Title:

A sustainable State Pension: when the State Pension age will increase to 66

Lead department or agency:

Department for Work and Pensions

Impact Assessment (IA)

Date: 21/11/2011

Stage: Final

Source of intervention: Domestic

Type of measure: Primary legislation

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Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

Since the Pensions Act 2007 set the timetable for increasing State Pension age from 65 to 68, both the demographic and the economic context have changed. Life expectancy is increasing faster than projected, bringing increased expenditure on pensions, social security and health, at a time when the UK is recovering from recession. The ratio of pensioners to working-age people is increasing, and the latter largely support the former through National Insurance and tax contributions. To maintain a sustainable state pensions system and intergenerational fairness, intervention to revise the timetable for increasing State Pension age to 66 is necessary.

What are the policy objectives and the intended effects?

The policy objectives are to revise the timetable for increasing State Pension age to 66 such that:
a. recent increases in life expectancy are taken into account;
b. the burden of support carried mainly by the working-age population, given the wider implications of increased spend on the pensions system, does not become unmanageable and unfair; and that
c. future spending on the state pensions system is sustainable.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

This Impact Assessment examines the fiscal costs and benefits of the following options:

Option – increase to 66 by October 2020 by:

- increasing women's State Pension age from 63 to 65 between April 2016 to November 2018; and
- increasing men's and women's State Pension age from 65 to 66 between December 2018 and October 2020.

Do nothing (baseline – maintain timetable as previously legislated):

- increase women's State Pension age from 60 to 65 between April 2010 and April 2020; and
- increase men's and women's State Pension age from 65 to 66 between April 2024 and April 2026.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	This policy will be reviewed as part of wider consideration of the legislative timetable for future increases in State Pension age. See Post Implementation Review Plan on page 20
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Not applicable

Ministerial Sign-off For final proposal stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister: ..... Date: 21/11/2011

Summary: Analysis and Evidence

Policy Option - Increase State Pension age to 66 by October 2020

Description:

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Price Base Year	*PV Base Year*	*Time Period Years*	*Net Benefit (Present Value (PV), rounded) (£m)*		
			Low: ***Optional***	*High:* ***Optional***	*Best Estimate:* ***£26,900 (PV)***
		10			

COSTS (£m)	**Total Transition** (Constant Price, rounded) Years		**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value, rounded)
Low	Optional	10	Optional	Optional
High	Optional		Optional	Optional
Best Estimate	£45,700		N/A	£31,100 (PV)

Description and scale of key monetised costs by 'main affected groups'

- Individuals: reduction in pension-age benefits of £34 billion and increased income tax and National Insurance payments of £8.3 billion
- The Exchequer: additional spend of £3.4 billion on working-age welfare benefits and delivery costs of £10 million (IT, project, notification mailing, and call handling costs).

Other key non-monetised costs by 'main affected groups'

- Those affected (see Table 5 for details) may have to adjust their retirement plans accordingly.
- There is a small consequential impact on the private sector.

BENEFITS (£m)	**Total Transition** (Constant Price, rounded) Years		**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value, rounded)
Low	Optional	10	Optional	Optional
High	Optional		Optional	Optional
Best Estimate	£84,600		N\A	£58,000 (PV)

Description and scale of key monetised benefits by 'main affected groups'

- Exchequer benefits from reduced spending on pension-age benefits by £34 billion and increased income tax and National Insurance receipts of £8.3 billion.
- Individuals gain £3.4 billion in additional working age welfare benefits, and expected higher employment might boost gross employment income by £39.0 billion over the period.

Other key non-monetised benefits by 'main affected groups'

- Intergenerational fairness is promoted by taking into account recent increases in average life expectancy when setting the State Pension age timetable.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

1. Projected rise in employment income depends on DWP modelling of aggregate employment impacts.
2. Revisions of longevity projections and economic assumptions would affect the estimates made.
3. There may be increased DWP spend outside the policy period on state pensions from people working longer and thus contributing to their State Pension and on Disability Living Allowance as a result of increasing the upper qualifying age to 66 earlier. Conversely, there may be lower spend on Attendance Allowance due to the corresponding increase in the minimum age threshold.
4. Increased income tax and National Insurance Contributions (NICs) receipts depend on HM Revenue & Customs (HMRC) and DWP modelling of aggregate employment impacts, and assumptions on average income tax/NICs paid by employed and non-employed. No estimate made of tax revenue from profits.
5. Effect on working-age welfare benefits spend depends on DWP modelling of employment impact.
6. Analysis excludes potential effect on Housing Benefit and Council Tax Benefit spend.
7. Analysis is based on the structure of the welfare system, state pensions, taxes and National Insurance current at the time of publication.
8. There are increased income tax and NICs receipts outside of the policy period.
9. Modelling assumes that the timetable for increasing State Pension age to 67 and 68 is unchanged.

Impact on admin burden (AB) (£m): NIL			*Impact on policy cost savings (£m):*	*No*
New AB:	*AB savings:*	*Net:*	*Policy cost savings:*	***N/A***

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Great Britain		
From what date will the policy be implemented?			06/04/2016		
Which organisation(s) will enforce the policy?			N/A		
What is the annual change in enforcement cost (£m)?			N/A		
Does enforcement comply with Hampton principles?			N/A		
Does implementation go beyond minimum EU requirements?			N/A		
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A	**Non-traded:** N/A	
Does the proposal have an impact on competition?			No		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			**Costs:** 100	**Benefits:** 100	
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	**Micro** 0	**< 20** 0	**Small** 0	**Medium** 0	**Large** 0
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Does your policy option/proposal have an impact on…?	**Impact**	**Page ref within IA**
Statutory equality duties[1] Statutory Equality Duties Impact Test guidance	Yes	See Annex, page 17
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	
Small firms Small Firms Impact Test guidance	No	
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

[1] Under the Equality Act 2010, a new public sector equality duty took effect from April 2011.

Note of revisions to Impact Assessment

An Impact Assessment of the Government's proposals to bring forward the timetable for increasing the State Pension age to 66 was first published on 3 November 2010 as Annex C to the White Paper: *A sustainable State Pension: when the State Pension age will increase to 66.* The Impact Assessment was subsequently republished with minor revisions on 12 January 2011 on the introduction of the Pensions Bill in the House of Lords, and on 17 May 2011 to accompany the second reading of the Pensions Bill in the House of Commons.

During the passage of the Bill through the Commons the Government amended its original proposals under which the State Pension age for men and women would have reached 66 by April 2020. Because of the interaction with the legislated timetable for equalising the State Pension ages at 65 by April 2020, this would have resulted in some women experiencing a further increase in their State Pension age of up to two years. To ensure that no women would experience an additional increase in their State Pension age of more than 18 months, State Pension age for both men and women will now reach 66 by October 2020, rather than April 2020.

This amended timetable was approved by Parliament and the Impact Assessment has accordingly been amended to show the impact of the new timetable as enacted by the Pensions Act 2011 compared to the previously legislated timetable.

Analysis has also been revised where appropriate to reflect latest releases of various sources of data and assumptions including the 2010-based population projections published on 26 October 2011 and the revised assumptions from the Office for Budget Responsibility's Fiscal Sustainability Report in July 2011.

Evidence Base

References

No.	Legislation or publication
1	A sustainable State Pension: when the State Pension age will increase to 66 (Cm 7956)
2	State Pension age review – Call for Evidence
3	Pensions Act 2007
4	Pensions Act 1995

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y_0	Y_1	Y_2	Y_3	Y_4	Y_5	Y_6	Y_7	Y_8	Y_9
Transition costs	-900	-1,800	-3,000	-4,400	-5,900	-6,800	-7,200	-7,400	-5,800	-2,300
Annual recurring cost										
Total annual costs	-900	-1,800	-3,000	-4,400	-5,900	-6,800	-7,200	-7,400	-5,800	-2,300
Transition benefits	3,200	4,500	6,300	8,100	10,100	11,200	11,700	11,600	9,700	5,800
Annual recurring benefits										
Total annual benefits	3,200	4,500	6,300	8,100	10,100	11,200	11,700	11,600	9,700	5,800

* For non-monetised benefits/costs please see summary pages and main evidence base section

Numbers rounded to nearest hundred million and exclude delivery costs (estimated at £10 million, a proportion of which is incurred prior to the policy implementation date)

Issue and rationale for intervention

1. People now spend more years on average drawing their State Pension than ever before. The relatively few men who reached 65 in 1926 lived a further 11 years on average, and women lived a further 13 years. Today, most men and women reach 65, and can expect to live around another 21 years and 24 years respectively, on average.
2. In the original timetable (set out by the Pensions Act 1995 and amended by the Pensions Act 2007) women's State Pension age was due to be equalised with men's (i.e. raised to 65) between 2010 and 2020, with a further rise in State Pension age for all to 66 by 2026, to 67 by 2036 and to 68 by 2046. But the demographic and the economic situation has changed since the timetable for increasing to 68 was set by the Pensions Act 2007. The timetable for the increase to 66 now needs to be reviewed in this new context.

The demographic context

3. The original timetable for increasing State Pension age to 66 was based on 2004 projections of average cohort life expectancy. The Office for National Statistics (ONS) recently published the 2010-based projections, and Table 1 summarises the upward revision between these two sets of projections.

Table 1: Revisions in projected cohort life expectancy for those reaching State Pension age (SPa) in 2010 (UK average)

	Life Expectancy at SPa (years) **2004 projection**	Life Expectancy at SPa (years) **2010 projection**	Revision between projections (years)	Percentage of adult life receiving State Pension **2004 projection**	Percentage of adult life receiving State Pension **2010 projection**
Male	20.0	21.0	+1.0	30.8	31.8
Female	27.2	28.5	+1.3	40.5	41.6

Note: These data are cohort mean life expectancies, calculated using age-specific mortality rates which allow for known or projected changes in mortality in later years and are UK average. 'Adult Life' is age 20 and over.
Source: 2004-based principal population projections, Government Actuary's Department (GAD); 2010-based principal population projections, ONS.

4. In 2010, the proportion of adult life spent, on average, by a man or woman in receipt of the State Pension is projected to be one percentage point above the proportion forecast in the 2004 population projections. This is equivalent to an extra 1 years' life expectancy at State Pension age for men, and 1.3 years for women, on average, compared to that earlier forecast (see Table 1). By 2026, the year when State Pension age was originally due to reach 66, ONS now expects the increase to be even greater: an extra 1.5 years' life expectancy for men and 1.6 years for women, on average.
5. Just taking into consideration people retiring in 2010, the improvement in projected life expectancy since the 2004-based projections is estimated to add additional spending on state pensions alone of around £10 billion, in constant price terms, over the lifetime of that single pensioner cohort.
6. The State Pension is a crucial foundation for a secure old age. However, the age of entitlement to State Pension has not kept pace with increases in life expectancy. If the State Pension age had risen in line with average life expectancy at the age of 65 since 1926, when the contributory State Pension was first introduced, it would now need to be at least 75.

The economic context

7. The Government must protect fiscal stability in the long term. The UK economy is recovering from the longest and deepest recession since official records began in 1955. Failure to address rising debt in the UK risks pushing up long-term interest rates, which would affect not just the Government

but also families and businesses through the higher costs of loans and mortgages. Public spending on debt interest is unproductive and squeezes out spending on public services and social security. The reaction of bond markets and rating agencies to fiscal responsibility over the long term could leave interest rates lower for longer.

8. A high level of debt also puts an unfair burden on future generations. Public borrowing is, in essence, taxation deferred, and it would be irresponsible and unfair to accumulate substantial debts to fund spending that benefits today's generation at the expense of subsequent generations.

9. So it is important that the financial implications of the state pensions system are addressed. Changing the State Pension age will have some delivery costs to the state, but these will be more than offset by the net savings on benefit expenditure; and the change is crucial to help ensure that the State Pension system is more sustainable in the long term and fair across the generations.

