

**State Pension Age  
Review**

When should the state pension age increase to 66?

A Call for Evidence

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# Introduction

The purpose of this call for evidence is to inform the decision about when the state pension age should increase to 66.

## About this call for evidence

### Who this call for evidence is aimed at

This call for evidence is aimed at organisations and individuals who have information that is relevant to the timing of an increase in the state pension age to 66.

### Scope of the call for evidence

This call for evidence applies to England, Wales, Scotland and Northern Ireland.

Social security and pensions are transferred matters under the Northern Ireland Act 1998 and are the responsibility of the Department for Social Development in Northern Ireland. However, in line with the long-standing policy of parity, the Department for Social Development will issue this call for evidence in Northern Ireland.

The Government will continue to work closely with the devolved administration in Northern Ireland to seek to maintain a single system of social security and pensions across the United Kingdom.

### Duration of the call for evidence

The call for evidence period begins on 24 June 2010 and runs until 06 August 2010.

## How to respond to this call for evidence

Please send your responses or any queries about this document to:

State Pension Age review team, State Pensions Division, Floor 5, Section B, Caxton House, Tothill Street, London, SW1H 9NA.

Email: [spa.review@dwp.gsi.gov.uk](mailto:spa.review@dwp.gsi.gov.uk) Fax: 020 7449 5896

Please ensure your response reaches us by **06 August 2010**.

When responding, please state whether you are doing so as an individual or representing an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents and, where applicable, how the views of members were assembled. We will acknowledge your response.

Please do share this document with, or tell us about, anyone you think will want to be involved in providing evidence on this topic.

# Foreword

Ensuring an equitable state pension for the pensioners of today and tomorrow is a key priority for this Government – for too long the value of the state pension has declined relative to the growth in incomes. This is why we will restore the earnings link with the basic state pension from April next year with a ‘triple guarantee’ that the basic state pension is raised by the higher of earnings, prices or 2.5%.

Yet, particularly in these financially challenging times, it is also vital that the Government makes sure that our pensions system is sustainable. Bringing the state pension up to a decent level needs to be paid for, and we need to ensure that the funding is fair for all.

So we are reviewing when the increase in the state pension age to 66 will be implemented. This is not an easy decision, and raises many issues that need to be considered. But, with life expectancy in retirement continuing to increase, leaving state pension age unchanged is simply not an option. It will mean, therefore, that people have to wait longer to receive their state pension to ensure it will be at a decent level when they do so.

I look forward to receiving your evidence to help us make our decision.

**Steve Webb MP**

**Minister of State for Pensions**

# 1. The case for change

1. On the current timetable – set in 2007 – the state pension age is due to rise to 66 by 2026, to 67 by 2036 and to 68 by 2046. But the demographic and the economic situation have changed since these figures were set in legislation.

## The current fiscal position

2. The ageing of the population has wide fiscal implications. It has an impact on direct age-related expenditure, which is projected to increase by over 2% of the Gross Domestic Product by 2029-30<sup>1</sup>. But there is also a positive impact on tax receipts and the wider economy through people working longer.
3. So it is important that the State Pension system remains affordable over the long term. But the economic context has changed since the state pension age was last considered: the UK economy is recovering from the longest and deepest recession since official records began in 1955. This is the lens through which the debate over the timing of the increase in the state pension age must be viewed.
4. To help ensure sustainability of the system over the long term the Government will also consider future increases to the state pension age and how best to manage the ongoing challenges of longevity.

## Increases in life expectancy

5. When the first contributory pension was introduced in 1926 the men receiving it lived, on average, until the age of 76. Today men are expected to live until 86. For women, the increase is from age 78 in 1926 to 89 today. This increased longevity is projected to continue: compared to today, the number of people over 65 will be half as many again in 2030, and will have doubled by 2060.
6. The Office for National Statistics (ONS) produces independent projections of average life expectancy every 2 years. ONS updated their projections in 2008 and Table 1 summarises the upward revision since the current state pension age increases were set in 2007.

