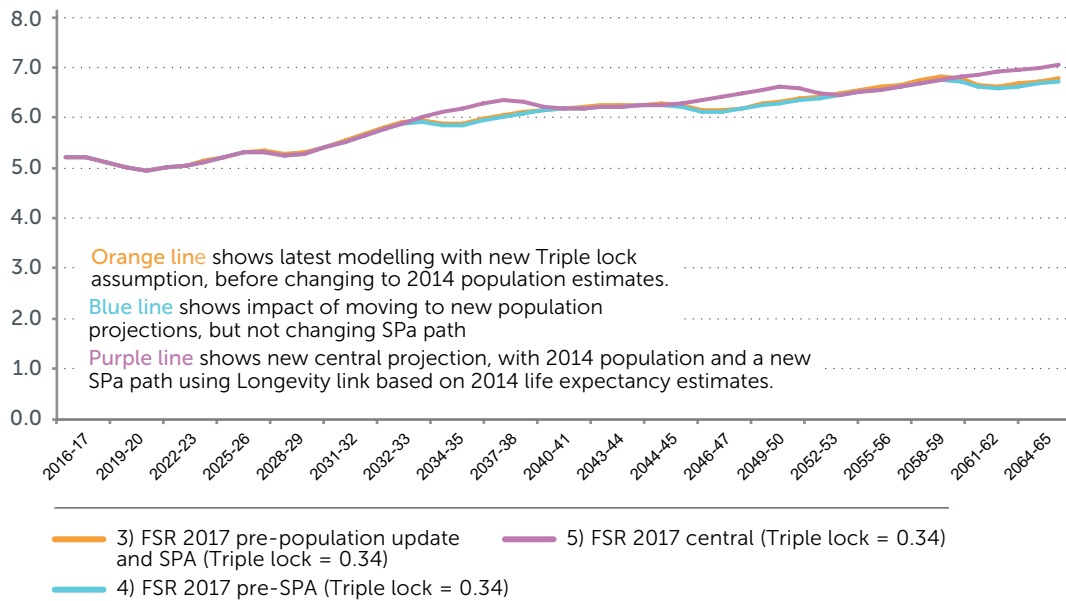
- Setting State Pension age for a long period of time based on a highly prescribed formula has risks that it could be out of date by the time subsequent Independent Reviews consider more contemporary information sets;
- It is likely that any recommendation made on the proportions of life expectancy that the Government Actuary has reported on would be different if it was based on the information set to be published later this year.

Uncertainty Implications for Expenditure

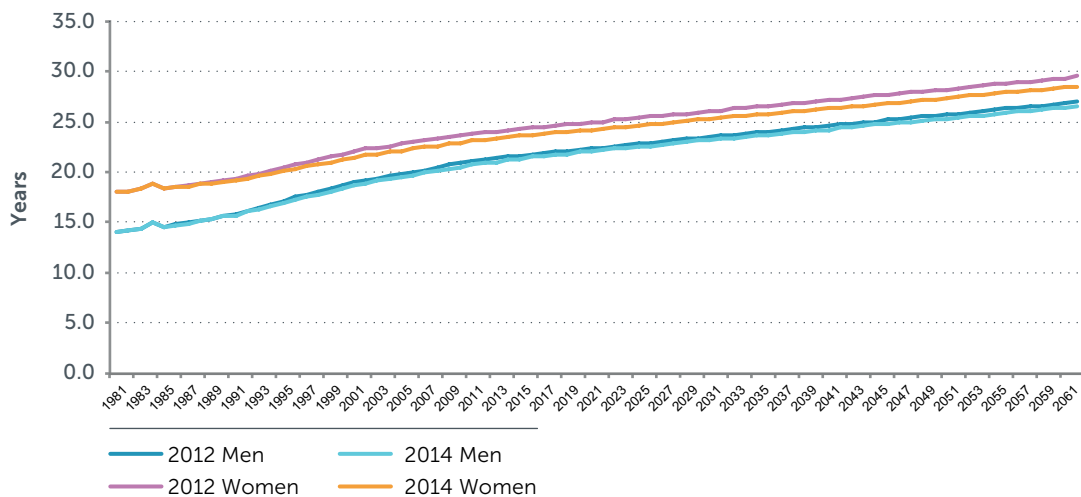
Clearly it is inevitable that there will be uncertainty, if decisions are made based on trends in life expectancy which can be outweighed by anomalies in the latest information set.

Switching between the 2012 and 2014 population projections has a direct impact on State Pension spending, as higher mortality rates mean that there will be fewer pensioners drawing State Pensions. However, this direct impact is relatively small. It is less than 0.1% of GDP in any given year (which rounds to zero using OBR published figures).

⁶³ Government Actuary's Department, 2017, Periodic review of rules about State Pension age: Report by the Government Actuary



More significantly, the different mortality and life expectancy assumptions in 2012 and 2014 affect the timing of the State Pension age change markedly. As shown above, under the 33.3% adult life longevity link, State Pension age would increase to age 68 in 2036 or 2041 depending on whether the 2012 or 2014 information sets are used. So while there is only a marginal increase in State Pension spending if we use the 2012 estimates instead of 2014, the resulting change in State Pension age itself (based on the longevity link) saves around 0.3%–0.4% of GDP per year.



Small fluctuations in life expectancy can therefore have a significant impact on expenditure, as the nature of the longevity link amplifies any changes.

4.1.3 Allowing for notice in between changes

A core principle of current State Pension age policy is that people should be given at least ten years' notice of any changes to their State Pension age. We recognise that giving people adequate notice is important in allowing for effective retirement planning. Responses to our consultation agreed unanimously that notice and communication were key to implementing any State Pension age timetable successfully. We note that the Pensions Commission recommended 15 years notice should be the gold standard.⁶⁴

Although the principle of up to one third of adult life in retirement is important on a macro level and has value in maintaining intergenerational fairness, the principle of ten years' notice is equally important when considering the impacts on individuals and households. Individuals are likely to feel the effects of uncertainty around their State Pension age sharply as recent experience with the equalisation of the women's pension age demonstrates. Leaving enough time to communicate State Pension age changes to individuals is therefore integral to our State Pension age timetable approach.

It will also become increasingly important in the future that there are windows of stability, where the impact of each change can be considered, monitored and where mitigations can be put in place to respond to any issues. These periods of stability will allow for changes in the labour market to be taken into account, as well as sensitivity of the life expectancy figures. Working past the age of 67 or 68 may become the norm but it may also require some longer term adjustments that will require time to set and function fully.

4.1.4 The pace of change for each cohort

Life expectancy has been increasing for far longer than State Pension age reform. It is right that State Pension age should rise in line with longevity. However, to maintain fairness between the generations, we believe that State Pension age changes should be spread equally across generations. It is important that the pace of change remains steady and focused on achieving the balance in the long-term.

An increase of the State Pension age every ten years – and by only one year per decade – represents an appropriate pace of change for the future, on current longevity assumptions. If life expectancy continues to improve at the same rate as it has in the past, then a change of once a decade still allows for the State Pension to remain broadly at the same proportion of adult life as it is today. Only exceptional changes to the data would justify moving from this position, given the impact it would have on those affected.

⁶⁴ The Pensions Commission, 2005, A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission, TSO p178

The period of stability allows for the appropriate mitigation policies to be implemented, gives people time to prepare for a change in State Pension age and also gives the State time to communicate such changes.

Creating a steady, transparent timetable for State Pension age in this way will increase public trust in the State Pension system. An increase of one year per decade is easy to understand, and spreads the pace of change fairly across cohorts.

4.1.5 The balance between the principal factors

A balance of the three principles above (the proportion of life in retirement, the notice of change and the pace of change) can be achieved without compromising each of the principles. For the foreseeable future we can deliver an acceptable proportion of life spent in retirement as long as we respect the pace of change and necessity of at least a ten year notice period. This is the best way to counteract uncertainty in life expectancy because it will minimise the impact of uncertainty and fluctuations in those projections.

4.2 Approach to setting a timetable

4.2.1 The proportion of adult life spent in retirement

In 2013, the Government first established the principle of people spending up to one third of adult life in retirement. When it did, the proportion was already 33.1%. The policy therefore would have the effect of maintaining the status quo. The new principle would help to deliver intergenerational fairness, whilst constraining future public spending growth which might result from rising life expectancy.

The key driver for action was concern about rising life expectancy, with the proportion of adult life that people spend in retirement having grown from 26.5% in 1981 to 33.1% in 2013, and projected to continue to grow by about 1% point per decade.

The justification for 'up to one third', as it appears, was indeed to maintain an equilibrium going forward based on the highest proportion yet seen of adult life spent in retirement. This seems to be fair as a principle, subject, of course, to consideration of the impact on different groups of potential pensioners.

Similarly important as a principle is the Government's intention to give at least 10 years notice of forthcoming rises in the State Pension age so that people can plan ahead.

In 2013/14, when the policy of up to one third was first established, existing plans to raise the State Pension age to age 66 by 2020 and 67 by 2028, taken together with the latest ONS projections based on 2012 data, meant that the longevity link would have been maintained if the State Pension age was to be further increased to age 68 by 2036.

The existing legislated increase to age 68 was to happen by 2046, and this date had been set before the “up to one third” principle was established and on the basis of earlier population projections. Consequently, allowing a further ten years until 2046 before increasing the age to 68 would exceed the “up to one third” proportion.

The latest ONS projections use 2014 data. They included an increase in mortality which pushes back the longevity-linked increase in the State Pension age to 2041.

The actual proportion of adult life spent in retirement will peak at 33.7% in 2018 before falling again after that year. This fall is the result of the State Pension age increases from age 65 to age 67 by 2028. The proportion will fall back to 32% by 2029, after which it will rise by approximately 0.1% point per annum until any further State Pension age increase.

If we consider that fairness between generations is maintained if the proportion of adult life in retirement is capped, then we first need to establish a base line for that policy aim. The Government has not yet defined “up to one third” which makes the baseline a subject for debate. In 2013, the year the policy was established, the proportion of adult life spent in retirement was 33.1%, albeit that this figure varies every year. However if we take the average over the last decade that figure is 32.87%.

A one year increase in the State Pension age reduces the proportion by around 1% point and the proportion then builds up again to the same level in about a decade, as a result of further expected rises in life expectancy.

Given this, it is reasonable to assume, on the basis of current population projections and all other things being equal, that we can anticipate changes in the State Pension age of the order of once a decade. Consequently each decade of forthcoming pensioners are then treated equally on average, albeit each year’s cohort within that decade has a slightly different impact.

From this, and given that this Review is asked to make a judgement at this time, we consider that 32.87%, the average proportion of adult life spent in retirement over the last decade, is an appropriate baseline. If in the future each decade of pensioners will need to respond to the consequences of increasing longevity, it seems both fair and balanced to start with the baseline figure for the last decade.

4.2.2 Determining the timetable for change

On grounds of intergenerational fairness and fiscal sustainability there is a case for an increase in the State Pension age to age 68 at some point between 2028 and 2046.

The earlier date is set by the need, which is paramount, to give people at least ten years’ notice of a change to their expectations. This date is also the 32% path which the Government Actuary was asked to assess. The second date is already in legislation and is already in excess of the date required to maintain the longevity link according to the last

three sets of ONS population projections. Whilst these could change, it would not seem prudent, at this point, to anticipate new projections resulting in a date for the State Pension age to increase to 68 exceeding that of 2046, given the near consensus of opinion of demographic experts that longevity is still increasing.

So in this Review's judgement the range for a further increase in the State Pension age to age 68 lies between 2028–30 and 2044–46.

The earliest of these options, 2028–2030, would exercise the greatest constraint on public expenditure which is an important consideration. But it seems that it does not commend itself on grounds of fairness. It would set the longevity link at 32%, a proportion which has been exceeded since 2006. This in itself would be seen as a change in reasonable expectation for future retirement. In addition, the year 2030 is markedly earlier than the legislated year of 2046. Significantly, it would result in two back to back increases in the State Pension age in a four year period, thus concentrating the impact on one group of pensioners. It would not allow for the effects of this increase to age 67 to be evaluated. It also seems excessive that the full public expenditure concerns of population change can be borne by changes to the State Pension age without consideration of other public policy options which are available.