10. An ageing population creates fiscal pressures not only through direct expenditure on the State Pension system but also wider expenditure on health and social care. Relative to current levels of age-related spending on pensioners, projections from the Treasury's long-term public finances model prior to the Office of Budget Responsibilities Fiscal Sustainability Report[2] suggested that the total annual impact of demographic change on the public finances would be around 20.6% of GDP by 2029-30.

Intergenerational fairness

11. The pensions of current pensioners are mainly paid for by the current working population through their National Insurance contributions. This is sometimes referred to as a social contract between younger and older generations.

12. As life expectancy increases, the burden this places on our younger generations has grown and will continue to grow. In 1955, there were four people of working age (age 20 to State Pension age) for every one person of State Pension age in the United Kingdom. There are now around three people of working age to every person of State Pension age, and this ratio is expected to decline. Consequently, each working-age person will be paying proportionately more towards the state pensions of older people in the coming years.

13. With unchanged policies, the extra cost arising from improvements in life expectancy will have to be borne through either higher taxes, reduced public spending in other areas or higher government borrowing. All three options are likely to have adverse economic consequences. There are also social implications. As younger people age, they will expect their state pensions to be funded by the next generations of workers. This kind of social contract would be put under greater pressure if young workers face rising tax rates to pay for other people's pensions.

14. Bringing forward the equalisation of State Pension age at 65 and the increase to 66 provides a starting point to counterbalance the increases in longevity that are happening today and so help ensure that the fiscal implications of increased longevity are more sustainable and fairer between generations.

Policy objectives

15. The policy objectives are to revise the timetable for increasing the State Pension age such that:

    a. recent increases in life expectancy are taken into account;

    b. the burden of support carried by the working-age population, including the wider implications of increased spend on the state pensions system, does not become unmanageable and unfair; and that

    c. future spending on the State Pension is sustainable.

16. Revising the State Pension age timetable is the most appropriate policy lever to reflect increases in life expectancy projections and thus address the fiscal implications of longevity gains. Without revising the State Pension age timetable, meeting the future spending requirements of the State Pension would entail increased taxation or changes to the pensioner benefit system.

[2] The July 2011 Fiscal Sustainability Report included an increase in State Pension age to 66 by April 2020 in the baseline.

17. The key criteria when assessing options are:

    a. effect on financial sustainability of the state pensions system; and
    b. intergenerational and intragenerational fairness.

Description of options

"Do nothing" – the baseline

18. In the original timetable, women's State Pension age was due to be equalised with men's at 65 between April 2010 and April 2020.

19. State Pension age for both men and women would then increase from 65 to 66 between April 2024 and April 2026.

Pensions Act 2011 – 65 to 66 from 2018 to 2020

20. State Pension age for both men and women will increase from 65 to 66 between December 2018 and October 2020.

21. In order to achieve this, the equalisation of State Pension age is accelerated from April 2016 so that it is 65 by November 2018.

22. The acceleration of equalisation is necessary because it would be discriminatory to increase men's State Pension age to 66 before women's.

Table 2: Simplified illustration of the timetable for each option. Transitions in **bold**.

	2010	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Men												
Baseline	65	65	65	65	65	65	65	65	65	**65.16**	**65.66**	**66**
Option 1	65	65	65	65	**65.42**	**65.92**	66	66	66	66	66	66
Women												
Baseline	**60.16**	**63.16**	**63.66**	**64.16**	**64.66**	**65**	65	65	65	**65.16**	**65.66**	**66**
Option 1	**60.16**	**63.25**	**64**	**64.75**	**65.42**	**65.92**	66	66	66	66	66	66

Note: Table shows the approximate State Pension age at July each year. Part-years are expressed as a percentage (e.g. 63.16 equals 63 years and two months).

Options Appraisal

"Do nothing" – the baseline

23. Inaction does nothing to address the impact of increased longevity on the state pensions system, nor does it promote intergenerational fairness.

24. Under the original timetable and latest population projections, the number of years that men, on average, would spend in receipt of state pensions would rise from 21.0 years in 2010 to 22.6 years in 2024, when the increase to 66 is set to begin in the baseline. For women, even though there would be a reduction from 28.3 years in 2010 to 25.2 years in 2024, on average (see Table 6), the time spent in receipt would still be higher than under the earlier 2004 population projections which had forecast average life expectancy at State Pension age of 23.8 years for women in 2024.

25. This option does not meet the policy objectives. By failing to address the revision in the increase in average life expectancy it results in increased State Pension spend, which is hard to justify in terms of intergenerational fairness. It carries the risk of needing to address the rise in spending by increased taxation or changes to the pensioner benefits system.

Pensions Act 2011 – 65 to 66 from 2018 to 2020

26. The key fiscal benefit of this timetable is that it delivers net benefits-related savings to DWP of £30.6 billion in real terms, with a further £8.3 billion gained in increased income tax receipts and NICs from people working for longer (see Tables 3 and 4).

27. This option is estimated to affect 5 million people in Great Britain (GB), who will have an additional delay to State Pension age. The Equality Impact Assessment (see Annex, page 17), gives a full discussion of the impact of this measure by gender.

28. A rise in State Pension age of one year is projected to decrease the lifetime pension income of men and women by between 3 per cent and 5 per cent, based on DWP modelling of hypothetical individuals. However, if they work to the new State Pension age and save into a private pension, they would recover about half of this loss of lifetime pension income (see Table 8 and the notes). For those individuals who will experience the maximum increase in State Pension age of 18 months, the potential loss is between 5 per cent and 7 per cent. Working longer and saving into a private pension would redress part of this loss in lifetime pension income. Taking into consideration the additional employment income, individuals' lifetime income would be improved if they work longer. There is further discussion of these points in the Equality Impact Assessment (see Annex, page 17).

29. However, these losses need to be viewed in context, as the lifetime pension income of men and women reaching State Pension age between 2016 and 2020 will be boosted significantly by improvements in life expectancy (see Tables 6 and 7). On the latest projections, men reaching State Pension age in 2020 will still spend nearly 32 per cent of their adult life in receipt of state pensions on average. This is slightly higher than the proportion for men reaching State Pension age of 65 in 2010 and it is well above the ratio in 2000 and subject to revision as new projections become available. For women, while this option accelerates the time taken to bring women more closely into line with the proportion of life men spend in retirement on average, women would still spend two and a half years more time than men in receipt of state pensions.

30. This option helps address the revision in average cohort life expectancy projections (described in Table 1) and closes the gap in the proportion of adult life in receipt of state pensions between the average man and women sooner. In this way it supports intergenerational and intragenerational fairness, and helps make the state pensions system more sustainable in the face of increasing longevity.

31. The wider economic benefits are that it results in additional people in employment (an extra 260,000 people in 2022), higher earnings (estimated at £5.0 billion in 2022) and higher national output (estimated at £8.3 billion in 2022) (see "Wider Impacts" section and Tables 14, 17 and 18). There is no account taken of the potential costs generated from the need to fund an unchanged system through either alternative reductions to the pensioner benefit system, increased taxation or a reduction in other government spending.

Detail of impact

32. Details of the impact of the chosen option against the baseline of increases to the State Pension age legislated for prior to the passing of the Pension Act 2011 are set out in the tables below. Additional information on differential impact is set out in the Equality Impact Assessment (see Annex, page 17.)

Table 3: Effect on DWP spend on benefits of each option (£ billion, 2011/12 prices)

	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	Total
Pensions Act 2011 timetable											
Net DWP saving	-0.3	-0.9	-1.9	-2.9	-4.0	-4.8	-5.0	-5.3	-4.2	-1.4	**-30.6**
Of which											
Pensions	-0.3	-1.0	-2.0	-3.2	-4.5	-5.3	-5.6	-5.9	-4.6	-1.6	-34.0
Working age benefits	0.0	0.1	0.2	0.3	0.4	0.5	0.5	0.6	0.5	0.2	3.4

Totals may not appear to sum correctly due to rounding.

Table 4: Additional income tax and NI receipts from Pensions Act timetable (£ billion, 2011/12 prices)

2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	Total
0.6	0.7	0.8	0.9	1.0	1.1	1.0	1.0	0.7	0.4	8.3

Note: Totals may not appear to sum correctly due to rounding. See paragraph 37 for underlying assumptions

Table 5: Number of people (thousands) by length of additional time to State Pension age

	1 to 3 months	4 to 6 months	7 to 9 months	10 to 12 months	13 to 15 months	16 to 17 months	18 months	Total
Men	155	185	190	1,810	-	-	-	2,335
Women	165	160	130	1,680	115	80	305	2,635
Total	320	340	320	3,490	115	80	305	4,970

Note: Totals may not appear to sum correctly due to rounding. These estimates are based on the number of men and women alive in 2009, and resident in GB.[3] The birth distribution which was adopted is based on the distribution of births in England and Wales in the given year (1953 to 1960).

Table 6: Number of years in receipt of State Pension (UK)

	2000	2010	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Men													
Previous	18.9	21.0	21.8	21.9	22.0	22.1	22.2	22.4	22.5	22.6	22.6	22.3	22.1
Pension Act	18.9	21.0	21.8	21.9	22.0	21.8	21.5	21.5	21.6	21.7	21.8	22.0	22.1
Women													
Previous	26.9	28.3	26.2	25.8	25.4	25.1	24.9	25.0	25.1	25.2	25.2	24.8	24.6
Pension Act	26.9	28.3	26.1	25.5	24.9	24.4	24.0	24.0	24.2	24.3	24.4	24.5	24.6

Note: The data in the table are cohort life expectancy (2010-based principal projections) at the State Pension age for the average man and woman resident in the UK in the specified year, and includes the effect of the equalisation of female State Pension age with male.

Table 7: Proportion of adult life (%) in receipt of State Pension (UK)

	2000	2010	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Men													
Previous	29.6	31.8	32.6	32.7	32.8	32.9	33.0	33.2	33.3	33.4	33.3	32.8	32.5
Pension Act	29.6	31.8	32.6	32.7	32.8	32.4	31.9	31.9	32.0	32.1	32.2	32.4	32.5
Women													
Previous	40.2	41.4	37.7	37.1	36.6	36.0	35.6	35.7	35.8	35.9	35.8	35.2	34.8
Pension Act	40.2	41.4	37.6	36.7	35.7	34.9	34.3	34.3	34.5	34.6	34.7	34.8	34.8

Note: Adult life defined as from age 20. The data in the table are cohort life expectancy (2010-based principal projections) at the State Pension age for the average man and woman resident in the UK in the specified year, as a percentage of their total adult life expectancy (calculated as State Pension age plus life expectancy at State Pension age minus 20 years) and includes the effect of the equalisation of female State Pension age with male.

[3] Some of these men and women will not be eligible to receive State Pensions (about 5%), while there will be others who will be able to claim State Pension while residing overseas (about 10% of the State Pension caseload). Moreover some of these men and women are expected to die before reaching State Pension age (about 5%). In total considering all these factors, the numbers affected by the proposal should be very close to the numbers in these tables.

Table 8: Change in lifetime total state and private pension transfers compared to baseline (hypothetical cases)

a) Full career average earnings

	Born in 1953	Born in 1954	Born in 1955	Born in 1956	Born in 1957	Born in 1958	Born in 1959
Men							
Retire at old State Pension age	-	-4%	-4%	-3%	-3%	-3%	-3%
Retire at new State Pension age	-	-2%	-2%	-2%	-2%	-2%	-2%
Women							
Retire at old State Pension age	-3%	-5%	-3%	-3%	-3%	-3%	-3%
Retire at new State Pension age	-2%	-3%	-2%	-2%	-2%	-2%	-2%

Note: Rounded to nearest full percentage point.

b) Full career high earnings

	Born in 1953	Born in 1954	Born in 1955	Born in 1956	Born in 1957	Born in 1958	Born in 1959
Men							
Retire at old State Pension age	-	-4%	-4%	-3%	-3%	-3%	-3%
Retire at new State Pension age	-	-2%	-2%	-2%	-2%	-2%	-2%
Women							
Retire at old State Pension age	-4%	-5%	-3%	-3%	-3%	-3%	-3%
Retire at new State Pension age	-2%	-3%	-2%	-2%	-2%	-2%	-2%

Note: Rounded to nearest full percentage point.

c) Interrupted career/ low earnings - dependent on Pension Credit throughout retirement

	Born in 1953	Born in 1954	Born in 1955	Born in 1956	Born in 1957	Born in 1958	Born in 1959
Men							
Retire at old State Pension age	-4%	-7%	-5%	-4%	-4%	-4%	-4%
Retire at new State Pension age	-4%	-7%	-5%	-4%	-4%	-4%	-4%
Women							
Retire at old State Pension age	-4%	-6%	-4%	-4%	-4%	-4%	-4%
Retire at new State Pension age	-4%	-6%	-4%	-4%	-4%	-4%	-4%

Note: Rounded to nearest full percentage point.