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<sup>1</sup> HM Treasury Long-term Public Finance Report 2009

## When should the state pension age increase to 66?

**Table 1: Revisions in projected life expectancy for those reaching state pension age in 2010 (UK average)<sup>2</sup>**

	Life Expectancy (years) <b>2004</b> Projection	Life Expectancy (years) <b>2008</b> Projection	Revision between projections (years)	% of adult life receiving state pension <b>2004</b> Projection	% of adult life receiving state pension <b>2008</b> Projection
Male	85.0	86.3	+1.3	30.8%	32.1%
Female	87.2	88.7	+1.5	40.5%	41.8%

7. By 2026, the year when state pension age is currently due to reach 66, ONS now expects the increase to be even greater: an extra 1.5 years for men and 1.6 years for women on average. The proportion of adult life spent by an average man or woman in receipt of the state pension is projected to increase by more than 1% than was forecast in 2004.
8. So people will be receiving their state pension for longer than was thought when the current state pension age increases were set. Just taking people retiring in 2010, this life expectancy revision is estimated to imply an additional spending of £6.5 billion (in constant price terms) over the lifetime of this cohort.
9. Bringing forward the increase in state pension age 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.

### Variations from UK average life expectancy

10. While average life expectancy varies across the United Kingdom, Table 2 shows that there has been an upwards revision in projections for its constituent countries.

**Table 2: Revisions in projected life expectancy for those reaching state pension age in 2010 across the UK (men)<sup>3</sup>**

	2004 projection (years)	2008 projection (years)	Revision between projections
UK	85.0	86.3	+1.3 years
England	85.1	86.5	+1.4 years
Scotland	83.9	84.8	+0.9 years
Wales	84.8	86.0	+1.2 years
Northern Ireland	84.7	85.8	+1.1 years

<sup>2</sup> 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, GAD; 2008-based principal population projections, ONS.

<sup>3</sup> These data are cohort (mean) life expectancies, and are calculated using age-specific mortality rates which allow for known or projected changes in mortality in later years. **Source:** 2004-based principal population projections, GAD; 2008-based principal population projections, ONS

**When should the state pension age increase to 66?**

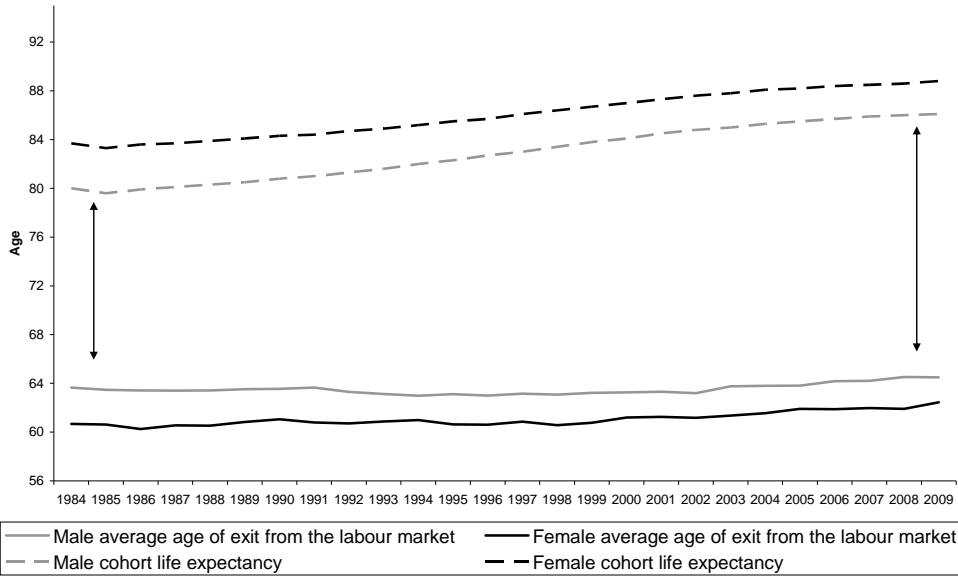
11. While improvements in longevity have affected all population groups, differences in life expectancy have persisted. So while life expectancy at age 65 for men in both professional occupations and unskilled manual employment has increased by 20% over the last two decades, the former can expect to live an additional 4 years longer than the latter. There is a similar gap for women in the two groups.