Alternatively, leaving the State Pension age change to the current legislated date of 2044–46 would result in the proportion of adult life in retirement rising to 33.5% in 2043/44 exceeding the longevity link on current projections. This would be a change to policy and it does not seem prudent in terms of fiscal sustainability.

The OBR forecasts have modelled public spending on the basis of an increase in the State Pension age in 2039–41 on the basis of the current ONS projections. The OBR consider that increased spending on ageing, principally driven by non-demographic factors in health spending (such as medical advances) would put public sector net debt on an unsustainable upward trajectory without tax rises or other spending cuts.

On these grounds, and reserving our position on measures to help affected groups, it is necessary to narrow the range of options for a State Pension age change. We use the OBR interpretation of "up to one third", which is 33.3%, so that the timetable options are consistent with the affordability analysis, which is based on the OBR. We also take into account the uncertainty in the life expectancy projection data between ONS reports and consider both the 2012 and 2014 projections. We chose the range resulting from the longevity link as specified by the ONS:

- 2034–36 using the 2012 projections and;
- 2039–41 resulting from the most up to date 2014 projections.

As these figures show, the most recent two year update in these projections has resulted in a five year difference in the longevity link consequences for the State Pension age.

We recognise that a number of respondents to our consultation, especially Trade Unions and campaign groups, do not support an increase in State Pension age. In addition, it could be argued that, given there will be a further State Pension age review in 2023 which will have the benefit of three new sets of ONS projections, a recommendation could be delayed until then. There would still be at least 10 years notice available.

However we do not agree with this view. An increase in the State Pension age to age 68 has already been legislated for in Pensions Act 2007. Since then life expectancy projections have changed. Forward projections for the public finances suggest that they are, and will continue to be, under pressure. On the balance of likelihood, the 2046 date will need to be pulled somewhat forward. A judgement on this can be made now, and we believe that there is merit in giving future pensioners as much forward notice of this change as is possible.

For these reasons we believe that the Government should decide on that change now. On the basis of recent experience, we anticipate that the next longevity projections are more likely to stay broadly within these parameters, and that the increase in mortality in 2014 may not be the start of a continuing trend.

We have also understood that the aim of the “up to one third” principle was to maintain the current intergenerational balance by protecting against the risk that future longevity improvements will make the system unaffordable. The ten year average proportion of adult life spent in retirement, as we have already discussed, has been 32.87%.

To this end this Review recommends that the Government take a mid-position between the 2012 and 2014 projections, to account for uncertainty in the numbers, while reflecting the current average of 32.87% of adult life spent in retirement when measuring the last 10 years.

Therefore this Review recommends that the State Pension age should increase to 68 in 2037–39.

This would result in the proportion of adult life in retirement peaking at just over 32.8%, close to the current 10 year average. This would provide a greater measure of intergenerational fairness than the other options. It would also make a contribution to the fiscal sustainability of the State Pension. This would be the joint highest currently legislated State Pension age amongst OECD countries and we see no case to go beyond the international experience.

But what about intragenerational fairness, and in particular concerns that the less advantaged cannot bear a further increase in the State Pension age beyond age 67?

Whilst there is a persuasive case of the need to increase the State Pension age on grounds of intergenerational fairness and fiscal sustainability, we should take the differential impacts on certain groups (intragenerational fairness) extremely seriously.

It leads to the conclusion that increasing the State Pension age any faster than we have recommended is not appropriate. It also means that we will need a set of mitigation measures to go alongside the increase in the State Pension age to age 68, and that both the increase and the set of measures should be accepted as a package.

These recommendations are explained in Chapter 5 and include extra assistance for carers and for those with ill health, together with measures to promote older working and partial retirement.

4.2.3 Future increases in State Pension age

Furthermore, people need a degree of clarity about future increases in the State Pension age. If ONS projections are borne out, then an increase to age 69 is likely to be needed in due course. This notwithstanding, such a change would be required too far in the future to include in the recommendations of this review. The balance of advantage is in waiting until a subsequent review is able to consider further evidence both of patterns of life expectancy, and of the impact of changes to the State Pension age on the labour market.

Nonetheless, the public would benefit from the setting of some parameters for the future. This Review's judgment is that a further increase in the SPA beyond the age 68, in order to maintain the longevity link, will not be needed for at least a decade after the increase to 68, to create the necessary window of stability. We also recommend that Government adopts that approach for any subsequent increases. This would mean that further reviews would consider the case for any increase beginning from, or after, 2047, assuming there are no exceptional changes to the data.

4.2.4 Funding the State Pension on a sustainable basis

Finally, given the OBR's concerns about the sustainability of the public finances, what should be done about the percentage of GDP which will be spent on the State Pension in the future?

The OBR project that this will increase from 5% of GDP in 2021/22 to 7.1% of GDP in 2066/67, around an extra 2% of GDP or £40 billion per annum based on today's GDP. This is a very significant sum of money to be found by the Exchequer. It would require some combination of reallocating spending from other priorities, making further savings, growing the economy even faster, or increasing taxes. As the OBR state, the position is made starker by an even bigger projected increase in health spending, with an increase anticipated from 6.9% of GDP in 2021/22 to 12.6% of GDP in 2066/67.

It looks likely that State Pension spending will need to be constrained to some degree over the period. The longevity link contributes to this by 0.5% of GDP per year (compared with the legislated State Pension age) in 2066/67. This Review's recommended timing of the State Pension age increase to age 68 (2037–2039) goes further in the mid-term, with an additional 0.7% of GDP of cumulative savings by 2046/47, and rising to cumulative savings of 5.6% of GDP with annual spending lower by a further 0.3% of GDP in 2066/7 compared with the longevity link.

In the medium term, spending under the Review's recommended option lies between the 33.3% and 32% scenarios. In the very long term, the level of State Pension age under the recommended scenario converges with that under the 32% scenario, and this results in State Pension spending of the same magnitude for both in 2066/67.

There are offsetting effects. The official assessment in 2014 of moving the rise in State Pension age to 67 forward by 8 years was that spending on working age benefits would be an extra £300m per year (cumulatively over 0.1% of GDP spread over ten years).⁶⁵ This is because some people will spend an extra year on working age benefits while waiting for their State Pension. Meanwhile, using the OBR's employment model, higher employment levels due to people remaining in the labour market for longer, and therefore higher taxes and National Insurance, would lead on average to an extra £1.1bn per year (a peak of £1.4bn close to 0.1% of GDP in a single year) in revenues. We have not assumed any impact from higher employment as a result of moving the State Pension age rise forward but note that it could provide a significant fiscal improvement.

Alongside the length of time a person can receive the State Pension lies the value of that pension. The indexation of the State Pension is a matter of political choice. In recent years the emphasis had been on somewhat restoring the value of the pension in relation to the earnings of those in work. This has been pursued by the use of the triple lock for indexation, namely that the amount of the State Pension is increased by the highest of:

- the increase in Consumer Price Index;
- average earnings; or
- 2.5% per annum.

By the 2020s the effect of the triple lock will be to have increased the value of the basic State Pension to a level of 24% of average earnings. It was 26% in 1979 when the earnings link was withdrawn, and had fallen to 16% by 2010.⁶⁶ This is welcome restoration.

⁶⁵ DWP "Long term State Pension sustainability: increasing the State Pension age to 67" Impact Assessment Tables 2 and 3 page 9 show net cost impacts. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/310746/pensions-act-ia-annex-b-state-pension-age.pdf

⁶⁶ Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/576692/abstract-of-statistics-tables-2016.ods

In the longer term the retention of the triple lock is forecast to become a very significant factor in the cost of the State Pension. It is estimated that it would be responsible for 0.9% of GDP in 2066/67. This will raise questions of intergenerational fairness as between those in work and those in retirement.

The longevity link appears close to the limit of what can be saved on State Pension spending through increases in the State Pension age. Further savings to ensure fiscal sustainability are more appropriately delivered by moving in the future to uprating the pension by earnings.

We therefore recommend that the triple lock is withdrawn in the next Parliament. Under our recommended timetable, State Pension spending would be 6.7% of GDP in 2066/67, which is a reduction of 0.3% compared to the 33.3% scenario in that year. If the triple lock is withdrawn, spending will be further reduced to 5.9% of GDP by 2066/67. Combined with the recommended State Pension age changes, this is an overall decrease of 1.2% of GDP as against expenditure under the OBR's principal scenario (33.3%). Whilst 5.9% of GDP would still be a significant increase, it can be accommodated, and it would be a reasonable and necessary spending on supporting the incomes of our inevitably growing number of senior citizens, both in its own terms and on the basis of international comparisons.

There is a balance to be struck between access to the State Pension and its value, and we believe that these recommendations achieve that balance for the period ahead.

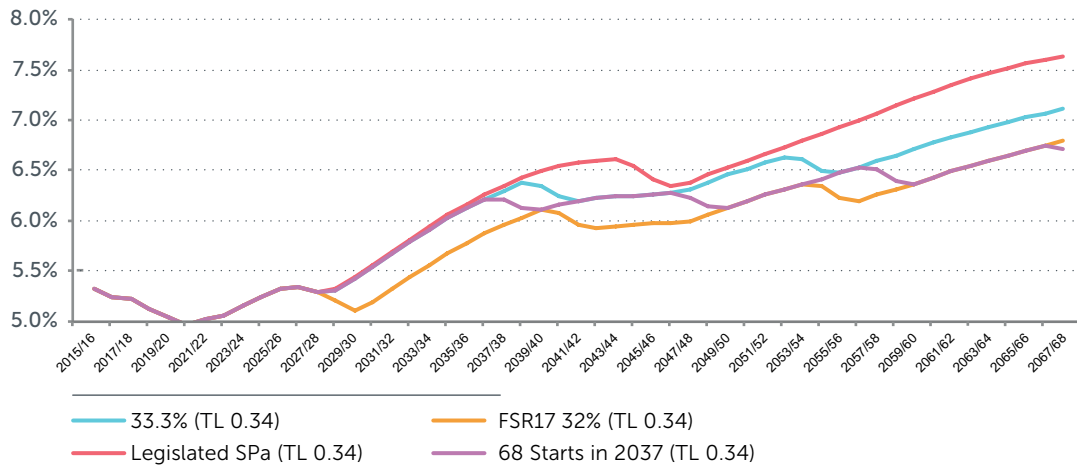
Assessment of the options in terms of fiscal sustainability

Based on the 2014 population projections and the 2017 Economic Assumptions (ie for CPI, triple lock, GDP & earnings) as released by the latest OBR Fiscal Sustainability Report, we consider four scenarios as follows:

1. **33.3%** – Central OBR scenario with the FSR 2017 triple lock assumption (i.e. 0.34). It implies that the increase to 68 will take place between 2039–2041.
2. **Legislated State Pension age** – The legislated State Pension age with the FSR 2017 triple lock assumption (ie 0.34). It implies that the increase to 68 will take place between 2044–46.
3. **32%** – This scenario has been considered by the GAD report but was not published at the OBR FSR17. We have modelled this option for the purposes of this Review using the FSR17 triple lock assumptions (ie 0.34). It implies that the increase to 68 will take place between 2028–2030.
4. **Increase to 68 starts in 2037** – This is our Review's recommendation which we modelled using the FSR17 triple lock assumptions (ie 0.34). It implies that the increase to 68 will take place between 2037–2039, and as an illustration further increases of one year will take place once a decade.

The following chart shows the evolution of the sub-total State Pension spending⁶⁷ as a % of GDP on a year-to-year basis under the four scenarios presented above.

Sub-total State Pension spending as a % of GDP under different SPa scenarios (TL 0.34)



Source: DWP Pension Spending Forecasting Model based on OBR FSR17 assumptions

Meanwhile, the following table shows the cumulative impact of each scenario on pensioner spending as a % of GDP compared to the 33.3% scenario.