The illustrative outcomes shown in Table 8 are based on DWP modelling of the state and private pension lifetime incomes of three types of hypothetical single individual (men and women) born on each year between 1953 and 1959 who have average life expectancy when they reach State Pension age:

- A: Full career, average earnings: assumes person is in continuous employment since age 25 on average earnings for a man or woman and saving 8 per cent per cent of earnings into a private Defined Contribution (DC) scheme throughout;
- B: Full career, high earnings: assumes person in continuous employment since age 25 on double average earnings and saving 8 per cent of earnings into a private DC scheme throughout;
- C: Interrupted working record; no private pension and dependent throughout retirement on the standard minimum Pension Credit guarantee.

The modelled individuals lose one year's worth of pension entitlement, except women born in 1954 and men dependent on Pension Credit born in 1954 (who are modelled to lose 18 months – the maximum possible loss under the timetable set out in the Pensions Act).

Individuals are modelled to react in two ways to the State Pension age rise – in the first they retire at the previous State Pension age and start drawing their private pension; while in the second, they work (and for the high and average earnings cases, continue to save) to the new State Pension age.

These stylised cases are designed to show the maximum possible loss for individuals born in that year. Most of those affected will not have such high entitlements to State Pension or Pension Credit, or would not have the maximum delay in State Pension or Pension Credit age illustrated (those born 6 December 1953 to 5 October 1954 will in fact experience the maximum 18 month delay).

The amount of State Pension income that individuals could actually lose as a result of a change in State Pension age varies significantly, depending on the delay they face as a result of the new timetable and on their individual entitlement. The latter would, in turn, depend on the amount of qualifying years of National Insurance they build up before reaching State Pension age, and also on their level of income. Similarly, the amount of Pension Credit income that individuals could actually lose as a result of a change in Pension Credit qualifying age also varies significantly, depending on the delay they face as a result of the new timetable and on their individual entitlement. The latter mainly depends on the gap between their weekly income from the Guarantee Credit minimum income threshold.

The estimated percentage loss in lifetime pension income depends crucially on assumed life expectancy. Any upward revision in life expectancy would reduce these losses.

Risks and Assumptions

33. **Future increases in State Pension age:** Modelling is limited to 2026 as this is when State Pension age would rise to 66 under the original legislation. The modelling assumes the rises in State Pension age beyond 66 remain unchanged.

34. **Labour market:** the announcement of an increase in State Pension age is assumed to increase the age at which males would exit the labour market from age 55 onwards; for instance, a 66 year-old man would adopt the exit rate from the labour market currently adopted by a 65-year old. Women's exit rates are assumed to converge to men's exit rates as a result of State Pension age equalisation. This modelling was done by DWP using HM Treasury's (HMT's) cohort employment model.

35. **Increased DWP spend outside of policy period:** From 2026/27, when State Pension age would be 66 under the original timetable for all persons reaching State Pension age in that year, the effect of increasing State Pension age under both options is estimated to result in a slight increase in benefit spend (of less than £0.1 billion p.a.) compared to the baseline. This is because a proportion of those affected will have increased State Pension entitlement from contributing for longer (note: estimates modelled on current state pensions system). This impact declines over the lifetime of those affected by the delayed State Pension age.

36. As a consequence of these proposals, the upper age for qualification for Disability Living Allowance (DLA) and minimum age for qualification for Attendance Allowance (AA) will be raised in line with State Pension age following equalisation from December 2018 rather than April 2024. After 2026, the extra expenditure on DLA beyond the policy period resulting from additional numbers qualifying for DLA during that period is likely to continue exceeding the saving from a corresponding reduction in awards of AA by less than £0.05 billion p.a. initially, and declining over the lifetime of those affected by the delayed State Pension age.

37. **Income tax and National Insurance figures:** Estimated additional yield is based on employment impacts (see paragraphs 53 to 54 and Table 14) plus baseline employed brought into NICs through the change in the State Pension age, and is based on the difference in estimated median tax and NICs paid by employed and non employed adults of relevant ages under the 2011/12 tax and National Insurance system (for example, estimated tax and NICs paid by additional 66-year old males in employment is based on median tax and NICs paid by 65-year olds currently). The calculation of median tax and NICs is based on the Survey of Personal Incomes data for 2007/08[4] projected to 2011/12. No estimate is made of potential tax revenue from additional profits made by companies.

38. HMRC modelling indicates that there may be £1.4 billion in additional revenue in the period between the announcement of this policy and the date when it starts being implemented. This reflects an adjustment in labour market participation in anticipation of the change in State Pension age. A similar increase in revenue is forecast over the ten years following the implementation of this policy.

39. **Longevity projections:** State Pension spending can be substantially affected by revisions in longevity projections. The above exchequer impacts were based on the 2008 based national population projections to ensure consistency with the July 2011 Financial Sustainability Report.

[4] *Survey of Personal Incomes (SPI)*, 2007-08

Impacts on time spent in retirement and individual lifetime pension income outcomes were based upon the 2010-based national population projections.

40. **Impact on gross employment earnings and on GDP**: Projected additional gross employment earnings and national output are based on the estimated employment impacts of the policy (see paragraphs 55 and 56). These projections cannot be directly compared to the additional income tax and national insurance figures as the latter are based on a different methodology. The modelling adopts a static approach, with the additional employment assumed not to have an impact on the projected level of wages, and companies are assumed to sustain the increased employment by a commensurate rise in capital investment. No further (multiplier) effects are assumed.

Administrative Burden

41. The administrative burden on DWP of changing the date at which State Pension age increases to 66 will be minimal when compared to the savings that the change would realise.

42. Costs associated with communicating the change will depend on how this is to be delivered. As well as ensuring that information about the changes is available on its website and in its leaflets and guides, the Government intends to write individually to those people born before 6 April 1955 (those affected in the transitional period prior to State Pension age reaching 66, plus those who would have been affected in the transition to 65 under the original timetable) and is currently considering how best to communicate the changes to those reaching State Pension age after April 2021. There is also IT work to be undertaken, with associated staffing costs.

43. A broad estimate for IT, project, notification mailing and call handling costs is in the region of £10 million.

Wider Impacts

Impact between constituent countries of Great Britain

44. Life expectancy differs across Great Britain. Though life expectancy at State Pension age is lower in Scotland and Wales than in England, men and women in these countries experienced the same increase in life expectancy in absolute terms over the last decade.

Table 9: Cohort average life expectancy (years) at State Pension age - Men

	2000	2010	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
England													
Previous	19.1	21.2	22.0	22.1	22.2	22.3	22.4	22.6	22.7	22.8	22.8	22.5	22.3
Pensions Act	19.1	21.2	22.0	22.1	22.2	22.0	21.7	21.7	21.8	21.9	22.0	22.2	22.3
Wales													
Previous	18.6	20.6	21.5	21.6	21.7	21.8	21.9	22.1	22.2	22.3	22.3	22.0	21.8
Pensions Act	18.6	20.6	21.5	21.6	21.7	21.5	21.2	21.2	21.3	21.4	21.5	21.7	21.8
Scotland													
Previous	17.4	19.4	20.2	20.4	20.5	20.6	20.7	20.9	21.0	21.1	21.1	20.8	20.6
Pensions Act	17.4	19.4	20.2	20.4	20.5	20.3	20.0	20.0	20.1	20.3	20.4	20.5	20.6

Source: 2010-based principal population projections, ONS.

Table 10: Cohort average life expectancy (years) at State Pension age - Women

	2000	2010	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
England													
Previous	27.1	28.5	26.3	26.0	25.6	25.2	25.1	25.2	25.3	25.4	25.4	25.0	24.8
Pensions Act	27.1	28.5	26.3	25.7	25.1	24.5	24.2	24.2	24.3	24.5	24.6	24.7	24.8
Wales													
Previous	26.6	28.0	25.9	25.5	25.2	24.8	24.6	24.7	24.8	25.0	25.0	24.6	24.4
Pensions Act	26.6	28.0	25.8	25.2	24.6	24.1	23.8	23.8	23.9	24.0	24.2	24.3	24.4
Scotland													
Previous	25.3	26.7	24.7	24.3	24.0	23.6	23.4	23.5	23.7	23.8	23.8	23.4	23.2
Pensions Act	25.3	26.7	24.6	24.0	23.4	22.9	22.6	22.6	22.7	22.9	23.0	23.1	23.2

Source: 2010-based principal population projections, ONS.

45. ONS projections of cohort life expectancy imply that neither option would result in a widening of life expectancy at State Pension ages between constituent countries of Great Britain.

Regional impact

46. There are no projections of regional life expectancy. However, data from the Department of Health shows areas that, while the life expectancy of most of the areas with the worst health and deprivation indicators in England lags behind other more prosperous areas, some areas have seen increases in life expectancy greater than the England average. In Manchester, for example, male life expectancy has improved faster than the England average. [5]

Impact on people from different socio-economic backgrounds

47. While average life expectancy differs among people from different socio-economic backgrounds, national statistics suggest that there have been very substantial improvements in longevity at age 65 across all socio-economic groups (see Table 11).

Table 11: Improvements in life expectancy at age 65 for manual and non-manual workers

Improvement between:	**1977-81 and 2002-05**		**1992-96 and 2002-05**		**1997-2001 and 2002-05**	
	years	**%**	**years**	**%**	**years**	**%**
All men	4.0	31.7	2.1	14.5	1.1	7.1
Non-manual	3.9	27.9	2.1	13.3	0.8	4.7
Manual	3.6	29.3	1.9	13.6	1.2	8.2
All women	2.7	16.2	1.3	7.1	0.7	3.7
Non-manual	2.6	14.5	1.0	5.1	0.6	3
Manual	1.8	10.7	1.1	6.25	0.8	4.5

Note: These are period life expectancy data from ONS Longitudinal Study. Period life expectancy data may underestimate actual life spans as they do not take account of known and/or projected improvements in age-specific mortality. Manual worker groups are defined as socio-economic groups IIIM (skilled manual), IV (partly skilled) and V (unskilled). Non-manual worker groups are defined as socio-economic groups: I (professional), II (managerial & technical), IIIN (skilled non-manual).

48. Data from ONS Longitudinal Study covering England and Wales suggests that had State Pension age risen by one year between the periods 1997-2001 and 2002-05 (the latest period for which data in this series are available), men and women from the manual classes who reached State Pension age in the 1997-2001 period would spend, on average, no less time in receipt of State Pension than had they retired in the period 2002-05. The proportion of people surviving to this higher State Pension age would also not have been reduced.

