

## State Pension age review

### Periodic Review of Rules about State Pension age

The [first report](#) by the Government Actuary on future State Pension age (SPa) increases was published on 23 March. In it I responded to my terms of reference by calculating the dates at which future SPa increases should take place according to the criteria I was set by the Secretary of State for Work and Pensions. My report features alongside a more broadly-based [independent report](#) by John Cridland covering other issues associated with SPa and which contains a number of specific recommendations – in particular that SPa should increase to age 68 over the two year period from 2037 to 2039. The Government is to respond to both inputs with its own report in May, and any proposed changes to SPa timetables would need to be brought before Parliament for consideration and would require primary legislation before being implemented.

As an actuary, I am pleased that my professional expertise is required in this way. As a father and a grandfather, I am only too acutely aware of the intergenerational issues that are touched on in work of this kind.

I believe my report is the first Government-commissioned document on SPa to set out formally a possible timetable for increases rising to the landmark of 70 years in some circumstances (albeit noting that the Cridland report does not make any recommendations for when SPa should rise to 70, and that the government have yet to announce any decisions on future SPa changes). There is a certain karma to this; the first pension introduced by the Old Age Pension Act in 1908 was payable only to citizens aged 70 or over. More recognisable in today's State Pensions terms was the first contributory State Pension introduced by the Widows', Orphans' and Old Age Contributory Pensions Act in 1925. That provided for a SPa of 65 for both males and females, although the female SPa was subsequently reduced to 60 in 1940.

More recently, of course, SPa for females has been legislated to increase to that of males by 2018, and for both males and females the age is legislated to increase to 66 by 2020 and to 67 by 2028. It was Lord Turner's Pension Commission that proposed a linkage between SPa and life expectancy, a proposal that the Government adopted with the principle that the expected lifespan of an individual at SPa should be proportionate to total adult lifetime. That proportion was set at no more than one-third and the adult lifetime was assumed to commence at age 20. In the terms of reference for my report I was asked to work out the timetable of increases in SPa that would be necessary were the relevant proportion set at either 32.0% or 33.3%, the results of which are set out below.

## Calculated State Pension age timetables under specified parameters and assumptions

<b>SPa changes</b>	<b>Current legislation</b>	<b>33.3% scenario</b>	<b>32.0% scenario</b>
67 to 68	2044-46	2039-41	2028-30
68 to 69	n/a	2053-55	2040-42
69 to 70	n/a	n/a	2054-56

Increasing life expectancy has been a welcome experience throughout the history of our State Pension. But improving longevity has consequences. In 1909 when the first Old Age pension appeared, only 5% of the population was aged 65 or over. When the first contributory State Pension was introduced in 1925, the proportion was still only 6% and future life expectancy at age 65 was around 11 years for men and 13 years for women. In 2020, it is expected that around 19% of the population will be aged 65 or above and that life expectancy at that age will have increased to around 22 years for men and 24 years for women. An increasing proportion of a growing population in receipt of State Pension means ever increasing costs to be borne by taxpayers and National Insurance contributors.

I am due to report later this year on the outlook for the National Insurance Fund in my quinquennial review of that Fund. In the meantime, in its latest Fiscal Sustainability Report, the Office of Budget Responsibility forecasts that expenditure on State Pensions would rise from 5.2% of GDP in 2016-17 to between 6.2% and 7.6% in 2066-67 depending on assumptions about future SPa increases and the current “triple lock” pension increases policy.

Clearly the timing of future SPa increases and other policy measures have a great bearing on the affordability issues I will be analysing in my quinquennial review. For the current report, however, I was asked to calculate and comment on the Old Age Dependency Ratio (OADR) which measures the relative size of the working age population compared with the population aged above SPa. As longevity has improved, so the OADR is set to rise – from around 300 people of SPa or above for every 1000 of working age currently, to around 400 by 2064 - highlighting the increasing size of the pensioner benefit burden potentially borne by their successor generations. As my report points out, the OADR is a simple measure that ignores the rates of tax or National Insurance contributions or relative levels of State Pension and average earnings. But it is an easily accessible and simple number to use. The effect of the timing of future SPa increases calculated in my report is to moderate and not fully arrest the future increases in this ratio. A key reason for this is that the shape of the UK population by age is expected to change significantly over the next few decades, with an increasingly higher proportion of individuals aged above 65 – this pushes up the OADR, and is only partly offset by projected increases in SPa.

Another question I was asked to consider was the sensitivity of the outcome of my calculations to the assumptions that were set. Bearing in mind that reviews of SPa are now to take place broadly once in each Parliament, it is important to understand how sensitive the results of any one analysis are given that the next review could be 5 or 6 years away. I found that the effect of using successive sets of the population projections produced by the Office for National Statistics (ONS), which are published every two years, can make a surprisingly large difference to the calculated dates for a future SPa increase.

There are two reasons for this. First the methodology that ONS, and indeed others, use for calculating future life expectancy relies quite heavily on recent experience of mortality improvements which is then projected into the medium-term future. And secondly, even though there may be only a relatively small change in life expectancy, the methodology for establishing the trigger points at which SPa increases magnifies the effect of these small changes. I concluded that it would be entirely possible for successive releases of the population projections to affect the calculated dates of future SPa increases by as much as 5 years or more either way.

These uncertainties were recognised in John Cridland's independent report, which in the course of making a recommendation on the SPa timetable for the increase to 68 takes account of both the 2012-based and 2014-based ONS principal projections, and the proportion of adult life in retirement for those who have reached SPa over the last 10 years.

My report did not consider quality of life issues or any of the social and economic aspects of SPa policy, and in this respect my work was more narrowly defined than the independent review conducted by John Cridland. But my reflections, however, lead me to the conclusion that, other things being equal, there is much wisdom in having a "default" linkage between SPa increases and improving longevity. We just need to get used to it. In my view there is no shortage of mechanisms to reflect and deliver other policy objectives associated with later lives and it will be interesting to read how the remaining pieces of the SPa policy jigsaw come together and what the Secretary of State may or may not conclude by his deadline in early May.

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