Cumulative change in State Pension (OBR Definition) spending compared with OBR principal projection (based on 33.3% Longevity Link) as a proportion of GDP including scenarios with earnings uprating instead of the triple lock

| Cumulative Saving % of GDP | 2026/27 | 2031/32 | 2036/37 | 2041/42 | 2046/47 | 2051/52 | 2056/57 | 2061/62 | 2066/67 |
|----------------------------|---------|---------|---------|---------|--------------|---------|---------|---------|---------|
| 33.3% (TL 0.34) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 33.3% (No TL) | -0.1% | -0.6% | -1.6% | -3.1% | -5.1% | -7.6% | -10.7% | -14.3% | -18.6% |
| Legislated SPa (TL 0.34) | 0.0% | 0.1% | 0.3% | 1.2% | 2.5% | 2.9% | 4.4% | 6.9% | 9.6% |
| FSR17 32% (TL 0.34) | 0.0% | -1.1% | -2.9% | -4.2% | -5.6% | -7.2% | -8.5% | -10.3% | -11.9% |
| 68 starts in 2037 | 0.0% | 0.0% | 0.0% | -0.7% | -0.7% | -1.9% | -2.6% | -4.0% | -5.6% |
| 68 starts in 2037 (No TL) | -0.1% | -0.6% | -1.6% | -3.7% | -5.7% | -9.4% | -13.1% | -17.9% | -23.7% |

Source: DWP Pension Spending Forecasting Model based on OBR FSR17 assumptions

The chart and table above show the impact that different State Pension age timetables have on the long-term pensioner spending.

⁶⁷ Please note that the sub-total State Pension spending projections exclude Housing Benefit (HB) and Disability Living Allowance (DLA).

05 Smoothing the Transition





In this chapter we describe a range of interventions which can support a smoother transition into retirement for everyone, and in particular the groups that we discuss in Chapter 3. We recognise that many people in their 60s will be vulnerable to multiple barriers to employment which will be complex to prevent or overcome. We propose some targeted measures to alleviate some of the impacts for those groups. It will increasingly become the norm that some form of work remains part of most people's lives until at least State Pension age as the old cliff edge of retirement is blurred, but only where that is possible. It is clear that for both people who work and people who cannot, specific policies are required to smooth the transition into retirement.

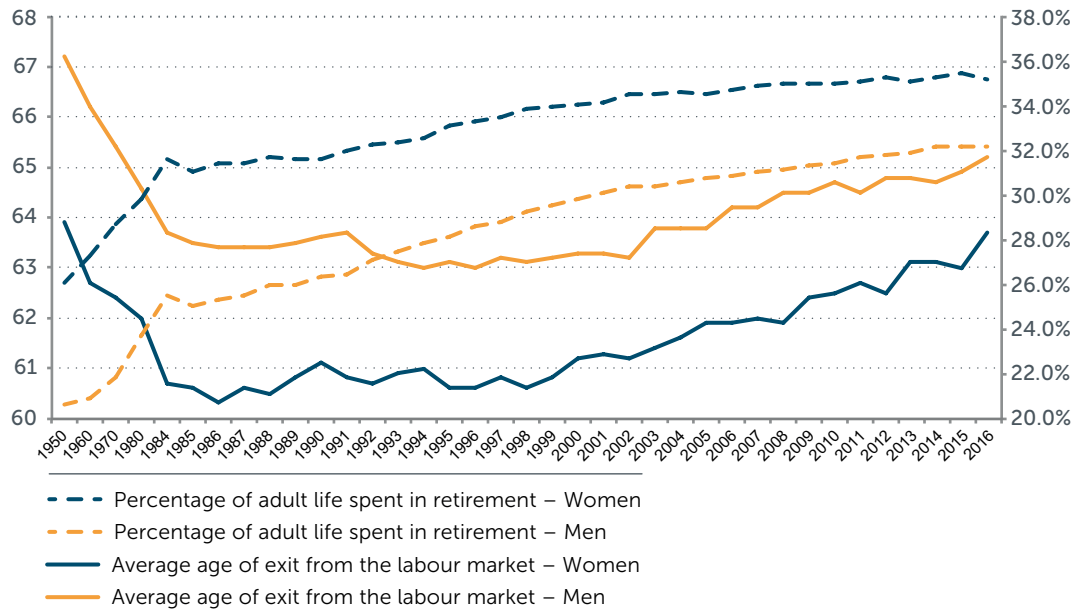
If we cannot design a system of support that enables the majority of people to interact with State Pension age in a positive way, we will find that each State Pension age increase will leave more people trapped in the welfare system.

5.1 Progress so far

The good news is that during recent years more people aged 50 or over are working longer. In 1995 the employment rate for the 50–64 group was 57.2%, while in 2015 it was 69.4%.⁶⁸ Nevertheless, in 2015 only 40.2% of women aged 60–64 were working and 58.5% of men. Participation in the labour market drops below 50% at age 64 for men and age 62 for women but this is later than it was in 1995 (age 63 and 59 respectively). The average age of exit from the labour market – which takes account of people who work later – has increased over the past decade, showing a similar trend to labour market participation.

⁶⁸ DWP, July 2016, Economic labour market status of individuals aged 50 and over since 1984. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/546643/economic-labour-market-status-of-individuals-aged-50-and-over-since-1984.pdf

Average age of exit from the LM & % of adult life spent in retirement (1951–2016)



Source: DWP 2016 FWLs Evidence – Base & ONS 2015, 2014 – based Cohort Life Expectancy Projections

Although it has not yet reached the levels of the 1950s, from 1985 to 2009 (ahead of the equalisation of State Pension age for women), the average age of exit from the labour market increased by 1.8 years for females and 1.0 years for men.

Over the same time period, life expectancy increased for women and men by 4.5 years and 5.8 years respectively.

In terms of the overall economy, the benefits of working longer could be significant.



Approximately 1 million people have been made ‘involuntarily workless’ – pushed out of their previous job as a result of ‘shocks’, a combination of redundancy, ill health or early retirement ...The research also shows that if people aged over 50 are helped back into employment, it does not mean that younger people are ‘crowded out’ of the labour market. Helping older people back into the labour market could also lead to a potential £88 billion boost to the UK GDP. Most importantly securing employment for older people will transform their lives and offer them the opportunity of a brighter, more secure future... [ILC] estimate that, if the skills and abilities of the 50–64 age group were fully utilised and



the employment rate matched that of those in their 30s and 40s, UK GDP could be £88.4bn higher in 2014 (equivalent to an uplift of 5.6% of GDP)."

ILC and the Missing million

For an increasing number of people, work now stretches past their State Pension age. There are twice as many men and women working past (men's) State Pension age than there were in the year 2000, with 1.2 million people working past 65.

Redefining working age would clearly benefit the national finances and provide a new dynamic in the labour market. At an individual level, longer working is necessary for many people if they are to achieve the lifestyle they want when they are older.

5.2 Enabling Fuller Working Lives

Making a reality of fuller working lives will depend on a significant shift in the way that many people interact with the world of work as they get older.

Between 2014 and 2028, the number of people aged between 16 and 49 will rise by 0.5 million, while the number of people aged between 50 to 67 will rise by 1.2 million. By the mid-2030s, people aged over 50 will comprise half the adult population in the UK.

Increasing labour market participation of older workers further requires us to understand how attitudes will have changed in 20 to 30 years' time.

“

There is a general attitudinal shift towards less reliance on government support, more focus on individual responsibility to save for retirement, and greater knowledge of pensions (which rises with age). Younger cohorts expect to retire later, and are more receptive to flexible working patterns and fuller working lives, although acceptance is increasing across all generations."

BSAS

NatCen

We know that those coming up to State Pension age at that time are more likely to have debt including property commitments, have had multiple jobs and fragmented pension pots and be supporting elderly relatives.

We also know that attitudes are changing. The recent Employee Outlook research by CIPD that captures the current attitudes of working age people across the UK, confirms that:

- Employees today accept that they will have to wait longer until they retire or receive the State Pension. 37% of all respondents expected to work past 65 and the average estimate of those respondents' age of retirement was over the age of 69;

- 44% think that when they receive the State Pension is key in retirement decisions although some people are not sure when they will receive it;
- Many employees feel that employers are not ready for the needs of the over-65s. Only one in four employees think that their employer is ready.⁶⁹

The switch from Defined Benefit to Defined Contribution pensions will have a marked impact on the way that many people experience retirement and could be one of the key drivers to continuing working later in life.

5.2.1 Characteristics of longer working

It is worth noting that many older people who are working enjoy stable employment. More than half of those in employment in their 50s and over three-fifths of those in employment in their 60s have been with their current employer for more than 10 years. For those over age 70, half have been with their current employer for more than 20 years.⁷⁰

By contrast, recent analysis of ELSA⁷¹ by the Institute of Fiscal Studies shows that of 50–69 year olds, those with fewer qualifications and those in lower income groups are less likely to re-enter the labour market if they are out of work. They are also more likely to exit the labour market if they are in work and are less likely to change jobs if they are in work. These differences are more marked for men than for women.

There is also some evidence to suggest that older workers reduce their hours but remain with the same employer in the same type of employment. As an example, data from the Labour Force Survey over the last 5 years suggests around 150,000 people per quarter move from full time to part time work and most, 140,000, continue to work for the same employer and use the same skills in the part time position as they did in their full time position.

The analysis of ELSA also indicates that workers in low socioeconomic groups and those in poor health show less evidence of being able to vary hours without changing employment. Those moving jobs are 12 percentage points more likely to reduce their hours than those remaining in the same job. Similarly, those changing job and employer are 18 percentage points more likely to reduce their hours and those choosing self-employment are 24 percentage points more likely to reduce their hours.

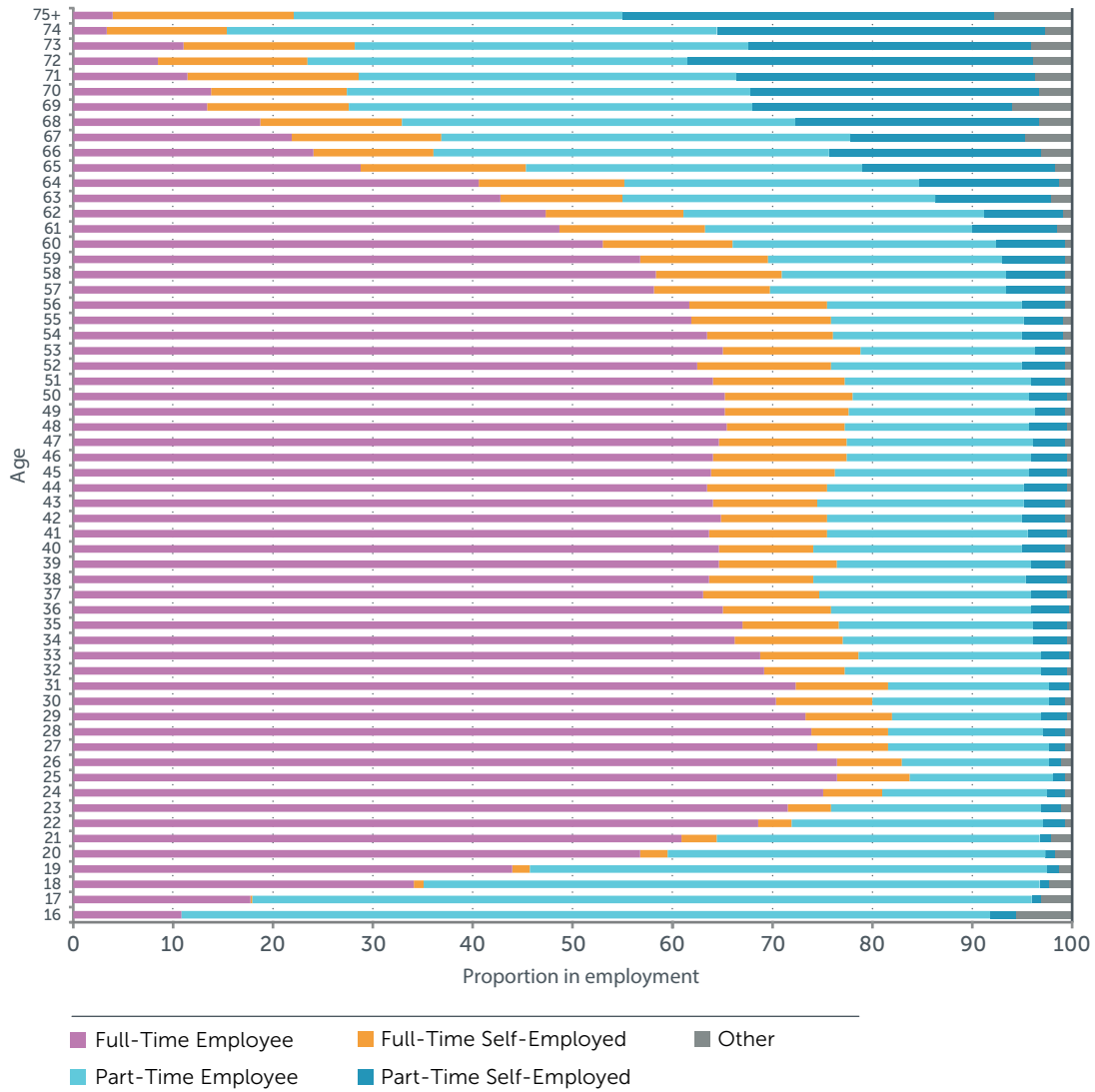
The chart below shows how employment type varies by age.