Table 12: Life expectancy (years) by social class – change in recent years

	Life expectancy at age	I	II	IIIN	IIIM	IV	V		Non-manual	Manual		All
Male												
1992-1996	65	17.1	15.7	15.4	14.3	14.0	12.6		15.8	14.0		14.6
1997-2001	65	18.3	17.1	16.7	15.2	14.1	13.3		17.1	14.7		15.6
2002-2005	66	17.4	17.3	16.6	15.5	15.0	13.3		17.1	15.2		15.9
Female												
1992-1996	60	25.6	23.9	23.4	22.1	21.4	20.6		23.7	21.5		22.2
1997-2001	60	24.8	24.3	24.1	22.3	21.9	21.0		24.2	21.9		22.8
2002-2005	61	25.5	24.5	23.3	22.0	22.1	20.8		24.0	21.9		22.7
2002-2005	62	24.5	23.7	22.5	21.1	21.3	19.9		23.1	21.0		21.8

[5] Department of Health (2009).*Tackling Health Inequalities: 2006-08 Policy and Data Update for the 2010 national target.*

Note: These are period life expectancy data drawn from ONS Longitudinal Study (based on the RGSC classification). Period life expectancy data may underestimate actual lifespans as they do not take account of projected improvements in age-specific mortality.

49. This suggests that, if these trends continue, an increase in State Pension age of a year by 2020 should not lead, on average, to a reduction in the time spent in receipt of state pensions by people previously employed in manual occupations.

Table 13: Survival probability (%) from age 50 by social class – change in recent years

	Survival to age	I	II	IIIN	IIIM	IV	V		Non-manual	Manual		All
Male												
1992-1996	65	91.1	88.7	87.2	84.5	85.4	76.2		88.7	83.9		85.5
1997-2001	65	92.0	90.8	88.8	86.5	85.9	82.0		90.4	85.9		87.4
2002-2005	66	93.4	90.9	89.9	87.8	86.6	83.2		91.0	87.0		88.2
Female												
1992-1996	60	98.1	96.6	96.8	95.9	95.4	94.2		96.8	95.5		96.0
1997-2001	60	96.8	96.6	96.5	95.9	95.1	94.8		96.6	95.5		96.0
2002-2005	61	98.1	96.1	96.6	96.1	95.1	94.8		96.6	95.6		96.0
2002-2005	62	97.9	95.5	96.1	95.5	94.3	94.5		96.0	94.9		95.4

Note: These are period life expectancy data drawn from the ONS Longitudinal Study. Period life expectancy data may underestimate actual lifespans as they do not take account of projected improvements in age-specific mortality.

Healthy Life Expectancy/Disability Free Life Expectancy

50. The distinction between life expectancy and healthy life expectancy is important, and the data show that long-term differences by socio-economic status and geographical area do exist.[6] The Government as a whole is committed to reducing these long-term differences. Average healthy life expectancy and disability-free life expectancy are not rising as quickly as life expectancy – but they are rising. Men and women of 65 in 2007 could expect to enjoy about three extra years of healthy life, on average, when compared to 1981.[7]

51. Assuming past trends in healthy and disability-free life expectancy continue, while bringing forward the increase to 66 to 2020 would reduce the average period in retirement spent in good health or disability-free compared to the previous timetable, this should remain above the 2010 level among men.

52. The impact of the change could be stronger on women, as their life expectancy is projected to grow at a slower pace than that for men, and healthy and disability-free life expectancy has increased less rapidly in the past. However on the basis of past trends, while it could reduce slightly the period in retirement spent in good health or disability-free among women, they should still enjoy healthier retirements than men on average.

Labour market

53. Based on the assumptions noted in paragraph 34, the Pensions Act would result in an additional 260,000 people working in 2022.

Table 14: Additional number of people working (thousands)

Option	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Pensions Act	140	170	200	230	250	260	260	230	200	170	130

Note: Rounded to the nearest ten thousand. Data relates to people aged between 16 and 74.

6 The Marmot Review. (2010). *Fair Society, Healthy Lives*.

7 DWP estimates from period average healthy life expectancy tables in Great Britain for 1981-2005. ONS. (2010). *Healthy Life Expectancy at birth and at age 65 in Great Britain and England, 1981-2001*, and ONS. (2010). *Health expectancies at birth and at age 65 in the United Kingdom 2000-02 to 2006-08*. Please note there is a break in the data series due to revised methodology.

54. Increasing State Pension age is projected to slightly reduce the proportion of people aged 50 to 65 who are inactive (i.e. neither employed nor seeking work); however within that overall group, the impact on those aged 65 is projected to be more significant with a reduction of up to 22 per cent in the number of inactive people in that age group during the years affected by the State Pension age change.

Table 15: Percentage change in the number of 55-65 year olds who are inactive

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Pensions Act	-3%	-5%	-6%	-7%	-8%	-9%	-8%	-7%	-5%	-4%	-2%

Note: Rounded to nearest whole percent

Table 16: Percentage change in the number of 65 year olds who are inactive

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Pensions Act	0%	-5%	-11%	-15%	-21%	-22%	-22%	-18%	-14%	-10%	-4%

Note: Rounded to nearest whole percent

Impact on gross employment earnings and on GDP

55. An increase of one year in the average effective working life has been estimated to result in additional annual national output worth up to 1 per cent of GDP[8].

56. The projected rise in the number of people working as a result of the rise in State Pension age could generate a significant increase in gross employment earnings. Under the new timetable the peak increase compared to baseline would be of £5.0 billion in 2022.

Table 17: Additional gross employment earnings as a result of more people working (£ billion, 2011/12 prices)

Option	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2010	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	2026/ 2027
Pensions Act	2.3	2.9	3.5	4.1	4.6	4.8	5.0	4.5	4.0	3.4	2.7

Note: Rounded to the nearest £0.1 billion.
Summary on pages 2 and 4 excludes data for tax year 2026/27 as it is outside the policy period.

57. The increase in labour supply will also boost GDP above the projected baseline. On the basis that employment earnings account for around 60 per cent of gross value added[9] and assuming a constant capital-labour ratio, GDP could be between £7 billion and £9 billion higher in 2022. In the period 2016 to 2026, the increase in labour supply due to the increase in State Pension age could boost national output by £70 billion.

Table 18: Impact of additional employment on GDP (£ billion, 2011/12 prices)

Option	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2010	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	2026/ 2027
Pensions Act	3.8	4.8	5.8	6.8	7.6	8.1	8.3	7.6	6.7	5.6	4.5

Note: Rounded to the nearest £0.1 billion.

[8] Barrell, R., Hurst, I., and Kirby, S. (2009). *How to Pay for the Crisis or Macroeconomic implications of pension reform*. NIESR Dp no. 333.
[9] See ONS Blue Book, Section 2.

Private sector

58. There is a small consequential impact on the private sector under either option.

59. State Pension age is unrelated to the Default Retirement Age (DRA). The DRA has been phased out, which may have an impact on the private and public sectors, but that policy change is not dependent on the proposals discussed in this paper.

60. There will be an impact on a number of private sector schemes which offer bridging (or integrated) pension arrangements, and the Department has undertaken a technical consultation with a small number of stakeholders to inform further consideration of this issue.

61. In the Call for Evidence, three organisations and nine individuals raised concerns about the impact of bringing forward the increase to age 66 on schemes providing bridging pensions, and on individuals receiving them. Such pensions are paid in advance of State Pension age at an initial higher rate, and then reduced when the recipient reaches State Pension age to reflect the fact that State Pension is then payable. Some scheme rules require bridging pensions to be paid up until State Pension age, but Schedule 28 of the Finance Act 2004 currently places an upper age limit of 65 on these arrangements. It is also possible that the trustees of some schemes will need to consider the terms of their scheme's rules in the light of the changes to State Pension age. The Government is considering whether changes to legislation should be introduced in order to address the issues which have been raised, and will clarify its conclusions about this as soon as possible.

Implementation

62. Implementation by DWP will consist of IT changes and communicating the change to customers, with consequential call handling.

63. An initial assessment of the required IT changes has been performed. Several systems will need to be updated, with some work from 2011 but the bulk carried out in 2014/15 and 2015/16.

64. As well as ensuring that information about the changes is available on its website and in its leaflets and guides, the Government intends to communicate these changes in State Pension age to individuals affected in a timely way. Between January and the end of March 2012, the Department will write to around 800,000 individuals born between 6 April 1953 and 5 April 1955. People born between these dates will either have a State Pension age between birthdays, or would have been affected by the original equalisation timetable.

65. Over the implementation period there is a potential for peaks of customer activity, particularly claims for State Pension. Plans will be in place to deal with the effects of this on DWP operational delivery businesses.

Post Implementation Review (PIR) Plan

66. Implementation does not finish until October 2020. In light of increased longevity, the Government will consider the current timetable for further rises in State Pension age, with due regard to any available evidence about the impact of the policy discussed in this assessment, and put forward proposals in due course.

Annex

Equality impact assessment

Contents

1. Introduction

1.1. On 3 November 2011, the Government published its proposals for bringing forward the increase in the State Pension age to 66, in "*A sustainable State Pension: When the State Pension age will increase to 66"* (the White Paper).[10]

1.2. The Government has legislated to increase the State Pension age to 66 for both men and women by October 2020, bringing forward the date from which it was due to reach 66 under legislation passed in 2007 by five and a half years. Under the timetable included in the 1995 Pensions Act, women's State Pension age, which is gradually being increased to bring it into line with men's, was not due to reach 65 until April 2020. To bring forward the increase in State Pension age without increasing the gap in State Pension age between men and women, women's State Pension age will first be increased to 65 more quickly between April 2016 (when it will be 63) and November 2018.[11] The increase to 66 will then be phased in between December 2018 and October 2020.

1.3. As a result of these changes, introduced by the Pensions Act 2011, women born from 6 April 1953 to 5 April 1960 and men born from 6 December 1953 to 5 April 1960 will have a higher State Pension age than if no change to the original timetable had been made.

Why bring the increase to 66 forward?

1.4. The previous timetable for increasing the State Pension age from 65 to 68 between 2024 and 2046 was designed to reflect projected increases in average life expectancy. The decision to raise the State Pension age, taken by the previous Government, followed broad acceptance within and outside Parliament of the reality that rising longevity can no longer be ignored if the State Pension is to be both affordable in the long-term, and provide a decent foundation income in retirement.

1.5. Since that timetable was set in 2007, the projections it was based on have been revised, adding a year and a half to the time people retiring in 2026 can, on average, expect to spend drawing their State Pension. Without corrective action, this would have resulted in increased spending on the State Pension. While restoring stability in the public finances both in the immediate and longer term is a clear priority, this Government is also committed to reversing the historical decline in the value of the basic State Pension. Accordingly, the Government has guaranteed that it will be increased by the highest of the increase in average earnings or prices or 2.5 per cent, from April 2011.

1.6. The Government considers that bringing forward the timing of the increase to 66 is a necessary adjustment to ensure we continue to share the extra cost of rising longevity fairly between those contributing to and those receiving the State Pension.

Scope of this assessment

1.7. The Equality Act 2010 simplifies and strengthens the existing framework of anti-discrimination legislation. Under the Act, from April 2011 a new public sector equality duty took effect, replacing the three current public sector duties covering race, disability and gender equality with a new duty providing protection against discrimination on the grounds of race, disability, gender, age, gender reassignment, sexual orientation, pregnancy and maternity, and religion and belief (the protected characteristics).

1.8. This assessment looks at the available evidence to determine the extent to which the effect of the change differs between persons sharing a protected characteristic and persons who do not. In particular, it looks at:

[10] Cm 7956. The White Paper can be found at www.dwp.gov.uk/spa-66-review

[11] European Union Directive 79/7 requires Member States to implement equal treatment between men and women in social security matters. The current timetable for equalising the State Pension age was set by the Pensions Act 1995. Any change to that timetable that either increased the existing gap between men and women or delayed the point at which the pension ages became equal is likely to breach the terms of the Directive.

- the impact on the time a person may receive their State Pension;
- the effect on a person's income in retirement; and
- the likelihood of a person being able to adjust to the new State Pension age (for example, by working longer).

1.9. The assessment does not however look at sexual orientation or religion and belief, as we have insufficient evidence on which to base conclusions. Nor does it look at pregnancy and maternity as the change is unlikely to affect anyone in that protected group.[12]

Evidence base

1.10. This assessment is largely based on Office for National Statistics (ONS) data on life expectancy, evidence drawn from survey data, and DWP modelling.