**Question 1: What evidence concerning changes in life expectancy and the changed economic context should be taken into account when bringing forward the increase in state pension age to 66?**

**Enabling longer working**

12. Working longer benefits the state and wider economy by reducing public expenditure on benefits, raising tax receipts, boosting employment and raising economic growth. It can also benefit individuals. However, increases in the age at which older people exit the labour market have not kept pace with increases in longevity, shown in Figure 1 below.

**Figure 1: Average exit age from labour market and life expectancy at age 65<sup>4</sup>**



13. There is a clear decline in employment among people aged 55 and over and labour market withdrawal is closely linked to the current state pension age. Bringing forward the increase in the state pension age to 66 will support the work underway to encourage and enable people to work longer and so help ensure the average age of exit from the labour market rises at least in line with life expectancy.

<sup>4</sup> Source: 2008-based principal population projections, ONS; ONS analysis based on Labour Force Survey.

## International comparisons

14. It is not just the United Kingdom that faces the consequences of increased longevity. Table 3 shows how other countries are increasing their state pension age to reflect the changing demographics and current fiscal situation.

15. Iceland, Norway and the USA already have a state pension age of 66 or higher. Other countries – Australia, Denmark, Germany, Ireland, Israel and the Netherlands – will have a state pension age of 66 before the UK's current date of 2026.

**Table 3: Current state pension ages across the world and expected changes<sup>5</sup>**

	Current		Future
	Men	Women	
Australia	65	64	Women's state pension age (SPA) to rise to 65 by 2013. Beginning in 2017, the qualifying age for both men and women will increase from 65 to 67 years, by 6 months every two years.
Czech Republic	62	56.7-60.7	SPA rising by 2 months (men) and 4 months (women) each year until age 63 for men (2016) and women without children (2019). It increases from 59 to 62 for women with children.
Denmark	65	65	SPA to rise from 65 to 67 between 2024 and 2027.
France	60	60	It has been announced that SPA will increase to age 62 by 2018. The number of contribution years required for a full pension is linked to life expectancy.
Germany	65	65	SPA to rise to 67 between 2012 and 2029. Benefit value linked to developments in dependency ratio
Greece	65	60	Women's SPA to rise to 65 for those insured after 1993. Plans to link SPA to life expectancy.
Hungary	62	62	SPA rising from 62 to 65, by 6 months each year, from 2012 to 2017.
Iceland	67	67	No plans for increasing SPA.
Ireland	65	65	There are proposals to abolish the Transition State Pension, payable at age 65, by 2014. The age for the contributory pension, currently 66, will increase to 67 by 2021 and 68 by 2028
Israel	67	62	There have been discussions about equalising SPA.
Italy	65	60	Women's SPA to rise to 65 by 2018. If people retire at 65 their benefit reduced in line with life expectancy.
Japan	65	65	State pension age for earnings-related part rising to 65 from 60 by 2025 (men), 2030 (women). Benefit value linked to developments in dependency ratio.
Latvia	62	62	SPA will increase from 62 to 65, by 6 months each year, from 2016 and 2021.
Netherlands	65	65	Social partners agreed SPA rise to 66 in 2020. New government coalition to

<sup>5</sup> Pension systems differ greatly across countries and in some, people are able to access their pension at earlier ages depending on certain conditions. The data above focuses on the legal retirement age for the standard pension. **Source:** Social Security programs throughout the world, US Social Security Administration; Mutual Information System on Social Protection, EU.



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	Current		Future
	Men	Women	
			consider further rise to 67.
Norway	67	67	No plans to increase the SPA.
Poland	65	60	If people continue to retire at current age, benefits will be reduced in line with life expectancy.
Spain	65	65	Government announced intention to increase SPA to 67.
Sweden	65	65	If people continue to retire at current age, benefits will be reduced in line with life expectancy.
UK	65	60	Women's SPA to rise to 65 by 2020, then SPA to rise to 68 by 2046.
USA	66	66	SPA to rise to 67 by 2027.