⁶⁹ CIPD, 2017, Employee Outlook: Employee views on working life, Winter 2016–17

⁷⁰ ONS APS 2015

⁷¹ IFS The dynamics of ageing: Evidence from the English Longitudinal Study of Ageing 2002–12 (Wave 6). Available at: <http://www.ifs.org.uk/publications/7411>

Employment type by single year of age



This shows the importance of self-employment and part-time work for older workers. While full-time employment makes up the majority of workers for most age groups in the working age population, this begins to reduce from the mid 50s age group and falls below half of employment in the early 60s. From age 66 onwards, the majority of those working are working part-time, with a significant proportion opting for self-employment. This suggests flexibility in the labour market is important for keeping older workers in employment.

5.2.2 Disengagement from the Labour Market

We know that a significant proportion of people disengage from the labour market in advance of State Pension age. Between the ages of 50 and 64, there are 3.6 million people out of work, who are economically inactive or unemployed. Some of those people will be reliant on private pension income or a partner’s income. Others will rely on the welfare system for support.

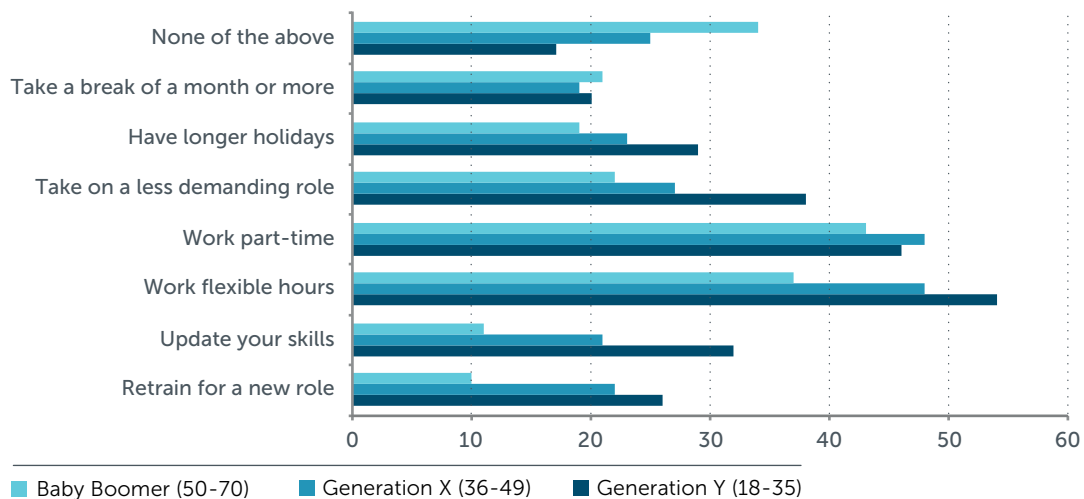
Looking at people aged 60–64, around 10% are on means-tested income replacement benefits (9% on Employment and Support Allowance and 1% of 60–64 year olds are on Jobseekers’ Allowance). This is a significant proportion of people to be reliant on welfare benefits. If employers and the Government do not take steps to help more people into work, we would expect this proportion to grow as State Pension age increases.

Drawing from survey data, we described in the interim report the main reasons why people say they disengaged from the labour market. From the ONS’s Annual Population Survey (March to April 2016), over 27% of people below State Pension age left their last job to take early retirement. Around the same proportion of people left their last job because of health reasons. The next most common reasons were redundancy (11%) and giving up work for family or personal reasons (9%).

As the Centre for Ageing Better put it, for some the push factors for leaving work are stronger than the pull factors for remaining in work. This is what we need to address.

We also have evidence on what people think would help them to work longer based on evidence from the British Social Attitudes Survey, a 2015 survey of people in employment.

Things that would encourage people, currently in employment, to work longer before retiring by generation (Number of Respondents 1437) / Respondents could choose more than one question.



Source: DWP Analysis, Attitudes to working in later life: British Social Attitudes 2015

Across all generations, the opportunity to work flexible hours was the most commonly chosen option, with nearly half saying they would take this up to help them work longer. A similar proportion would take up part-time working, while 30% would seek a less demanding role. This is consistent with what people actually do. As the figures on employment type provided earlier show, part time work and self-employed work make up the majority of employment from age 60 onwards. This suggests people will work longer if

they have some say in what they do and when. However, it is worth noting that one in four respondents said that they would take up none of the options listed to help them work longer before retiring.⁷²

If we look at the breakdown by generations in the chart above, we can see that younger generations are more likely to value flexible working opportunities such as flexible hours or working part time, and much more likely to want to retrain or update their skills. Both Generation X and Generation Y are less likely than Baby Boomers to say that none of the options provided would encourage them to work longer. This is important for our Review, as changes we make to the State Pension timetable will affect later generations.

The evidence above suggests that providing these options could have a measurable impact on the number of people choosing to stay in work up until (or even past) State Pension age. The majority of respondents reported that they would not want to work past age 65, with 64% of people in Generation X disagreeing or strongly disagreeing with the possibility of working past the age of 65.

However, results from 2010 indicate that when people are given the opportunity to work flexibly, including working fewer hours, shorter weeks or just part of the year, they respond positively to the question of whether they would work past 65. This holds for all 3 generations, with Generation Y and people aged 66+ presenting the highest percentages of agreement, 61% and 75% respectively.

A survey by Prospect is also useful here. Surveying their members aged up to 55, they found that whilst only 23% believe that they can carry on in their current role until the State Pension age, 62% believe that they could carry on in a different role up to the State Pension age and 35% believe that they could work on beyond State Pension age.

The evidence above, which is supported by other research in this area,⁷³ shows that additional flexibility at work is key to keeping people engaged in the labour market for longer. Many people want a smoother transition between work and retirement, which may involve reducing their hours or the demands of their role in the years approaching retirement.

72 In a recent British Social Attitudes Survey, respondents who were currently employed were offered a list of things that their employer could do to help them keep working, and asked which they would take up (note: respondents could select all that applied; there were 1,437 responses to this question).

73 Aegon Center for Longevity and Retirement, 2016, A Retirement Wake-Up Call: The Aegon Retirement Readiness Survey 2016, Aegon; The Prince's Initiative for Mature Enterprise and International Longevity Centre, The Mission Millions: Illuminating the employment challenges of the over 50s.

5.2.3 Supporting older workers

In this section we describe the Government's programmes for encouraging older people to work, how we can support people who would otherwise fall out of work because of burnout and how people can be helped to maximise their potential in the workplace by actively reviewing their working lives and by re-skilling and by passing on their skills.

The Department for Work and Pensions's *Fuller Working Lives: a Partnership Approach*⁷⁴ and DWP's and the Department of Health's *Improving Lives – the Work Health and Disability Green Paper*⁷⁵ are recently published action plans to support greater labour market engagement. The fuller working lives agenda focuses on older workers, while the improving lives agenda focuses on people with disabilities and people with health conditions – many in this group will be older workers.

A Partnership Approach presents 10 recommendations to employers identified by employers themselves, which focus on building the business case for older workers. The Secretary of State for Work and Pensions has also appointed a new Business Champion for Older Workers to actively support the engagement and retention of older workers.

DWP and the Department of Health are, through the *Improving Lives Green Paper*, consulting on "What will it take to transform the employment prospects of disabled people and people with long-term health conditions". The Government describes how there is an employment gap of 32% points – with only 48% of disabled people in employment compared to 80% of non-disabled people – and its ultimate intention of halving this gap.

Both strategies focus on interventions at an individual level. For example, *A Partnership Approach* described ways to increase the take up of sector based work academies by older workers, and *Improving Lives* described the development of Personal Support Packages which will introduce people, including those with limited capability, to a wider range of support.

The strategies depend on employers adopting and inventing different ways of working and sharing best practice. This is the right approach to address a demographic shift because it is in the interests of employers and individuals to respond to the changing landscape.

⁷⁴ Department for Work and Pensions, 2017, *Fuller Working Lives: A Partnership Approach*

⁷⁵ Department for Work and Pensions and Department for Health, 2016, *Improving Lives: The Work, Health and Disability Green Paper*

5.2.4 Burnout

In our interim report we asked for evidence on whether “burnout” is an issue in some job roles and how best we could take this into account.

There are conflicting views around the definition of “burnout” and how it should be understood, although most agree it is associated with some level of excessive physical and/or emotional demands in certain job-roles.⁷⁶



[Burnout is] a prolonged response to long-term emotional and interpersonal stressors on the job. The key dimensions of this response are overwhelming exhaustion, feelings of cynicism and detachment from the job, a sense of ineffectiveness and a lack of accomplishment.”

Public Health England⁷⁷



Public Health
England

It is worth noting that in our consultation, respondents often seemed to understand the term more broadly as encompassing someone who could no longer carry on with their job. This could include people who may feel the impact of physical or mental “wear” from having a long career which makes repeated demands on specific physical and mental resources. Although this may not fit within the precise medical definitions of “burnout”, the issues and solutions are often broadly similar and we will discuss these issues together here.

“Burnout” was an issue most commonly raised in relation to some manual occupations, teaching and health care. It is uncommon to see a car production worker in their 60s, and challenging to be a nurse in their 60s on the A&E night shift, for example, although some older workers will do this.

Suggested measures to prevent burnout included:

1. Ways employers could create more supportive workplaces to prevent burnout from occurring, such as occupational health support;
2. More flexible hours to reduce work pressures or respond to caring responsibilities;
3. Provision for workers affected by or at risk of burnout to transition into a different role within the same employer or other adjustment to their working patterns;
4. Help with the option to pursue a completely new job or career; or
5. Some other adjustment.

⁷⁶ Waddell, G and Burton, K, 2006, Is work good for your health and wellbeing?, TSO

⁷⁷ Public Health England, 2016, Interventions to prevent burnout in high risk individuals: evidence review

The majority of proposed solutions were proposals for employers, such as increasing options for flexible working or better occupational health provision. The TUC, supported by a number of other unions, suggested more statutory measures to prevent burnout, such as giving workers the right to retrain or paid time off to learn new skills.

In order to enable fuller working lives to be possible for the greatest number of people, it will be important for employers to recognise the risks of burnout amongst their workforce and help to prevent and address them.

5.2.5 Supporting carers

The challenges faced by carers have some similarity with those faced by working parents with children, such as:

- Having two priorities which have to be balanced and can conflict;
- Needing confidence in both work and care arrangements;
- Needing flexibility, especially when faced by emergencies;
- Sometimes needing to step out of the labour market for a while to care full time, and later facing the skill and confidence challenges of re-entry.

Working parents and especially working mothers fought hard over the last generation to establish necessary statutory maternity rights and to build up experience of what works. As the need for family eldercare grows we can learn a lot from the lessons of childcare and apply it so similar battles do not have to be fought again.

CIPD research showed that only 3% of employers who responded to their survey had specific eldercare policies covering the range of support provided to carers. While around 30% said they proactively promote flexible working options which could be of benefit to carers, the fact that so few employers have a dedicated eldercare policy suggests there is still work to be done to ensure that carers' needs are prioritised.

We recommend that all employers have policies in place to support people caring for elderly parents or relatives. An increasing number of them will find it difficult to avoid taking these demographic changes into account when they design their HR policies, because of skill shortages.

5.2.6 Statutory Carers' Leave

Fuller Working Lives: A Partnership Approach highlighted the crucial role of supportive employers in enabling people to fulfil caring responsibilities without suffering disadvantage in the workplace. To this end Carers UK have proposed that Government should introduce a statutory entitlement to at least 5 days paid leave (and to look at longer periods of unpaid leave) to allow carers to cope with emergencies and with supporting the people they care for through the various interventions that are associated with people who have ill health or disabilities.