1.11. As part of the Call for Evidence published on 24 June 2010,[13] we asked:

> What evidence should the Government consider to ensure no group is disproportionately impacted by the level of the State Pension age and any change to the timing of the State Pension age increase to 66?

1.12. This question was included to help ensure we considered as wide a range of evidence as possible in the Equality Impact Assessment. Many of the responses drew attention to evidence of differences in life expectancy and healthy life expectancy between different socio-economic groups. This issue is addressed in Chapter 2 of the White Paper.

1.13. Specific issues raised in relation to equality impacts included:

- the potential risk of treating men less favourably than women, if men's State Pension age was increased to 66 earlier than women's;
- different patterns of labour market attachment at older ages between men and women;
- the potential for differential impacts on disabled people and people from certain ethnic minorities, who may be less likely to be able to work up to a higher State Pension age.

1.14. However, as acknowledged by the Equalities and Human Rights Commission, there is a lack of data available in some of the protected areas. This restricts the extent to which we are able to predict the impact of the proposed rise in State Pension age. This is particularly the case in relation to data on life expectancy – clearly important in analysing the impact of the proposed change – where the only protected characteristic for which projections are published is gender.

[12] Protection under the Equality Act applies to women who are pregnant or on maternity leave; or, if not in employment, for the period of six months after the birth.
[13] The call for evidence ran from 24 June to 6 August: the published document can be found at www.dwp.gov.uk/spa-66-review

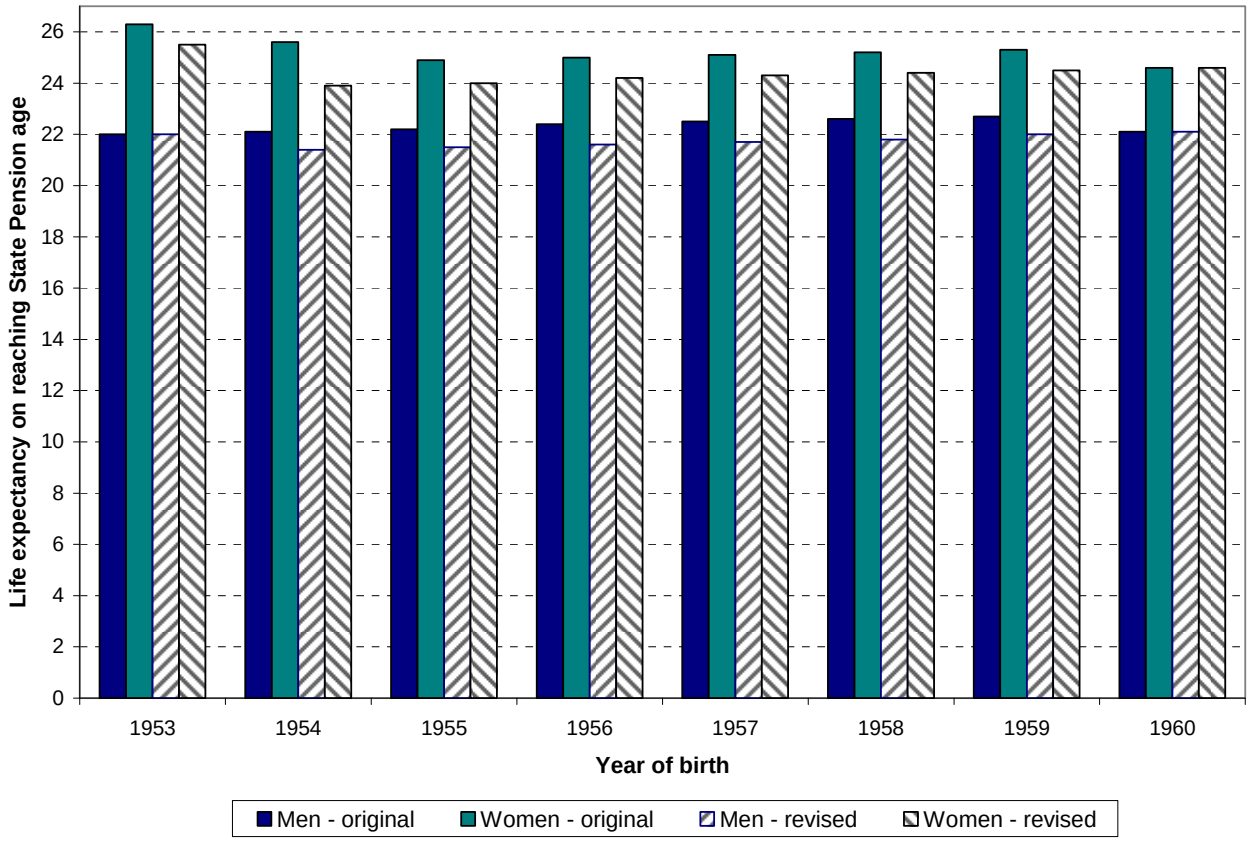
2. Gender impact

Impact on time in receipt of the State Pension

2.1. As explained in the opening paragraph, under the original timetable, before April 2020 women could start receiving their State Pension at a younger age than men. The proposed change brings forward the point at which men's and women's State Pension ages were due to be equalised at 65, from April 2020 to December 2018. This means that all men and women born on or after 6 December 1953 will have the same State Pension age.

2.2. Bringing forward the timetable for equalisation, followed by the further rise to 66 between December 2018 and October 2020, means that while the increase in State Pension age would never exceed a year for men, some women would have their State Pension age increased by more than a year compared to the legislated timetable. We estimate that around 300,000 women in Great Britain born between 6 December 1953 and 5 October 1954 will have their State Pension age increased by 18 months. However, because women tend to live longer than men, the proposed change will still mean women will be able to draw their State Pension for longer than men, on average.

Figure 1: Average life expectancy under original and new State Pension age



Source: ONS 2010-based principal projections; UK average mean cohort measure
See Appendix for data table.

Impact on lifetime pension income

2.3. This difference in life expectancy means that the increase in State Pension age has a slightly different impact on total lifetime pension income for men and women, depending on their income level and whether they work up to their new State Pension age. To help understand this, we have modelled the impact using hypothetical examples of single individual male and female high, median and low earners. For the purposes of the model, we have assumed that:

- the high and median earners have worked and saved into a private Defined Contribution scheme[14] from age 25;
- if they work on to their new State Pension age, they continue to add to their private pension pot and annuitise it on reaching that age;
- the low earners have no private saving, and build up insufficient State Pension to exceed the threshold for Pension Credit; [15]
- all income groups will experience the projected average life expectancy for men and women at their respective State Pension ages.

2.4. Note that this analysis focuses on illustrating the impact on income in retirement. So, while as explained below, it indicates a reduction in post-retirement income, it does not take account of gains in working-life income through earnings (or working-age benefits) received in the period up to the new State Pension age that will either wholly or partially replace the income a person would have received from their private and / or State Pensions.

2.5. Based on this model, men born between 1955 and 1959 would generally lose a slightly higher proportion of their lifetime pension income as a result of the increase in State Pension age than women in the same age group, because the increase of a year comprises a slightly higher proportion of a man's post-State Pension age lifetime than a woman's, on average. In most cases, this equates to a reduction of around 5 per cent in State Pension income compared to 4 per cent for women. When private pension saving is taken into account, the relative loss would still be marginally higher for men than women, but for both, the overall reduction (state plus private pension) would be between 3 per cent and 4 per cent.

2.6. For high and median earners, working on to the higher State Pension age of 66 would, based on this model, reduce the loss to around 2 per cent of lifetime pension income for both men and women. Men are able to close the gap with women mainly because they tend to earn more than their female equivalents and are therefore able to boost their retirement income by more through higher contribution rates to their private pension "pot". (And, having worked on and added to their pension pot, from the point at which they retire, both men and women would have a slightly higher annual income in retirement compared to retiring at 65.) For both men and women without private saving and dependent on Pension Credit, working on may not result in any improvement to post-retirement income. This is because any resultant gain in State Pension accruals (either by adding qualifying years if they had had fewer than the 30 required for a full basic State Pension, or by increasing their State Second Pension) would be offset by reduced Pension Credit entitlement.

2.7. If we compare men and women born in 1954, the relative loss in lifetime pension income is greater for women than men in the high and median income groups because they will experience a bigger increase in State Pension age than their male counterparts. However, working on would limit the overall reduction to around 3 per cent (again assuming continuing contributions to a private pension pot). However, the effect of an additional 18 months' saving would be to generate an extra 3 per cent total lifetime pension income for the period from age 66 onwards for a woman on median earnings. An equivalent man on median earnings would see an increase of 3 per cent extra total lifetime pension income from age 66 onwards (the result of working and saving for an additional year).

2.8. Of those born in 1954, men and women on low incomes – i.e. characterised by this model as those reliant on Pension Credit, with no private pension saving – would be most affected. As Pension Credit qualifying age rises in line with women's State Pension age, entitlement to Pension Credit for both men and women would start up to 18 months later than under current plans. As a consequence, women in this situation would lose up to around 6 per cent of the total

[14] The modelling assumes a full career and saving 8 per cent of earnings in a non-contracted out DC scheme throughout. Under a DC scheme, the pension is determined by the contributions made and any return earned on the accumulated contributions, and by the expected length of retirement. Further details and tables showing the results of the modelling are in table 8 of the Impact Assessment.

[15] Pension Credit is an income-related benefit. The standard minimum guarantee credit can be claimed by both men and women at women's State Pension age and provides an income (in combination with any other income from other sources) of £137.35 per week for a single person and £209.70 for a couple (rates from April 2011). The State Pension can consist of a flat-rate basic pension and/ or additional State Pension (now known as State Second Pension) related to the level of a person's actual or credited earnings between set thresholds.

lifetime pension income they would otherwise have received had their State Pension age been unchanged, while men would lose up to 7 per cent. If we also adjust to take account of the fact that people in the lowest income groups are likely to have lower than average life expectancy, this could equate to a loss of up to 8 per cent. It is difficult to estimate how many this could affect due to limitations on forecasting Pension Credit receipt. But a very indicative estimate, based on current patterns of receipt, suggests that around 11 per cent of women and 15 per cent of men reaching 64 in 2018 may be affected to some extent by an increase in Pension Credit qualifying age of more than a year (including men and women who are members of a couple) although the maximum possible increase of two years will only affect a small proportion of these.

2.9. This potential reduction needs however to be set in context. Life expectancy for all social groups, including those in the bottom socio-economic group, has improved significantly over the last decades. As an illustration, data from the ONS longitudinal study of life expectancy by socio-economic classes indicates that between 1992-96 and 2002-05, life expectancy at 65 for former male manual workers rose by 13.6 per cent[16]. Similarly, the generosity of state pensions for those on low incomes has also increased: Pension Credit for a single individual amounts to 22.2 per cent of average earnings (33.8 per cent for a couple). This compares to 18.8 per cent (29.2 per cent for a couple) of average earnings provided in 1992 by Income Support for a person aged 60-74.[17]

2.10. Because women tend to live longer than men, women would receive more State Pension income over their lifetime than a man with a comparable National Insurance (NI) contribution record. This also applies for those women whose pension age will be increased by two years compared to a man with a one-year increase.

2.11. Women historically have weaker NI contribution records than men and consequently lower State Pension outcomes. However, women reaching State Pension age from April 2010 onwards are expected to have higher State Pension entitlements as a result of number of changes made to the State Pension over the last 30 years, including those introduced by the Pensions Act 2007. [18] As a result of these changes, by late 2018 – when State Pension ages will be equalised at 65, 16 months earlier than planned – around the same proportion of women as men (around 90 per cent) are expected to reach State Pension age with entitlement to a full basic State Pension.