Government could lead the way in shaping the new culture required for the ageing workforce of the future. In the same spirit as Statutory Maternity Leave in the 80s, we will need a similar scheme in the future, perhaps called Statutory Carers' Leave.

Such a scheme can be based on the Statutory Sick Pay model – for perhaps up to 5 days – to enable informal carers to provide emergency care that they can fit around their work. The beneficiaries of the scheme should be working people with the same qualifying criteria as currently required for the National Insurance caring credit, ie 20 hours care per week or more. Clearly there will be design challenges in delivering this change, such as verification of the need for paid leave and the impact on business etc, but these would be offset by the additional support meaning that carers remain in work and can continue care for those close to them. We recommend that the Government introduce a system of Statutory Carers' Leave for people with caring responsibilities. This should be introduced as soon as possible, but at least 10 years before the increase of State Pension age to 68.

5.3 Mid-Life MOT

It has in recent years become the norm for people in mid-life to be offered a health check. This is sensible but however important, health is only part of the story of ageing. We have come a long way from the old cliff edge of retirement when work stopped on a set day. Now many people make a gradual longer transition from one form of work to another, be it paid or volunteering, caring or hobby, part time or flexible. As we live and work longer, many people now have more options and can make more choices.

Yet there is relatively little help available in making those choices. There is some financial advice targeted at better-off savers, and more recently, several Government initiatives aimed at improving access. Financial choices are certainly important but they are often a consequence of lifestyle choices rather than an end in themselves. There has been some consideration of mid-life career reviews and this paints on a bigger canvas of work interest, skill and capability; but career is only one part of the equation, and compared to younger life, a less dominant one.

At the heart of all this are lifestyle choices. Not everyone will either want or need help, but in twenty years' time it is likely that more people would benefit from such help being available. Here are the sort of questions which we will need to answer in our late 50s and early 60s, either by ourselves, in our families, or with external input.

- What do I want to do in the coming years?
- What does my partner want to do (if applicable)?
- What balance do I want between family and career, leisure and work?
- Who do I need to help care for in my family?
- Where do I want to live and in what kind of accommodation?
- Do I want a different job?
- Do I want to volunteer?
- Do I want to work different hours?
- What skills do I have, and what skills do I need to acquire?
- What income will I need to do all this?
- How will my income be balanced between savings, pensions and wages?
- What do I need to do with my pensions?
- When can I take my pension?
- How does this fit with the household income?
- Do I want to, or need to, work after I get my pension?

This adds up to a kind of mid-life MOT.

We have noticed that there is often no natural trigger point which encourages people to do this, which may mean people consider their needs too late. For example, if someone in a physically demanding job realises in their early 50s that they will not be able to carry on working in the same role up to State Pension age, it may be easier for them to transition to a new form of employment than if they wait until they are in their 60s and can no longer go on.

The Mid-Life MOT can act as a useful trigger to encourage people to take stock. We recognise that different people will have different needs depending on their circumstances. For some, a light-touch approach will be sufficient, through the provision of appropriate information. Others may need more personalised and in-depth support, for example if they have complex health needs or if they have a lower skill level and so may need more support navigating employment opportunities.

The Government has led some work in this area. The Learning and Work institute ran a pilot, funded by the then Department for Business, Innovation and Skills, providing Mid-Life Career Reviews through a number of organisations. The pilot demonstrated that the Mid-Life Career Review was a useful tool in helping older people return to employment, find appropriate training, make realistic decisions about extending their working lives and improve their health and wellbeing. Crucially, the key to running successful Mid-Life Career Reviews was found to be taking a holistic approach. The Review had to be not just about the person's employment prospects, but about their whole life, taking into account their financial situation, life expectancy, and health.

For these reasons, we have broadened the Mid-Life Career Review into a Mid-life lifestyle MOT.

We believe there is a gap in existing provision for a holistic later life review. The majority of online careers advice we have observed is targeted at young people, which is often not directly transferable to older people. As a first step, an online Mid-Life MOT could allow people to consider their existing plans, as well as provide signposting and guidance on where to get more help. We have noted with interest the ongoing work to create a Pensions Dashboard to allow people to view their pension entitlements online. This could be an ideal home for the online Mid-Life MOT. It is likely to be accessed by our target age group, which would be roughly the over 50s. We should not be encouraging people to consider their pension entitlements in isolation, but rather helping them to think about how employment can support their aspirations as they approach retirement and beyond. Incorporating a lifestyle diagnostic into the pensions guidance offered through the Pensions Dashboard would help people get the information they need to make informed decisions about pensions and retirement.

In addition, we understand that some employers are using Mid-Life Career Reviews, which is a sign that employers are already responding to the changing needs of their ageing workforce. Some employers, such as Age UK and Aviva, are offering or trialling Mid-Life Career Reviews with their employees. The consulting firm Mercer has developed a portal for employees which provides support and information on a wide range of issues related to ageing and caring. We believe that using an employer-led Mid-Life Career Review to make sure the employment is right for the employee in the decade approaching retirement can bring benefits for both the employee and employer. For employees, it is an opportunity to ensure that they are in suitable employment which provides the right support in terms of health, caring and finances. For the employer, it is an opportunity to engage and retain valuable older workers. Employer involvement may be particularly helpful for people working in specialised occupations. We would encourage employers to incorporate Mid-Life Career Reviews into their normal HR practices. As current trials progress, best practice examples will emerge which employers can use as a template.

However not all employers will offer Mid-Life Career Reviews and on a practical level many employees may wish for an independent assessment.

The National Careers Service already provides information, advice and guidance across England to help people to make decisions on learning, training and work. It was one of the organisations which ran a Mid-Life Career Review pilot, as mentioned above, and has since embedded the lessons from the pilot into its practice. Its latest evaluation report shows around 55% of customers see employment progression following their contact with the National Careers Service, while around 68% see learning progression.

We propose that the Government should now take this work one step further. We recommend that the National Careers Service develop, test and implement a national Mid-Life MOT programme and that the devolved administrations consider similar arrangements. Work on this should begin immediately.

5.4 The contribution of older workers as trainers

In recent years we have seen something of a sea change in employer attitudes to the contribution of older workers. Rather than facilitate early retirement, or presume that the pension age is an automatic end to working life, there is increasing recognition of the need to retain the skills and productivity of older workers. There is also growing understanding that with an ageing population, older workers are essential to tackling skill shortages.

But this is not to say that older workers do not face challenges. Skills can degrade, employees can 'slow down', and they can face barriers in the labour market. DWP research suggests this is now most likely when an older worker seeks a new job.

As older workers move towards pension age some of them will want, or need, to change their role to some extent. This may be to minimise job characteristics which are becoming more difficult like manual labour or job intensity, and to maximise what they are best at, such as product knowledge and experience. Good workplace practice should help to make this possible. In the days of manual work it was once described as moving to lighter duties, but it is, of course, now much more than this.

The Fuller Working Lives Strategy is seeking to make better use of the productivity of older workers. There is one 'win win' which should be exploited more in future. Government, employers and individuals have a shared interest in improving skills and the country is seeing a significant expansion in apprenticeship numbers. The best kind of apprenticeship training is in the workplace with a trainer who has first hand experience. Older workers are often ideally positioned to be apprenticeship trainers and mentors, a role which respects and utilises their skills and experience, and which helps to raise productivity amongst younger workers.

The review recommends that the Government links its apprenticeship strategy with its Fuller Working Lives Strategy. Employers and Government should work together whilst employers redesign job descriptions for some older workers, in order to focus on their roles as mentors and trainers in their businesses and reskill them to perform these roles. This would be in addition to the initiatives already proposed in the Fuller Working Lives Strategy designed to make sure that older workers continue to have the skills they need, given the current pattern of fewer older workers being learners. Work on this should begin immediately.

5.5 Flexibility within a universal State Pension age

Underlying the representations we received on early access to State Pension, was the position of older people who are excluded from the labour market because of ill-health, caring responsibilities or other significant barriers and will have to live longer in poverty if State Pension age increases.

The position is that at State Pension age the poorest pensioners would be entitled to Pension Credit of £155.60 – a weekly amount the Government does not believe pensioners should live below. However, people just below State Pension age, and sometimes in very poor health or who are full time carers – can have a weekly income of less than this amount. Some of them will also have limited personal savings or other wealth to fall back on. As we point out in the Interim Report, the weekly gap in income can be significant.

It should be noted that means-tested benefits have, until only recently, recognised that people aged 60 and over, but below State Pension age, have particular challenges. Apart from the last seven years, during which the entry point to the pensioner means-test is set to equal State Pension age, there had been special regard in the Welfare State to people just below State Pension age. From 1988 in Income Support until 2010 in Pension Credit, access to the pensioner means-test was linked to age 60 and was not conditional on incapacity, caring responsibilities or job-search. The Pension Commission also noted concerns over the position of such older people and proposed unconditional access for this group to the pensioner means-test if there had been little improvement in life expectancy inequality.



...Beyond 2020, however, and particularly if there is no sign of the differences in life expectancy by socio-economic class reducing, there is a good case for keeping the earliest age of Guarantee Credit, at least initially, at 65 even as the SPA rises, and for thereafter keeping the earliest age of Guarantee Credit eligibility, say, two years below the SPA. ...It would, however, reduce incentives to work in the period between Guarantee Credit availability and SPA. Given, however, that such reduced incentives would only apply for say two years, and would only be applicable at fairly low levels of income, this might be an acceptable price to pay to ensure that the lowest income groups with lower life expectancy would, if they wanted to, be able to access state pension benefits slightly earlier than others. We believe this option should be considered as and when the SPA is increased."

The Pensions Commission

5.5.1 Working age conditionality

The current Welfare System is designed to provide a hard-edge transition from working age to pension age, which will increasingly be out of touch with how people approach older age working and retirement. By 2028 the main working age welfare benefit will be Universal Credit. This is designed to provide incentives to work and maximise claimants' engagement in the labour market. The conditionality policy for Universal Credit is also designed to allow for some flexibility at the discretion of personal work coaches but it does not provide for flexibility on conditionality based on age.

Through our consultation and stakeholder conversations across the UK we heard that this is a difficulty for many people, especially in areas such as Blackpool where available full-time and all year round work is limited. Such areas may also have a higher concentration of older workers who approach retirement with more complex needs and less wealth of their own.

The cliff-edge between working age and pension age for those groups is particularly unforgiving. Recognising the need to smooth the transition into retirement, we could create a more age-responsive system through redefining the conditionality for older job-seekers who qualify for means-tested support. Such a system would formally acknowledge that those out-of-work claimants who are within five years of reaching State Pension age could have their conditionality requirements adjusted so that they can only be required to find part-time work, without being penalised for doing so.

For older claimants who are in work, Universal Credit may expect them to take steps to increase their hours or their earnings if they are working part-time. We believe that the system should be more flexible in allowing older workers approaching State Pension age to work part-time. This is already the case for Working Tax Credits, where people over 60 are eligible for support even where they work, on average, for 16 hours (well below the general 30 hours rule). We recognise that the in-work conditionality of Universal Credit is still under development and the Review's recommendation is that this proposal for flexibility should be included in the design of Universal Credit as it evolves currently. It would need to be in place, at the latest, by the point at which State Pension age rises to 68, in order to fulfil its mitigation objective.

5.5.2 Means-tested support

At the heart of this Review is a plan to redefine working age with the expectation that most people will work up until State Pension age and beyond if they wish. Redefining working age in this way is good for the economy and good for most people. However, to reconcile a position where more and more older people will work but with poverty being a characteristic of people in disadvantaged groups associated with older age, we set out a proposal here for allowing access to a means-tested pension benefit at age 67, when the State Pension age rises to 68.

This benefit should be lower than the State Pension amount, by a margin, and it should last only 1 year until the recipient can claim their full entitlement of the State Pension at the State Pension age. The amount should resemble the Pension Credit as it is currently, although we appreciate that in 20 years' time the welfare system may have evolved differently to its current state.

We expect that the eligible recipients of this benefit will have significant barriers to any level of employment because of ill health and/or caring responsibilities for a long period of time before reaching the State Pension age. They will also have insufficient household wealth to support themselves while waiting. We also expect that these groups of people are more likely to have a lower life expectancy than average and therefore would expect to receive the State Pension for a shorter period than average.

This benefit should continue to precede State Pension age by one year from then on. Access to this benefit should be conditional on an inability to work for reasons such as long-term caring and ill health.

A reasonable assessment of eligibility would include either:

- Long-term out-of-work full time carers: the criteria can be long-term receipt of Universal Credit on an out of work basis where a carers element (or Carers Allowance) is also payable; or
- Long-term out of work people with ill health: long-term receipt of Universal Credit on an out of work basis with a Limited Capability for Work-Related Activity element.

We appreciate that the system will evolve and change in the next 20 years so our references to Universal Credit and its relevant elements should be taken as an indication of the criteria that should enable an individual to access this new benefit. In addition we do not think that all individuals at age 67 should be able to immediately access this new benefit as soon as they become ill or take on significant caring responsibilities. Rather we would suggest that 2 years should be taken as an appropriate benchmark and this is our definition of 'long-term' in the eligibility criteria above.

We evaluate the cost of this measure would be around £150 million a year in today's prices. This is only an approximate cost, based on the current Pension Credit rate and using May 2016 DWP information. Specifically, we used caseloads for people aged 60 to 64, who are on means-tested benefits and are not expected to work due to illness or disability or are carers. It is likely to be a small fraction of the savings resulting from the State Pension age changes, which are up to 0.4% of GDP a year prior to the rise in State Pension age to 68 under the legislated timetable.

We recommend that the Government introduces this measure from the beginning of the timetable that increases State Pension age to age 68. This means that means-tested access to pension income will remain at 67 and will continue to lag a year behind for rises thereafter.

We must also recognise that some people approaching State Pension age, even in the future, are more likely than others to get left behind and this modest mitigation can help them to experience a smoother transition to a new State Pension age.

5.6 Supporting people over State Pension age to work

Some 1.2 million people over State Pension age are working now and in doing so they will be better off and help to increase our national wealth. There are a host of reasons why people work on past State Pension age or not – and the key to initiatives in this area is to support choices about working longer and respect the position of those who are happy in retirement.

5.6.1 Deferrals

Deferring State Pension entitlement allows people to work past State Pension age and to grow their pension at the same time. The current arrangements enhance the state pension that will eventually be payable by 1% for every 9 weeks that the pension is deferred. These "increments" will uplift the new State Pension by around 5.8% a year.

Increments are likely to be a poor choice for low paid people considering deferring – as a rule of thumb someone aged 65 would not get their money back through deferral until they are into their 80s. These arrangements need to be reviewed so that deferral provides the low paid with opportunities currently more feasible for the better off. Taking a lump sum at the end of the deferral period, made up of the deferred State Pension amount plus an uplift, may be a better option, as people do not have to wait until their 80s to see the benefits. For this reason we recommend that the Government enable people to benefit from deferring by taking a lump sum.

5.6.2 Partial retirement and draw down of State Pension

In our summary of why workers withdraw early from the labour market, one of the key requirements to continuing engagement is a preference for older workers to reduce their working hours. For a number of reasons, many older workers want a smooth transition from work to retirement. A typical scenario would be where an older worker and their employer agree to restructure their job; perhaps moving from 5 days a week to 3 days and where older workers who want to reengage look for work offering similar patterns of employment.

Clearly a key issue is affordability – the older worker reduces their hours but also their earnings. Some employers who sponsor Defined Benefit pension schemes offer the option to blend earnings and pension so that take home pay can be the same post partial retirement as pre partial retirement. These arrangements can be particularly attractive where scheme retirement age is below State Pension age – where members have already banked adequate retirement income and can have the best of the world of work and a secure pension income.

Similarly, people with Defined Contributions pensions (or with non-pension savings) can partially draw down from their capital to subsidise their wages. People and households will often have a mix of pension provision which can give them great flexibility over employment options. We now recommend taking this one step further and ensure that the State Pension supports partial retirement post-State Pension age.

For example, after State Pension age someone could drawdown half their new State Pension to subsidise their wages and leave the other half to grow through the deferral arrangements. We recommend introducing this into the State Pension and believe that it would offer overall value to the taxpayer. We believe that those reliant on State Pension should be able to benefit from the same kind of flexibility available to those with private savings, and that it would be an incentive to work beyond the State Pension age.

Both of the measures described above (deferrals and partial draw down) should be introduced as soon as possible, but at least 10 years before the increase of State Pension age to 68.

5.7 Other impacts

In the interim report we described how changes in State Pension age have an impact on both the social security system and private pensions. Here we note representations we have received.

5.7.1 Private pensions

In response to this Review, the Pensions and Lifetime Savings Association conducted a survey of their membership in order to understand the implications of any change to the State Pension age timetable. Around 4 in 10 of their members had a pension scheme which had a link to State Pension age. The main interaction concerned bridging pensions – where some occupational pension schemes pay, as part of the scheme benefits, a bridging pension based on the basic State Pension, between scheme pension age and State Pension age. At State Pension age the bridging pension is withdrawn, to be replaced by the State Pension. If the bridging pension is linked in scheme rules to a defined State Pension age – for example age 65 – but State Pension age increases, then scheme members will lose their bridging pension with no State Pension in payment to replace it.

Representations have been made to us which note the position and emphasise the need for those schemes to consider these impacts, as well as communicate them to their members.

The Pensions and Lifetime Savings Association’s survey, perhaps not surprisingly emphasised the merits of certainty.



[Our] respondents were asked to rank the impact of five different scenarios on their scheme. The results revealed noticeable differences. Members were much more likely to say that a scenario entailing a single state pension for everyone, fixed at current levels would have no impact on their schemes than any others (73%). The most disruptive changes were the introduction of a variable State Pension age which 31% of schemes said would have a major impact, followed by an actuarially-adjusted flexible State Pension age which 22% of schemes said would have a major impact on the operation on their scheme.”

The Pensions and Lifetime Savings Association

The logo for the Pensions and Lifetime Savings Association, featuring the text "PENSIONS AND LIFETIME SAVINGS ASSOCIATION" in white, uppercase letters on a red rectangular background.

**PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION**

5.7.2 Public sector pensions

During our consultation we heard from representatives of members of public sector pension schemes who were concerned about the impact of increases in State Pension age on occupational scheme entitlement. The majority of public sector pension schemes now have a Normal Pension Age which is linked to State Pension age, which means that changes to State Pension age will be reflected in those schemes.

The Review recognises the importance of this for those concerned. However, as with other occupational pensions, the impact on public sector pension schemes should not be a driving factor behind State Pension age recommendations.

HM Treasury announced during the passage of the Public Service Pensions Act 2013 that they will review the link between State Pension age and public sector pension schemes, after the Government has completed each State Pension Age Review. So we expect that if the Secretary of State decides a change in State Pension age, HM Treasury will consult on the impact on Normal Pension age for such schemes.

5.7.3 Social Security system

Apart from the pensioner benefit proposal set out in 5.5.2, we have made an automatic assumption that a change in State Pension age will affect the start of entitlement of all other pensioner benefits, as it has done in the past. This is also what OBR calculations assume. However we have made no assessment of any impacts related to this assumption, as these are outside the scope of this Review. We also take no view whether support with rent, mortgage interest and council tax should continue to be tied or not to the State Pension age point.

This is because these welfare provisions have a different policy intent to the State Pension and are designed to address specific issues. Therefore we have not attempted to apply the same criteria on setting a starting point of entitlement, as we do with the State Pension age. However, we recognise that this link has been long-standing and responds to the increase in longevity in the same way.

5.8 Communications

Good communication lies at the heart of any successful State Pension age strategy. To plan effectively for retirement, people need to understand what they will get from the State Pension and when. As part of enabling people to have fuller working lives, workers below and above State Pension age need to know the financial benefits of working longer: the impact on their take home pay, the impact on their state and private pensions and the implications on housing support, on tax and on National Insurance.

5.8.1 Contribution credits

The review recommends that the Government should take steps to ensure that people can build as much State Pension as they can. This is particularly important for people who miss out on National Insurance credits. Some credits are awarded on application rather than automatically and more needs to be done to promote awareness of:

- **Child Benefit credits:** National Insurance credits for people with underlying Child Benefit entitlement but excluded on overall household income
- **Specified Adult Childcare credits (or 'grandparents' credits):** Credits available for grandparents or other family members who care for children under 12.
- **Carers' credits:** Credits available for those caring for 20 hours or more.

There is evidence that take up is much lower than it could be, and remedying this would help those affected to cope with a later retirement age.

5.8.2 Planning ahead

People will need support to take responsibility for planning for their own retirement. We welcome the development of the Pensions Dashboard, which should create a simple way to understand future retirement income. As discussed previously in this chapter, understanding how work can support retirement plans is an important part of retirement planning. Although we appreciate it is in the early stages of development, we support including a mid-life MOT as part of the Pensions Dashboard.

5.8.3 Communicating future change

We are now in an era of regular reviews and potential changes to the State Pension age. Government needs a clear strategy to communicate those future changes, particularly because they will be defining working age in a completely different way to that of the past.

Those whose State Pension age is fixed need to have access to clear information on when they will be able to draw their State Pension. For younger generations, whose State Pension age will be subject to future reviews, this should be made clear to them to avoid future confusion by giving a window of likely State Pension ages.

Government has a responsibility to communicate directly with each of those affected by necessary changes to the State Pension age. In addition, the Government should seek to use its partnerships with stakeholders to reach a wide range of people.

5.9 Future path

In this report we commit to a universal State Pension age across the UK which should increase to reflect changes in life expectancy. To this end, we recommend:

- State Pension age should rise to age 68 over a two year period starting in 2037 and ending in 2039;
- State Pension age should not increase more than one year in any ten year period, assuming that there are no exceptional changes to the data.

If additional savings are needed, we recommend that the triple lock is withdrawn in the next parliament.

In Chapter 3 we discuss groups who can suffer disadvantage as a result of an increasing State Pension age. We believe that some of the funding released by changes in State Pension age and other aspects of the State Pension system should be re-invested to support disadvantaged groups:

- We recommend the main means-tested benefit for pensioners is set one year below State Pension age, from the point at which State Pension age increases to 68, for people who are unable to work through ill health or because of caring responsibilities;
- We recommend that the conditionality under Universal Credit should be adjusted for people approaching State Pension age. This should be included in the design of Universal Credit as it evolves currently. It would need to be in place, at the latest, by the point at which State Pension age rises to 68, in order to fulfil its mitigation objective.

The Government through their Fuller Working lives programme are committed to keeping older people in work. We believe that there are measures which can assist this process by making modest changes to the benefit system:

- We recommend that people who defer their pension should be rewarded through a lump sums (of capital and interest);
- We recommend that people over State pension age should be able to part drawdown their State Pension, leaving the balance to benefit from the deferral arrangements.

These should be introduced as soon as possible, but at least 10 years before the increase of State Pension age to 68.

During the Review process there have been a significant number of representations on the crucial role of carers in supporting people in ill-health or with disabilities. We believe that employers and the Government should do more to help carers who have to balance work and caring responsibilities:

- We recommend that all employers should have elder care policies in place which set out a basic care offer;
- We recommend that the Government introduce a system of Statutory Carers' Leave for people with caring responsibilities. This should be introduced as soon as possible, but at least 10 years before the increase of State Pension age to 68.

In the future most people will have to work longer – the old certainties for some of full time work, a company pension and retirement in their early 60s will be replaced by more flexible and later working as people think long and hard about the adequacy of their pension in retirement. The following measure will help support that process:

- We recommend that people should be able to access a mid-life MOT and that this should be facilitated by employers and by the Government using online support and through the National Careers Service;
- We recommend that the Government and employers should make more use of older workers as apprenticeship trainers – passing on skills from one generation to the next.

Work on these should begin immediately.