2.12. Women also lag behind men in building up additional (i.e. earnings-related) State Pension. While changes made in 2002 to boost the accrual rate for low earners and enable carers to built up rights for the first time plus further reforms under the 2007 Act are also expected to boost women's additional State Pension accruals, they are not projected to catch up with men's until at least 2040. Equality in the amount of total State Pension received would, even under the previous timetable, therefore not be achieved until at least two decades after State Pension age equalisation.

2.13. However, even though women with similar levels of State Pension entitlement to men receive more State Pension income in retirement over their lifetimes, men in the high and median income groups would still have higher overall total lifetime retirement incomes than their female equivalents, because men tend to have higher rates of private pension provision.

2.14. Working longer, combined with the introduction of auto-enrolment, should enable more women to save for longer in a private pension scheme. Assuming that equalising the State Pension age will result in more women working to older ages (see paragraph 2.21, below) this should go some way towards addressing the current imbalance in retirement incomes between men and women.

Likelihood of adjusting to the new State Pension age

[16] Period life expectancy data by socio-economic class. Manual worker groups are defined as socio-economic groups IIIM (skilled manual), IV (partly skilled) and V (unskilled). Non-manual worker groups are defined as socio-economic groups: I (professional), II (managerial & technical), IIIN (skilled non-manual).
[17] Source: DWP Annual Abstract of Statistics, 2010 edition, p. 49 table 2.9
http://research.dwp.gov.uk/asd/asd1/abstract/abstract2010.pdf
[18] As well as legislating to increase the State Pension age to 68, the Pensions Act 2007 included measures to improve coverage by reducing the number of contribution years needed for a full basic State Pension to 30 and extending the existing arrangements for recognising caring responsibilities.

2.15. In this section we look at differences between men's and women's employment rates at older ages, and the reasons for being out of the labour market. While the proportion of people aged 50 to State Pension age who are actively engaged in the labour market has increased in the last decade, it is still below that of the population aged 16 to State Pension age as a whole. As the table below shows, the employment rate differs between men and women: while men are more likely to be in employment than women in each age band, the proportion of men in employment drops off more steeply in the five years before pension age, whereas women are more likely than men to be in work in the five years immediately before and after State Pension age.

Table 1: Labour market activity as a percentage of population

	Age 50-54 %	Age 55-59 %	Age 60-64 %	Age 65-69 %	Age 70+ %
All					
Employed	79.7%	69.8%	44.4%	19.6%	4.2%
Unemployed	3.9%	3.8%	2.0%	*	*
Inactive	16.1%	25.5%	54.0%	80.4%	95.4%
All	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Men					
Employed	82.9%	74.0%	55.2%	23.3%	6.5%
Unemployed	4.9%	5.2%	3.3%	*	*
Inactive	12.2%	20.8%	41.5%	76.3%	93.3%
All	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Women					
Employed	76.6%	65.6%	34.2%	16.2%	2.4%
Unemployed	2.5%	2.9%	*	*	*
Inactive	20.4%	31.9%	65.1%	83.5%	97.6%
All	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Note: The unemployed rate is a proportion of the population not the International Labour Organisation unemployment rate

* Not significant due to small sample size

Totals may not sum due to rounding. Data is subject to sampling variation. Accuracy of data may be constrained by small sample size in some cases,

Source: Labour Force Survey, Q2 2011

2.16. As Table 2 shows, up to age 60, ill-health or disability is the main reason given for being "inactive" – that is, neither working nor looking for work – for both men and women, with men more likely to be inactive for this reason than women. In the five years immediately before State Pension age, however, retirement becomes the single biggest reason for inactivity among men; more than double that of women.

2.17. While the next-biggest reason for inactivity after ill health among men is retirement, a significantly higher proportion of women than men are inactive because of looking after family and home: 34.1% of women aged 50-54, and 23.9% of women aged 55-59 cite this as reason for inactivity, compared to 12.2% of men aged 50-54 and 6.5% of men aged 55-59.

Table 2: Reason for inactivity, as a proportion of total inactive

	Age 50-54 %	Age 55-59 %	Age 60-64 %	Age 65-69 %
All				
sick, injured or disabled	54.3%	47.7%	21.8%	8.9%
looking after family and home	27.0%	18.2%	5.9%	2.3%
retired and would like work	*	*	1.8%	2.7%
retired and does not want work	4.6%	19.8%	63.8%	82.8%
Does not need or want employment	4.8%	7.1%	3.1%	1.6%
Others	9.1%	6.5%	3.7%	1.6%

Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Men				
sick, injured or disabled	68.3%	59.6%	38.6%	10.9%
looking after family and home	12.5%	8.3%	3.7%	*
retired and would like work	*	*	1.7%	3.3%
retired and does not want work	5.9%	19.6%	47.5%	81.5%
Does not need or want employment	*	5.3%	3.4%	1.8%
Others	9.4%	6.4%	5.0%	1.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Women				
sick, injured or disabled	46.2%	40.3%	11.6%	7.3%
looking after family and home	35.4%	24.3%	7.3%	3.5%
retired and would like work	*	*	1.8%	2.2%
retired and does not want work	3.8%	19.9%	73.7%	83.9%
Does not need or want employment	5.6%	8.3%	2.8%	1.3%
Others	9.0%	6.5%	2.8%	1.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

* Not significant due to small sample size
Totals may not sum due to rounding. Data is subject to sampling variation. Accuracy of data may be constrained by small sample size in some cases
Source: Labour Force Survey Q2 2011

2.18. Whilst Table 2 shows ill health as a major reason for being out of the labour market, in recent years, there has been some reduction in the proportion of people in the age group 50 to 59 (women) and 64 (men) who are inactive for this reason, falling from 15.7% to 11.7% between 1998 and 2011. The trend is slightly more marked among men, currently standing at 12.1% from a position of 16.5% in 1998. The corresponding improvement for women is slightly less strong, with a decrease from 14.7% to 11.0%.

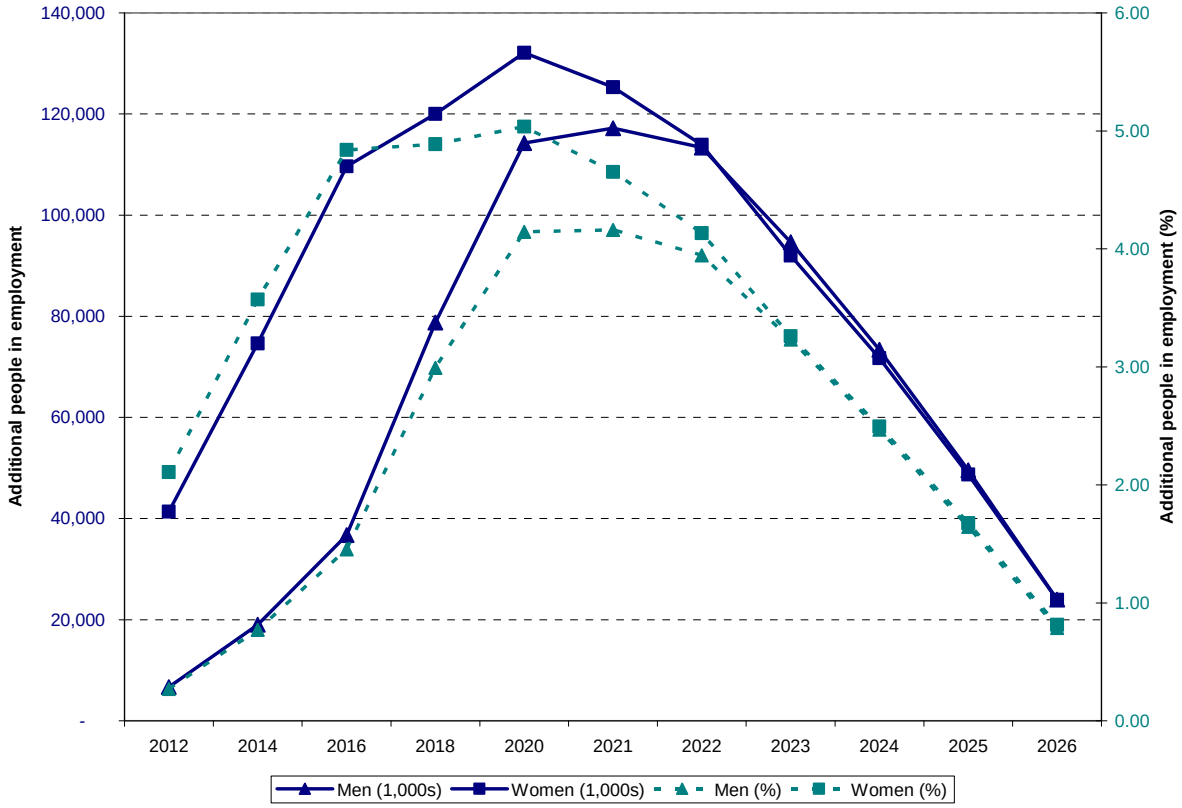
2.19. There has also been a steady downward trend in the proportion of women who cite caring for family or home as the reason they are not economically active, with a fall from 11.2 per cent in the second quarter of 1998 to 7.5 per cent in the second quarter of 2011. The Government is committed to extending flexible working arrangements to older workers, which should enable more people to combine paid work with managing their health needs and caring responsibilities, and further accentuate this downward trend.

2.20. Although the proportion of women aged 55 to 65 who are out of the labour market is currently 17.6 percentage points higher than the corresponding proportion of men (51.3 per cent compared to 33.6 per cent), by 2020 that gap was projected to have narrowed by ten percentage points as women's State Pension age gradually increased to 65. While speeding up the State Pension age equalisation timetable is not projected to increase dramatically the rate at which the gap shrinks, it is still expected to have a positive effect, narrowing the gap from 10.7 per cent to 9.1 per cent in 2016 and from 7.8 per cent to 7.6 per cent in 2020. [19]

2.21. While the average age for women to leave the labour market is currently 62.7 – i.e. around two years after State Pension age - this is still two years earlier than men (64.5).[20] Equalising the State Pension ages earlier, and bringing forward the increase to 66 is expected to result in an increase in the number of both men and women working at older ages, compared to the original timetable (see Figure 2)[21].

Figure 2: Estimated additional increase in employment levels and rates compared to legislated timetable: men and women aged 55 to 65

[19] Source: HMT cohort employment model, based on Labour Force Survey data.
[20] Labour Force Survey Q2 2011.
[21] Modelling does not take account of potential impacts from joint decision making on retirement for couples.



Source: HMT cohort employment model
See Appendix for data table.

2.22. The analysis in this section demonstrates that, although there are some positive trends, for a variety of reasons, older people are less likely to be in work than younger age groups, and older women are less likely to be employed outside the home than men. While these differences are in part explained by early retirement, for people not in work and without access to a private pension the change is likely to mean they will need to rely on working-age benefits or a partner's income. However, this risk, which is likely to be stronger for women than men, already existed under the previous timetable for increasing women's State Pension age to 65 and subsequently increasing it to 66 for men and women.

2.23. The Government is committed to removing barriers to employment for older people through measures such as extending flexible working and has phased out the Default Retirement Age. Those unable to work to the higher State Pension age will, as now, be able to receive working-age benefits.

Summary – gender impact

2.24. This change will close the current gender gap in State Pension age more quickly and thereby reduce the advantage currently enjoyed by women over men as a result of a lower pension age and higher life expectancy. Women will, however, on average still receive their State Pension for longer than men. By late 2018 (when the State Pension ages will be equal) over 90 per cent of both women and men reaching State Pension age are likely to have built up a full basic State Pension.

2.25. The picture in relation to the impact on lifetime pension income is more complex, in part due to the effect of earlier equalisation. All other things being equal, in general men would lose a slightly higher proportion of their lifetime pension income than women as a result of increasing the State Pension age to 66 more quickly, because of lower average life expectancy. However, because of higher average earnings, men may be in a better position than women to offset part of this loss through higher additional contributions to a private (Defined Contribution) pension scheme. In contrast, the proportionate loss of lifetime pension income for women affected by the maximum increase of 18 months would generally be greater than for their male contemporaries, other than those men whose entitlement to Pension Credit would also be delayed by the same amount.