Next Steps

The next Independent Review will be in place in the next Parliament and will have the information in this report as a baseline from which to work. The landscape will have changed to some extent by then, but to ensure that policies supporting State Pension age changes are firmly in place the next Review may want to consider:

- **Life expectancy** – the 2014 life expectancy projections indicated higher than expected mortality rates compared to the 2012 projections. Further information sets will provide evidence to substantiate whether the 2014 mortality rates were “off trend”;
- **Healthy life expectancy** – evidence will show whether healthy life expectancy has kept pace with life expectancy and enable a more informed assessment of whether there should be more emphasis on the role of healthy life expectancy when considering changes to State Pension age;
- **Pension outcomes** – the Review will have further information on the take-up of National Insurance credits and the barriers that mean that some people miss out on a full new State Pension. They will also have the findings of the auto enrolment review and will be able to consider the impact of increasing coverage;
- **BAME** – evidence will build on whether the BAME group are benefitting to the same extent as others in building workplace pensions;
- **Women** – there will be further evidence on whether progress in pension outcomes is maintained;
- **Carers** – further evidence will be available on whether more employers are sharing the practices of the best employers in relation to carer support and the role of the Government in providing practical measures to make sure carers stay in the workplace;
- **On older workers** – evidence will be available to monitor progress on the Fuller Working Lives strategy and the employment rate of those aged 50 or over and the employment gap between 50–64 year olds compared to 35–49 year olds.

Finally, we will be able to see the impact on older workers as the Government invests in their skills, as employers take action to design the workplace with them in mind, and where the mid-life MoTs described here enable them to make informed decisions about their future.

This Review has aimed to smooth the transition to retirement for tomorrow's pensioners. Working together, we have a duty to those who come after us to try and make the future both fair and sustainable.

Annex A

Stakeholder Engagement

Over the course of the Review we met with and received written evidence from a wide range of people and organisations.

We received over 150 responses to our Interim Report consultation which ran from October to December 2016. Including evidence we received outside of the formal consultation period, we had over 100 responses from individuals. We are grateful to everyone who took the time to engage with us.

We visited and/or held stakeholder events in Belfast, Blackpool, Cardiff, Edinburgh, Liverpool, London and Bern, Switzerland.

The list of organisations who contributed, either through meetings or in writing, includes the following:

Aegon
Age Northern Ireland
Age Scotland
Age Sector Platform
Age UK
Alzheimer Scotland
Association of Chartered Certified Accountants (ACCA)
Association of Consulting Actuaries Limited
Association of Independent Professionals and the Self Employed (IPSE)
Association of Professional Financial Advisers
Association of Teachers and Lecturers – Northern Ireland
Association of Teachers and Lecturers (ATL)
Association of British Insurers (ABI)

Aviva
Black and Ethnic Minority Infrastructure in Scotland (BEMIS)
Blackpool Against the Cuts
Blackpool Fylde and Wyre Trades Union Council (BFWTUC)
British & Irish Orthoptic Society
British Airline Pilots Association (BALPA)
British Dental Association
British Medical Association – Scotland
Business in the Community (BITC)
Carers Scotland
Carers Trust Scotland
Carers UK
Centre for Ageing Better
Centre for Policy Studies
Chartered Institute of Personnel Development (CIPD)
Citizens Advice Scotland
Civil Service Pensioners' Alliance
Club Vita LLP
Coalition of Carers in Scotland
Commissioner for Older People for Northern Ireland
Confederation of British Industry – CBI
Construction Industry Training Board (CITB)
Disabled Police Officers Association – Northern Ireland
Engineering Employers' Federation (EEF)
Eversheds
Fabian Society
FDA
Federal Social Insurance Office of Switzerland
Federation of Small Businesses
Federation of Small Businesses – Scotland
Fire Officer's Association
First Actuarial
Gender Identify Research and Education Society (GIRES)
General Municipal Boilermakers (GMB)
Government Actuary's Department (GAD)
Government Equalities Office
Government Office for Science
Hargreaves Lansdown
Health and Social Care Board
Hogan Lovells International LLP
Hymans Robertson
Imperial College London – Prof. David Blane

Inclusion Scotland
Independent Age
Institute and Faculty of Actuaries
Institute for New Economic Thinking (London) – Lord Adair Turner
Institute of Directors
Institute of Employment Studies – Dr Annette Cox
Institute of Epidemiology & Health, University College London – Prof. Jenny Head
Institute of Fiscal Studies (IFS)
Institution of Occupational Safety and Health
International Longevity Centre (ILC)
Irish National Teachers' Organisation
Joseph Rowntree Foundation
Labour Party
Libraries Northern Ireland
Local Authorities – England
Local Authorities – Northern Ireland
Local Authorities – Scotland
Local Government Association
London School of Economics – Prof John Hills
Lothian Pension Fund
Mercer Ltd.
NASUWT
National Association of Head Teachers (NAHT)
National Careers Service
National Employment Savings Trust Corporation (NEST)
National Institute of Economic & Social Research (NIESR)
National Pensioners Convention
National Union of Teachers (NUT)
Nationwide Group Staff Union
New Policy Institute
Newcastle University – Dr Matt Flynn and Prof. Carol Jagger
NHS Pension Advisory Board
NHS Scotland
NHS Working Longer Group
Northern Ireland Committee – Irish Congress of Trade Union
Northern Ireland Government
Northern Ireland Housing Executive
Northern Ireland Judicial Appointments Commission
Northern Ireland Judicial Pension Scheme
Northern Ireland Local Government Officers Superannuation
Northern Ireland Policing Board
Northern Ireland Public Service Alliance (NIPSA)

Northern Ireland Retired Police Officers Association
NOW Pensions
Office for Budget Responsibility (OBR)
Office of National Statistics (ONS)
Older People's Commissioner for Wales
Organisation for Economic Co-operation and Development (OECD)
Outside the Box
Oxford University – Prof. Dan Dennis
Pensions and Lifetime Savings Association aka NAPF
Pensions Policy Institute (PPI)
Police Federation of England & Wales
Prospect Trade Union
Punter Southall
Railways Pension Trustee Company Limited (RPMI)
Resolution Foundation
Royal College of Midwives
Royal College of Nursing
Royal London Group – Sir Steve Webb
Scotland Office
Scottish Government
Scottish National Party (SNP)
Scottish NHS Pension Advisory Board
Scottish Police Federation
Scottish Public Pension Agency
Scottish Secondary Teachers' Association
Scottish Seniors' Alliance
Scottish Teachers' Pension Scheme Advisory Board
Scottish Trades Union Congress
Scottish Widows
Society of Actuaries, New Zealand
Society of Chiropodists and Podiatrists
Society of Later Life Advisers
Sorooptimists
South Eastern Regional College
Standard Life
Teachers' Pension Advisory Board
TESCO
The Association of Independent Professionals and the Self Employed (IPSE)
The Convention of Scottish Local Authorities (COSLA)
The Educational Institute of Scotland
The Equality Trust
The Fire Brigades Union

The Intergenerational Foundation
The Lewisham Pensioners Forum
The Money Advice Service
The National Records of Scotland
The Pensions Advisory Service
The Police Federation of England & Wales and the Police Superintendents Association of England & Wales
The Royal College of Midwives – Scotland
The Society of Pension Professionals
Trade Union Congress (TUC)
Translink
Trust Housing Association
Unemployment Centre – Blackpool
Union of Shop, Distributive and Allied Workers (USDAW)
UNISON
UNISON – Scotland
Unite the Union
University College London – Dr Angela Donkin and Prof. Jenny Head
University College Union (UCU)
University of Kent – Prof. Ben Baumberg Geiger and Prof. Sarah Vickerstaff
University of Leicester – Prof. Peter Nolan
University of Manchester – Prof. Sir Cary Cooper and Prof. James Nazroo
University of St Andrews – Dr Alan David Marshall
University of Westminster – Ms. Deborah Smeaton
Voice
Voice of Experience Forum
WASPI (Women Against State Pension Inequality)
Welsh Government
Western Health & Social Care Trust
Which?

We are also grateful to the many additional national and international organisations and individuals who have also shared their views and written contributions.

Annex B

Consultation Responses

1. Is our interpretation of the policy intent for the State Pension correct?

Several responses expressed uncertainty over the Government's policy intent for the State Pension. Although most believed the Review's interpretation was broadly correct, several suggested that a clear statement from the Government on its policy intent would be helpful.

2. How successful are other international policies? Are there any policies that we could consider? How should UK policy on State Pension age take these examples into account?

The consultation responses provided relatively little evidence on international policies. Several referred to the Interim Report's analysis showing that the UK was set to have the joint highest State Pension age of OECD countries, using this to suggest that aggressive increases to State Pension age would not be appropriate.

3. Considering the main drivers of State Pension expenditure, which ones are more important to the policy intent, if they were presented as a trade-off? Maintaining early access, a generous increase annually, or making the full State Pension amount accessible to most people? Which of these delivers fairer outcomes?

Of those who answered this consultation question, the responses were mixed. Some suggested that removing the 'triple lock' uprating mechanism would be a fairer way of reducing overall State Pension expenditure to more manageable levels. However, some raised concerns that provision would have to be made for the poorest pensioners who rely heavily on the State Pension. Of those who saw it as a trade-off, the majority argued that early access was more important, particularly for those in disadvantaged groups who would struggle to continue working up to State Pension age. However, several did not agree with the presentation as a trade-off, suggesting that both a lower State Pension age and a generous uprating mechanism were important.

Based on focus groups and surveys, CIPD suggest the options its members prefer tend to vary depending on the circumstances of their workforce. Those with a workforce employed in physically and mentally demanding jobs tend to favour early access; those with a lower paid workforce tend to favour generous annual increases; while those whose workers have broken National Insurance records or do not earn enough to meet the automatic enrolment thresholds tend to favour wider coverage. The latter tended to reference women.

4. Is the Pensions Commission's assessment of the proportion of GDP expenditure on pensioner benefits, over time, still valid when considering State Pension age affordability post-2028? Is State Pension age the best tool to maintain a steady GDP proportion for pensioner benefits?

The response rate to this question was fairly low and showed a mix of opinions. On the Pensions Commission's assessment, some agreed that this was still valid, while some said it should be reconsidered and that the Government needed more flexibility to reflect current economic conditions. On using State Pension age as a tool to maintain a steady proportion, some agreed that it was a useful policy lever. Some suggested that other methods would be more appropriate, such as means-testing, increasing migration or increasing taxation.

5. Are there any other issues around opportunity to achieve adequacy for future generations that we need to consider? How can we best take into account wider economic impacts, for example, the likelihood of low interest rates in pension outcomes or the changes in housing costs and overall wealth distribution?

The most commonly raised issue in this category was housing. Several responses noted that homeownership was likely to be lower, which would lead to higher housing costs and lower property wealth in retirement for future generations.

6. Are there any other factors that may impact the value of the State Pension for each generation?

The possibility that future generations would have to bear increasing care costs was raised by some respondents.

7. Are replacement rates linked to pre-retirement income a good measure of adequacy for the future? What would be the most relevant alternatives?

The general consensus amongst respondents who answered this question was that replacement rates are not perfect, but there does not appear to be a more suitable method. Alternatives suggested included a Living Standards Replacement Rate, or a calculation based on national average earnings, but these were not necessarily seen to be preferred alternatives.

8. What evidence is there to suggest “burnout” is a feature of certain professions and what are the alternatives for workers in those roles? How can FWL strategy support best the transition required, if that is the case?

Many respondents agreed that “burnout” was an issue, citing the physical, mental and/or emotional demands of a range of professions, including teaching, manual occupations and healthcare. Suggested measures to prevent “burnout” included ways employers could create more supportive workplaces to prevent “burnout” from occurring, as well as provision for workers affected by or at risk of “burnout” to transition into a different form of employment (whether that be reduced hours, a different role or reduced responsibility). The majority of proposed solutions were proposals for employers, such as increasing options for flexible working or better occupational health provision.

A popular suggestion was the Mid-Life Career Review. This was generally loosely defined, but the underlying principle is that people should have access to support when they are around ten to twenty years from retirement, to help them explore options which would help them to remain in work, either in their current role or in a different role or industry.

Although many agreed that “burnout” is an issue, there was no real appetite for an occupation-specific State Pension age. Trade unions representing specific (generally public sector) occupations noted the specific concerns of their members, but the proposed solution was generally delinking their occupational scheme Normal Retirement Age from State Pension age rather than an occupation-specific State Pension age.

TUC, supported by a number of other unions, suggested more statutory measures to prevent burnout, such as giving workers the right to retrain or paid time off to learn new skills.

9. To what extent can a delay in State Pension age act as a direct mechanism to enable Fuller Working Lives? What factors would increase the likelihood that people remain in gainful employment during any such delay?

Some respondents believed that State Pension age could act as a direct mechanism to enable Fuller Working Lives, with a few citing evidence from the increase in women’s State Pension age and the corresponding increase in female employment. However, several expressed discomfort with the premise, perceiving it as coercive and unlikely to be effective without the measures to support older people to find and remain in employment (highlighted elsewhere). A few suggested that there was not yet sufficient evidence of the impact of rises in State Pension age which had already happened or are currently in legislation to assess the likely impact.

10. How can we best take into account the sensitivity of life expectancy projections when considering an appropriate State Pension age in the future?

The sensitivity of life expectancy projections was given by some respondents as a rationale for leaving State Pension age unchanged. Some respondents cited the slowing down in mortality rates which led to lower life expectancy projections in the 2014 figures as evidence that caution is needed when thinking about future increases.

A few respondents suggested that younger people should be given a window of when their future State Pension age is likely to be, rather than giving them a specific year. This would help people have realistic expectations about the likely date of their State Pension age and the extent to which this may vary due to fluctuating life expectancy projections.

11. Do you think that regional factors have an impact on life expectancy and how? How should the Government factor in the combination of regional and social factors?

Several consultation responses referred to regional differences in life expectancy, and particularly in healthy life expectancy. However, most acknowledged the analysis from our Interim Report showing that regional differences occurred at a small-scale regional level rather than a national level. Submissions from the Scottish National Party and the Commissioner for Older People in Northern Ireland suggested that the lower life expectancies for their regions compared to England should be taken into account. However, the general consensus was that a regional State Pension age would be impractical to administer, and would not be a fair reflection of the micro-level disparities which exist.

12. Are healthy life expectancy and life expectancy improving sufficiently for the majority of the population? Are there specific aspects of healthy life expectancy that would directly interact with State Pension age and how?

Healthy life expectancy was a concern raised by the majority of respondents. Submissions expressed concerns that healthy life expectancy was not keeping pace with life expectancy; that existing ways of measuring healthy life expectancy were flawed; and that healthy life expectancy varied dramatically between regions and socio-economic groups. Respondents worried that low healthy life expectancy meant that they personally or certain groups of individuals would be disproportionately affected by increases in State Pension age, as they would not be healthy enough to work up until State Pension age. Respondents also worried that some people would not be able to enjoy any of their retirement due to ill health. Some suggested that healthy life expectancy should be explicitly considered when setting State Pension age alongside life expectancy. For example, by guaranteeing people a minimum number of healthy years in retirement or by ensuring that State Pension age does not rise above healthy life expectancy for the most disadvantaged groups. Other methods of measuring healthy life expectancy were also put forward, such as Disability-Free Life Expectancy and Frailty index.

13. The Pensions Commission suggested that lower life expectancy should be tackled through improvements to health and occupational health. Do you agree? How should we take into account the life expectancy and healthy life expectancy information when considering State Pension age?

Many respondents agreed that more needed to be done to improve health and occupational health. Some suggested that health improvements should be directed at areas with lower healthy life expectancy to narrow the gaps. However, some respondents also believed that healthy life expectancy should be taken into account when setting

State Pension age. This ranged from a general belief that State Pension age should not be increased while healthy life expectancy remained low in particular areas, to suggested specific mechanisms by which healthy life expectancy could be considered.

14. How can we best take into account the impact of caring responsibilities in later life and specifically within the decade prior to State Pension age?

There was a broad consensus across respondents to this question that people with caring responsibilities were likely to experience difficulties in the labour market and in making sufficient pension provision, both of which would reduce their ability to adjust to changes in State Pension age.

Respondents suggested a range of steps Government and employers could take to reduce disadvantage carers faced. To support carers to find or remain in employment, respondents suggested measures such as flexible and/or part-time working and paid carer's leave.

Some respondents raised the issue that Carer's Allowance is lower than the other main working age benefits and does not provide an adequate level of income. Proposals to improve the situation for carers included increasing the level of Carer's Allowance and giving carers early access to the State Pension.

Several respondents highlighted the importance of carers' National Insurance credits in ensuring carers are able to access the State Pension. A couple of organisations noted low take-up, suggesting the Government could do more to promote this. Carers UK suggested that the Government could in addition provide carers with a carers credit in private pensions, by paying into an automatic enrolment scheme. One concern raised by Age UK was that people with significant caring responsibilities in the years leading up to State Pension age could be forced to draw on their private pension savings, lessening their opportunity to achieve an adequate income in retirement.

15. How can we best take into account the impact of poor health and disability in later life and specifically within the decade prior to State Pension age?

Almost all respondents raised concerns about how an increase in State Pension age would impact on people who experience poor health and/or disability in later life. Respondents believed that people in this situation would struggle to continue working up to State Pension age, risking poverty in the years leading up to State Pension age as well as inadequate pension provision for retirement, particularly if they were forced to draw on savings to tide them over until State Pension age. A significant proportion of responses implied a lack of confidence in the adequacy of working age disability benefits. Individuals suggested the stigma of claiming benefits would put them off applying for benefits which they were entitled to, or worried about not being considered unwell enough to be eligible for benefits such as Employment and Support Allowance, despite feeling unable to work.

TUC analysis suggested that people's ability to work could be linked to occupation, showing that up to a third of older people from manual occupations who are economically inactive ahead of retirement cite sickness or disability as the reason.

Respondents suggested higher working age benefits or early access to the State Pension as potential ways to mitigate the impact of any changes to State Pension age. Measures to help people reduce their hours or move into less demanding employment were also cited as ways the impact could be lessened for people with poor health and/or disability. Some respondents were keen to stress that this is an issue which affects people now, and that the Government should not wait until future State Pension age increases to consider putting in place measures to support this group of people.

16. How would any State Pension age changes affect the self-employed in the future? How can we take into account the very diverse profiles in this group?

Several responses stated that the lower levels of pension saving amongst the self-employed were a concern, which could affect their ability to cope with changes to State Pension age. Respondents acknowledged that the self-employed were a diverse group, which made it difficult to design a solution to increase their levels of private pensions saving. Some respondents were particularly concerned about the rise in insecure, low-paid self-employment, suggesting that the self-employed in this group would not necessarily have the opportunity to build the other sources of wealth which the self-employed may have traditionally used as an alternative to private pension provision.

17. Does ethnicity affect pension outcomes? Are educational outcomes improving for ethnic minority groups and how is this likely to translate into both improved employment rates, earnings and ultimately retirement income? Are there any other data or consideration that you can contribute that might be significant in our consideration of ethnic minority impacts from a change in State Pension age?

Although everyone who responded to this question agreed that it was likely that people from ethnic minority groups were likely to have lower pension incomes, there appears to be a lack of research and evidence in this area. Respondents were generally in agreement that issues with lower pension provision were likely to be a reflection of labour market outcomes rather than a pensions-specific issue.

18. What is the best way to take into account the lower pension outcomes for women in our recommendations?

Many respondents were concerned about the lower pension outcomes for women, particularly for older generations, but there were few substantive suggestions for policies which could target this group in the future. Respondents generally agreed on the importance of credits for assuring women's State Pension position, and that the main source of inequality lay in private pension provision.

Many individuals described the inequality faced by women in previous decades and the resulting impact on current employment prospects and/or pension provision. Many respondents expressed disappointment that the equalisation of women's State Pension age and/or the increase to 66 by 2020 did not fall within the scope of this Review.

19. For older workers in particular, the adequacy of income in retirement may be best considered at a household level. However, when planning future changes to the pension system, how reliable is this assessment now and how reliable will it be for further generations?

Views on this question were mixed. Some believed that it was sensible to consider pension incomes at a household level, as this reflects the way many plan for retirement. However, many expressed concern that this method risked concealing the extent of pension inadequacy. Household adequacy is not perceived by some to be a proxy for individual adequacy, as it leaves people vulnerable to pension inadequacy if they experience bereavement or separation. Some respondents also noted that a household approach would be against the general direction of travel for the State Pension, which in recent years has focused on building individual entitlement rather than through derived rights.

20. Is it appropriate for this Review to include in its considerations the entry point for all the welfare policies that are linked to State Pension age? Which ones should be excluded and why?

Several consultation responses, particularly from individuals, highlighted the issue of benefits linked to State Pension age, such as Winter Fuel Payments, free bus passes and Pension Credit. Individuals noted that the range of benefits available at State Pension age in addition to the State Pension increased the likely impact of any changes.

Some responses proposed delinking Pension Credit from State Pension age, and maintaining access to Pension Credit at a lower age, such as 65. This was seen as a means to alleviate hardship in the years leading up to State Pension age.

21. How far should this Review take into account impacts on occupational scheme rules? What are the most significant challenges for those pension schemes if State Pension age is changed?

The majority of respondents to this question did not believe that the impact on occupational schemes should be a primary driver for decisions on State Pension age. However, respondents did provide a range of evidence on the likely impacts and a few suggested that the Government could act to facilitate changes to private pension schemes to reflect changes in State Pension age. For example, the Pensions and Lifetime Savings Association provided survey findings showing that 31% of their members thought that a variable State Pension age would have a major impact on their scheme.

Representations from some public sector trade unions and other bodies stated that changes to State Pension age would have an additional impact on their members, either due to the link between several public sector occupational pension schemes and State Pension age or due to a low default retirement age creating a gap between retirement and State Pension entitlement.

22. What are the alternatives to a universal State Pension age? How can they be designed and implemented so that both the principles of Affordability and Fairness are retained?

Many responses highlighted the value of the simplicity of a universal State Pension age, and acknowledged the difficulty of designing and implementing a workable alternative. There was little appetite for a variable State Pension age based on region or socio-economic group, as this would likely prove to be too difficult to target appropriately. Multiple respondents noted that creating an alternative was likely to create new unfairness. Several respondents suggested that the Government should consider the possibility of early access to the State Pension. Some respondents supported the idea of aligning the State Pension with the pension freedoms offered in the private pension sphere, by allowing people to elect to take actuarially reduced early access. However, many respondents expressed concern that offering actuarially reduced access would likely result in either an increase in the number of people with inadequate retirement incomes or an increase in means-tested benefit expenditure.

Multiple organisations suggested the Government should explore offering early access to particular groups. The most commonly cited groups for consideration were carers and people in ill health or with a disability. A few responses supported offering early access to those with a high number of National Insurance contribution years, but this was less popular. Responses generally offered limited detail on how these policies could be implemented.

23. What other factors and trends are increasingly relevant and will be prevalent in the future when considering an appropriate retirement age for individuals? [following section on work, caring etc]

This question did not receive a large number of responses. Caring, housing and the impact of health trends such as obesity on life expectancy were raised as potential issues.

24. Is there any evidence that these Government policies have any impact on the decision to work longer? What other policies can Government adopt alongside the Fuller Working Lives strategy to strengthen Fuller Working Lives outcomes, for example supporting professional transitions and incentives to work longer for low earners?

Career transitions are viewed by some respondents as a useful tool for enabling people to work longer.

The majority of proposals to improve older workers' ability to access and/or remain in employment are changes which employers could make. Respondents made relatively few proposals for Government policies, aside from supporting and encouraging employers to put in place measures such as flexible working.

25. What approach is more appropriate in your view, if we were to protect impacted groups? Should we consider ways to remove any barriers to building their own private retirement income or to support them through the welfare system or is there another way altogether?

There was no clear consensus on whether it was best to support affected groups through early access to pensioner benefits or through the working age benefits system. Some organisations believed that early access to State Pension would threaten the simplicity of the system, and that inequalities were better addressed through the welfare system. Other organisations expressed support for early access.

26. How can the Government and others communicate any future changes on State Pension age? How important is stakeholder involvement in ensuring that the right messages reach the right people in good time?

Clear communication of State Pension age expectation was seen as vital to enabling people to plan for retirement effectively. Respondents tended to emphasise the importance of direct, personalised communication, although many acknowledged that a broader range of sources would be useful in getting the message across to the widest possible audience.

A few organisations suggested that younger individuals could be given a likely range of State Pension age rather than an exact date, to avoid giving out messages which would later prove to be inaccurate.



ISBN 978-1-4741-4201-4



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