2.26. Overall, we conclude that while some aspects of the change will impact women more strongly than men, the impact is not disproportionate and is a consequence of closing the gender gap in State Pension age earlier than under current plans. Women who work for longer have the opportunity to improve their pension provision placing them in a better position to fund their retirement.

3. Gender reassignment impact

3.1. Legal recognition of a transsexual person's acquired gender can have implications for their State Pension entitlement. Currently, a transsexual woman born before 6 April 1955 will have a lower State Pension age in her acquired gender than in her birth gender; the opposite is the case for a transsexual man.

3.2. With the change to the previous timetable, men and women born on or after 6 December 1953 will have the same State Pension age as a person of the opposite sex born on the same day. It will therefore bring forward the point from which the anomalies linked to unequal State Pension ages that affect transsexual people are removed.

3.3. More generally, we have no evidence to suggest that the change would have a measurably differential impact on trans people compared to non-trans people.

4. Race impact

Impact on time in receipt of State Pension

4.1. Robust projections of life expectancy data by ethnicity are not available. This is principally because a person's ethnicity is not recorded on the death certificate. A number of attempts have been made to estimate life expectancy by ethnicity, for example by using self-reported limiting long-term illness as a predictor for mortality rates and / or data on small area geographical mortality rates combined with data on ethnic population distributions. [22] While these methods have limitations, they provide some evidence that life expectancy may vary according to a person's ethnic background.[23]

4.2. ONS analysis of the 2001 Census data for England and Wales shows distinct variations between different ethnic groups in self-reported rates of long-term illness or disability which restricted daily activities. After taking account of the different age structures of the groups, Pakistani and Bangladeshi men and women had the highest rates of disability. Rates were around 1.5 times higher than people of White British background. In contrast, Chinese men and women had the lowest rates.[24]

4.3. Analysis undertaken in 2007 of Labour Force Survey data 2002-5 of responses to the questions "*Do you have any health problems or disabilities that you expect will last for more than a year?'* and "*Do these health problems or disabilities, when taken singly or together, substantially limit your ability to carry our normal day to day activities?"* demonstrates similar findings in respect of the relative prevalence of disability among people aged 40 and over of Pakistani, Bangladeshi, Black African and White British ethnic background.[25]

4.4. While there are variations between ethnic groups in the prevalence of certain health conditions, there is no clear evidence that ethnicity itself plays a strong part in differences in life expectancy.[26] There is stronger evidence that variations are likely to be primarily associated with socio-economic status. There is evidence to suggest that people of Pakistani and Bangladeshi origin have lower levels of employment and income than other ethnic groups and are

[22] For example, Rees, P. and Wohland, P. (2008) *Estimates of Ethnic Mortality in the UK* Working Paper, The School of Geography, The University of Leeds.
[23] *Ibid.* The estimates suggest that individuals from Pakistani and Bangladeshi ethnic backgrounds may have lower life expectancy on average than individuals from White British backgrounds whilst those from Chinese and Black African backgrounds may have higher life expectancy.
[24] ONS 2005: Focus on ethnicity and identity: Ethnicity and Identity Summary report
[25] Salway, S., *et al.* (2007) Cited: Allmark, P. *et al* (2010) *Ethnic Minority customers of the Pension, Disability and Carers Service: an evidence synthesis* DWP Research Report 684, p.11
[26] Parliamentary Office of Science and Technology: Postnote *Ethnicity and Health* January 2007 No. 276.

consequently more likely to be in manual and unskilled social classes.[27] [28] By contrast, there is also evidence to suggest that some ethnic groups are more likely than the White British population to be in social classes with higher life expectancies so it is important to recognise that the picture is not uniform.

4.5. While we do not have robust life expectancy data based on ethnicity, we do know that life expectancy for all social classes and all local authority areas has increased in recent decades. We have therefore considered the evidence in relation to life expectancy by social class, as a means of looking at the potential impact of the proposed change on different ethnic groups.

4.6. In particular, DWP analysis of data extracted from the ONS Longitudinal Study on life expectancy by social classes in England and Wales suggest that had State Pension age increased to 66 in the period 2002-05 (the most recent date for which this data is available) men in the lower socio-economic groups would still on average have spent no less time in receipt of State Pension than men in the same social classes reaching State Pension age at 65 in 1997-2001 (see Impact Assessment, Table 12). If we make the same comparison over a ten-year period, the data suggest that men in all social classes retiring at 66 in 2002-05 would spend longer in receipt of State Pension than those retiring at age 65 in 1992-96.

4.7. If these trends continue, this suggests that increasing the State Pension age to 66 by 2020 may not reduce time spent in receipt of State Pension for men for any social group compared to those reaching State Pension age today. By extension, this may suggest that the change would not have a disproportionate impact between ethnic groups in terms of time spent receiving the State Pension for men – assuming that socio-economic status is a reasonable substitute for ethnicity-based life expectancy estimates.

4.8. Similarly, the data suggest that if the State Pension age for women had been increased from 60 (actual State Pension age) in 1997-2001 to 61 in 2002-05, women from the manual classes who reached that age would spend, on average, no less time in receipt of State Pension had they retired in the later period than if they had retired in the earlier one.

4.9. A State Pension age increase of 18 months for women, on the other hand, would have reduced time spent in receipt for all social groups compared to those reaching State Pension age five years earlier. This reduction would however have been no greater for those in the least advantaged socio-economic group relative to those in the skilled manual and skilled non-manual groups. The same applies when the comparison is made over a ten-year period. This suggests that while there will be a negative impact on women in all social classes from the increase in State Pension age to 66 by October 2020 (which, for some women would entail an increase of 18 months), it should not disproportionately affect women from any one ethnic group as compared to another in terms of reducing relative length of time in retirement – again, on the assumption that socio-economic status is a reasonable substitute for life expectancy differences between ethnic groups.

Impact on lifetime pension income

4.10. Based on our modelling of how the change will affect lifetime pension incomes of hypothetical single individuals (see paragraphs 2.3 to 2.8), although this approach clearly has limitations, it is indicative of the relative impact of the change. In particular, it shows that people who rely mainly on the State Pension and Pension Credit in retirement will lose proportionately more than higher earners who carry on contributing to their private pension income.

4.11. Relating this to differences between ethnic groups, of current pensioners, people of Black or Black British origin have the lowest levels of non-State Pension and investment income (£46 per week), compared to White (£155), Asian/Asian British (£133) or Chinese/ Other (£120) and a higher proportion of those from that ethnic minority group are receiving income-related benefits

[27] Estimates derived from 2001 census data show that in England and Wales around 40 per cent of people of White British origin are in manual social classes (classes IIIM, IV & V) compared to 47 per cent of Pakistani and 51 per cent of Bangladeshi. However these are not national statistics and should be treated with extreme caution.
[28] Berthoud, R. (1998) *The Incomes of Ethnic Minorities*. York, Joseph Rowntree Foundation

(53 per cent compared to 31 per cent from White ethnic origin).[29] This is reflected to some extent in income distribution data: 40 per cent of pensioners of Pakistani and Bangladeshi origin and 29 per cent of Black and Black British are in the bottom fifth income group, compared to 14 per cent White.[30] (Note, however, that these data relate to all current pensioners and may not correspond to younger pensioners.)

4.12. For those who will experience a delay of a year in receipt of State Pension income, the difference between the low and higher income groups is between a proportionate loss of around 4 per cent of lifetime pension income compared to 2 per cent. We would not expect the impact of the increase to 66 under the previous timetable to be significantly different. However, there is potentially a more marked difference in outcomes for those affected by an increase of more than a year.

4.13. At the extreme end, a person who would qualify for Pension Credit 18 months later than under the original timetable (those born between 6 December 1953 and 5 October 1954) could see a reduction in lifetime pension income of up to 8 per cent (on the assumption that those reliant on Pension Credit will tend to be in the lower socio-economic groups and consequently, are likely to have lower-than-average life expectancy). Evidence on benefit receipt is inconclusive, due to lack of robust data which does not allow us to distinguish between different ethnic groups beyond very broad categories. But the available evidence relating to employment levels and health indicates that people from Bangladeshi and Pakistani origin in particular may be more likely to be dependent on Pension Credit; this suggests that there may be a stronger impact on these ethnic groups than on others.

4.14. Again, however, this impact needs to be seen within the overall picture of improvements in both the generosity of state pensions (both means-tested and contributory) and the length of time people are likely to be receiving state pensions for, as a result of increased life expectancy.

Likelihood of adjusting to the new State Pension age

4.15. The relative socio-economic status of people from different ethnic groups is reflected in the data on rates of labour market participation and receipt of certain benefits. Unfortunately, particularly when looking at the older age group who will be affected by the change we are not able to make detailed comparisons, due to lack of data. It is worth nothing that there is a large degree of variability in data reporting on ethnic minorities aged 50-State Pension age, due to small sample sizes.

4.16. However, from the data that are available, it is clear that currently a person from a non-white ethnic group:

- is more likely than a person from a white ethnic group to be in receipt of one of the main working-age benefits (Jobseeker's Allowance, Employment and Support Allowance, Incapacity Benefit or Income Support) prior to the point at which Pension Credit becomes available (17 per cent compared to 13 per cent);
- is twice as likely to be entitled to Pension Credit at the minimum age at which that benefit is payable.[31]

4.17. Looking at labour market activity rates, in the age group 50 to State Pension age:

- people from a white or Black ethnic background are most likely to be in employment;
- people from an Asian ethnic background (other than Indian) are significantly more likely to be out of the labour market due to sickness or disability or family responsibilities than people from any other ethnic background;
- people from a Black ethnic background are more likely to be economically active (employed or unemployed) than people from any other ethnic group.

Table 3: Breakdown of labour market status by ethnic group

[29] Pensioner Income Series, 2008-09: data based on the average of three years of Family Resources Survey results from 2006/07, 2007/08 and 2008/09 uprated to 2008/09 prices.
[30] ONS Pension Trends Chapter 13, September 2010 from Households Below Average Incomes (DWP): estimate based on 3-year average 2006/07 – 2008/09.
[31] Family Resources Survey and DWP modelling

	Age 50 to State Pension age				
	White %	Indian %	Other Asian %	Black %	Other %
Employed	72.0%	68.5%	33.4%	74.9%	63.1%
Unemployed	3.6%	4.3%	7.8%	9.4%	3.5%
Inactive	24.4%	27.2%	58.8%	15.7%	33.4%
inactive - sick or disabled	*11.3%*	*14.7%*	*32.3%*	*8.9*	*16.9%*
inactive - looking after family and home	*3.4%*	*7.0%*	*20.6%*	*2.2*	*6.8%*
inactive - retired	*6.2%*	*2.7%*	*	*	*6.1%*
inactive - others	*3.4%*	*2.8%*	*	*	*3.5%*

Note: Unemployment is given as a proportion of the population and not ILO unemployment rate. Data is subject to sampling variation. Accuracy of data may be constrained by small sample size in some cases.
* Not significant due to small sample size
Totals may not sum due to rounding.
Source: Labour Force Survey, Q1-4 2010[32]

4.18. There is some evidence that gaps in labour market participation may be narrowing. Between Q4 2001 and Q4 2010,[33] for people aged 50 to State Pension age, the employment rate gap between people from a white ethnic background and a non-white ethnic background narrowed by around 5 percentage points and the inactivity rate for people from a non-white ethnic background fell by around 9 percentage points, nearly double the fall for people from a white ethnic background. These very broad-brush data are of course only indicative of a positive trend, and mask significant differences in and between ethnic groups.

4.19. Overall, the evidence suggests that delaying the point at which the State Pension and Pension Credit become payable is likely to have a greater adverse impact on certain ethnic groups compared to others, as they are less likely to be working up to the new State Pension age. This impact is likely to be stronger for those affected by a delay in Pension Credit income of more than a year than for other groups.

4.20. However, this impact reflects the effect of existing labour market disadvantage, rather than the cause. The Government is committed to tackling the employment gap between ethnic minority groups and the overall working-age population. For example, the independent Ethnic Minority Advisory Group (EMAG) has been invited to look at four priority areas – covering the role of public sector procurement, encouraging entrepreneurship, female employment and education and skills – and produce recommendations. EMAG has established four task groups to take this work forward.

4.21. The Government has also introduced a number of initiatives to help people back into work. These include giving Jobcentre Plus advisers greater flexibility to personalise the support they provide to address the needs of both individuals and the local labour market more effectively. For those at risk of long-term unemployment, the Work Programme is designed to provide tailored support to a wide range of customers facing obstacles to returning to work which should assist more people, including those from ethnic minorities, to gain employment.

Summary – race impact

4.22. There is some evidence to suggest that the change may have a greater impact on certain ethnic minority groups due to underlying socio-economic factors. However, this evidence is not conclusive and needs to be treated with caution. Improvements in, for example, narrowing the employment gap between certain ethnic minorities and the general population can be expected to mitigate the impact.

5. Disability impact

Impact on time spent receiving the State Pension

[32] Use of latest 2011 data is unavailable due to changes to the Labour Force Survey in 2011.
[33] Comparison with latest 2011 data is unavailable due to changes to the Labour Force Survey in 2011.

5.1. Shorter life expectancy is linked to a number of health conditions that may cause disability, such as chronic heart disease, as evidenced by the availability of impaired life annuities which are calculated on the assumption that the person will draw it for a shorter time due to a pre-existing health condition. However, we are not aware of any data specifically relating to life expectancy trends based on disability status. We cannot therefore say what impact the change would have on time spent in receipt of state pensions for a disabled person compared to a disabled person reaching State Pension age today, or whether this is greater, or the same, as the impact on a non-disabled person.

Impact on lifetime pension income

5.2. The impact of the increase in State Pension age on the lifetime pension incomes of disabled people is more complex to assess. Although disabled people may qualify for additional benefits such as Disability Living Allowance or Attendance Allowance which significantly increase their income, after adjusting to take account of the additional costs which a disabled person may have, the net income may be less than that of a non-disabled person.[34] Furthermore, not all disabled people are eligible for these benefits.[35] On average, as discussed above, disabled people have lower levels of private pension provision and are less likely to be in work in the period immediately preceding State Pension age.

5.3. Taking this into account, it is likely that a higher proportion of disabled people than non-disabled people would fall into the lowest income group. Disabled people are more likely than non-disabled people to be dependent on working-age benefits in the period prior to State Pension age and in receipt of Pension Credit from the earliest point that benefit is available: while 30 per cent of disabled people aged 60 to 64 are estimated to be eligible for Pension Credit, only 13 per cent of non-disabled people are.[36]

5.4. As discussed at paragraphs 4.12 and 4.13, while an increase of a year is likely to reduce overall lifetime pension income by around 4 per cent for a person reliant on Pension Credit, this impact could be nearly doubled for those who will experience a delay in Pension Credit eligibility of up to 18 months. For a disabled person whose disability is related to a condition that is likely to reduce life expectancy, the relative impact would be stronger still (although this needs to be seen in context: a person with a life-limiting health condition would spend less time in receipt of State Pension than a person without such a condition, irrespective of when the State Pension age was set).

[34] Pensions Policy Institute (2008) *The underpensioned: disabled people and people from ethnic minorities*, p. 25
[35] Disability Living Allowance is payable where the ill-health or disability began before age 65. Attendance Allowance, which does not include extra help with mobility needs, is available where the condition began after age 65. Under the Pensions Act 2007, the age threshold was set to increase in line with State Pension age from April 2024; under these proposals that will now be brought forward to December 2018 i.e. the point at which State Pension age will be higher than 65.
[36] Source: Family Resources Survey 2008/09; DWP modelling of entitlement to Pension Credit

Likelihood of adjusting to the new State Pension age

5.5. Compared to the non-disabled population, disabled people are more likely to be in low-paid employment and have interrupted work records; they are also more likely to leave the labour market early.

5.6. There are about 2.8 million people aged between 50 and State Pension age who have a current disability consistent with the Equality Act of whom just under half are economically active (that is, employed or actively seeking work). Those not reporting a current disability consistent with the Equality Act are substantially more likely to be in work.

Table 4: Labour market activity for persons aged 50 to State Pension age (SPA) for those with a current disability consistent with the Equality Act and those not reporting a current disability consistent with the Equality Act

	EA Disabled	Not EA Disabled	All
Employed	45.4%	82.1%	71.2%
Unemployed	3.6%	3.8%	3.7%
Inactive	51.0%	14.1%	25.0%
- Inactive: sick or disabled	37.4%	0.8%	11.7%
- Inactive: Family and home	4.6%	3.8%	3.7%
Inactive: Retired	6.4%	6.3%	6.3%
Inactive: Other	2.6%	3.2%	3.0%

Source: Labour Force Survey Q2 2011

5.7. The likelihood of being in work also varies significantly depending on the type of impairment: for example, in 2010 just over a quarter of people with mental health problems or learning disabilities were in employment compared to around two-thirds of people with diabetes.[37]

5.8. While ill health or disability is given as the reason for being out of the labour market for the majority of people aged 50 to State Pension age who are inactive, the trend in recent years has been positive with a decline from a high point of 15.9 per cent overall in the second quarter of 1996 to 11.7 per cent in the second quarter of 2011. However, the gap in employment rates between disabled and non-disabled people (as shown in Table 4) remains significant.

5.9. Measures to address this include a programme to provide support for severely disabled people. Work Choice was introduced in October 2010. It sits alongside the new Work Programme (see paragraph 4.21). Work Choice will help into work disabled people who face the most complex and long term barriers to employment and who may require high intensity support in the workplace.

Summary – disability impact

5.10. The evidence indicates that bringing forward the increase to 66 is likely to have a stronger impact on some disabled people than non-disabled people in terms of the probability of adjusting to a higher State Pension age, due to relative labour market disadvantage. As a consequence, disabled people are more likely than non-disabled people to spend the additional period up to State Pension age on working-age benefits. Measures to support disabled people into work may mitigate this impact.

5.11. As disabled people are also more likely to be reliant on Pension Credit at minimum qualifying age than non-disabled people, there will be a proportionately greater impact for those born in 1954 whose entitlement will be delayed by more than a year, compared to the impact of a single year's increase. However, we consider this is justifiable in the wider context of the need to ensure that

[37] Source: Labour Force Survey, Q2 2010

the state pensions system (including Pension Credit) is to be both affordable in the long-term, and provide a decent income in retirement.

6. Age equality impact

6.1. By definition, State Pension age gives rise to different treatment according to age, because people below that age are not eligible for a State Pension. Under the original legislation, people already had different State Pension ages, depending on when they were born: for example between 2010 and 2020, all women would have had a State Pension age of a year higher than a woman born a year earlier. The effect of speeding up the rate at which women's State Pension age is to be equalised with men's and then increasing to 66 by October 2020, is that for women born 6 April 1953 to 5 March 1955, the difference between their State Pension age and that of a women exactly a year younger will be between 1 year and two months and two and a half years.

6.2. Although the Government recognises that for those most affected, this is a significant increase, it also considers that raising the State Pension age to 66 by 2020 is justified, to prevent too great a gap building between the projected increases in life expectancy and the current State Pension age timetable. This in turn would result in an unfair cost being passed to younger generations.

7. Monitoring

7.1. A decision about when to implement an increase in the State Pension age must, in order to provide adequate notice, be taken several years in advance. This means that the original assessment of the probable impact will be formed on the basis of data that will almost certainly be revised before the change is implemented, but the need to give notice limits the extent to which new evidence can reasonably modify that decision. This is particularly the case in relation to projections of life expectancy which, since they are projections, are inherently uncertain. Therefore, while regular review of the projections will inform decisions about future changes in the State Pension age, it is unlikely to affect this change.

7.2. This assessment also makes a number of assumptions about the potential impact of the change based on current labour market data. We intend to keep this under review to enable a more refined assessment of the probable impact to be made nearer the time. Regular monitoring of outcomes under the new Work Programme will also be undertaken, which will provide further evidence relating to its effectiveness in assisting people – in this context, particularly people from ethnic minorities and disabled people – into work.

8. Conclusion

8.1. The Pensions Act 2011 brings forward the date from which the State Pension age is 66 for men and women by five and a half years, to 6 October 2020.

8.2. This timetable has been chosen because the Government considers the available evidence on life expectancy demonstrates that the previous timetable was too slow in reacting to increased longevity, and, in the light of the urgent need to stabilise the public finances both in the immediate and longer-term, it would be wrong to delay implementing the change to 66 until 2020.

8.3. Overall, we conclude that based on the available evidence, the change to the previous timetable will not have a disproportionate impact on any group compared to another. (We note, however, that due to lack of data we have been unable to form a view in relation to those sharing the protected characteristics of religion or belief or sexual orientation and have provided only a very limited assessment of the impact in relation to gender reassignment).

8.4. We recognise however that bringing forward the increase to 66 to 2020 will entail an increase in State Pension age of more than a year (with around 245,000 women experiencing an increase of 18 months) because they would otherwise have had a lower State Pension age than men under the former timetable for equalising the State Pension ages. This will also affect men in the same age group who would have qualified for Pension Credit, because the minimum qualifying age is aligned to women's State Pension age. As a consequence of this increase in Pension Credit qualifying age, the change will have a stronger impact than the previously-legislated timetable on certain ethnic groups and disabled people who are more likely than those who do not share those characteristics to be unemployed prior to State Pension age and reliant on Pension Credit at the earliest point it becomes available.

8.5. Taken in the wider context of improvements in longevity and State Pension provision, however, we do not consider this impact, although adverse, to be disproportionate.

8.6. The revised timetable, however, contributes to gender equality, by phasing out inequality in the State Pension age more quickly than planned. While women's State Pension entitlements have historically been below men's, as a result of a number of changes over time, including those introduced from April 2010, that gap is narrowing. By November 2018, when the State Pension age will be equalised under this change, the proportion of women and men reaching State Pension age with a full basic State Pension will be around 90 per cent.

Appendix - Tables

Figure 1 data

Life expectancy at original and revised State Pension age, by year of birth

	1953	1954	1955	1956	1957	1958	1959	1960
Men – original	22	22.1	22.2	22.4	22.5	22.6	22.7	22.1
Women - original	26.3	25.6	24.9	25.0	25.1	25.2	25.3	24.6
Men – revised	22	21.4	21.5	21.6	21.7	21.8	22	22.1
Women - revised	25.5	23.9	24	24.2	24.3	24.4	24.5	24.6

Note: simplified data based on whole years.
Source: ONS 2010-based principal projections, mean cohort measure (UK)

Figure 2 data

Additional impact on numbers in employment, compared to baseline (legislated timetable); men and women aged 55 to 65

	Men		Women	
	number increase	percentage increase	number increase	percentage increase
2012	7,000	0.3	39,000	2.0
2013	13,000	0.5	58,000	2.9
2014	19,000	0.8	72,000	3.4
2015	27,000	1.1	93,000	4.3
2016	37,000	1.5	107,000	4.7
2017	59,000	2.3	114,000	4.8
2018	79,000	3.0	117,000	4.8
2019	97,000	3.6	120,000	4.7
2020	114,000	4.1	130,000	5.0
2021	117,000	4.1	124,000	4.6
2022	113,000	3.9	113,000	4.1
2023	94,000	3.2	92,000	3.2
2024	73,000	2.5	72,000	2.5
2025	50,000	1.6	49,000	1.7
2026	24,000	0.8	24,000	0.8

Note: figures rounded to the nearest 1,000 or 0.1 percentage point.
Source: HMT employment model