## 2. Implementing the change

16. This section highlights wider issues that need to be taken into account when the timing of the rise is considered.

### Notice period

17. The Government recognises that people need notice of any change to state pension age to help them plan ahead.

18. The timetable to equalise the state pension age at 65 for men and women between 2010 and 2020 was introduced with 15 years' notice, and a very significant notice period was provided for the current increases through to 2046. However this notice period was not based on any empirical evidence of the amount of time people need to adjust their retirement plans.

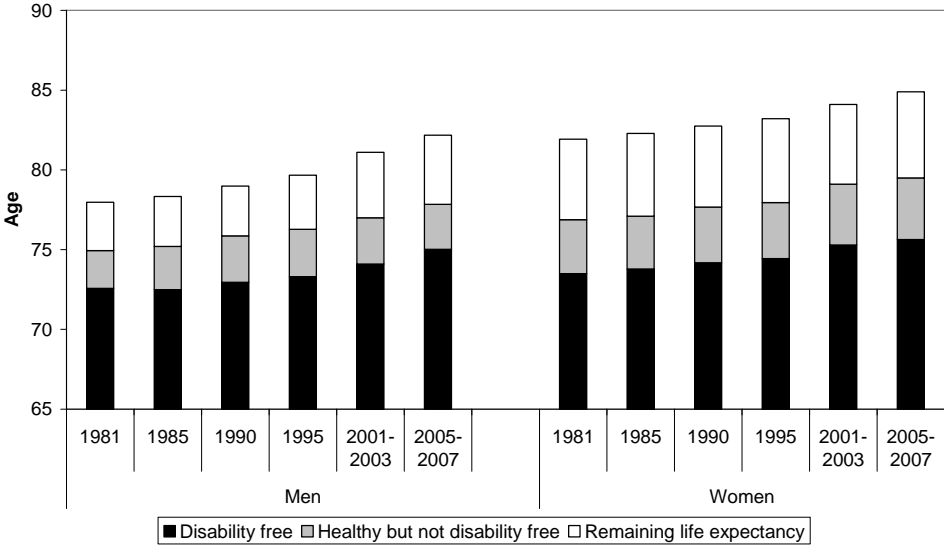
**Question 2: What evidence should the Government consider in deciding the notice period for individuals affected by a change to the timing of the state pension age increase to 66?**

### Health and disability

19. One of the key issues in raising the state pension age is the extent to which additional years of life are healthy. The two main measures of health expectancy, Healthy Life Expectancy and Disability Free Life Expectancy both show improvements between 1981 and 2007.

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**Figure 2: Expected life beyond age 65 disability free and/or in good health (Great Britain)<sup>6</sup>**



20. While it is clear that not all of the gains in life expectancy are healthy, the age at which men who have reached age 65 remain in good health has increased to 78 from 75 in 1981. A similar increase has occurred among women; they can now expect to remain in good health until age 80, up from 77 in 1981.

## Equality considerations

- 21. The Government should ensure that men and women are treated fairly in considering a different timetable to increase the state pension age to 66.
- 22. Under current legislation, introduced in 1995, the state pension age for men and women will not be equalised until April 2020. This is an important consideration in framing any options for increasing the state pension age, particularly any option which looks at making such a change before 2020.
- 23. The Government takes its responsibilities in respect of the Equality Act 2010 seriously and would welcome evidence on the impact of this change on any particular group. This includes: people from an ethnic minority, people with disabilities, different socio-economic groups, ages, marital status, sexual orientation, religion or belief and other groups.

<sup>6</sup> Data after 2001 are computed using a different methodology. Note that the data in this figure are in period terms. This differs from the cohort measures used in the rest of this document. In 2005 there was a difference of 3 and a half years between life expectancy at 65 between the two measures.  
**Source:** Health expectancies at birth & at age 65 in the United Kingdom, ONS

## Intergenerational considerations

24. When making policy decisions it is important that the financial effects on future generations are taken into account. Ensuring sustainability across generations reflects a concern that governments may accumulate long-term liabilities that disadvantage future generations or threaten sustainability when they become due.
25. This is particularly because of the projected changes in the ratio of the number of adults under 65 to those over 65. This support ratio is projected to drop from 4:1 to 3:1 within 10 years and 2:1 within 30 years.
26. In this respect, it is important to ensure that the fiscal implications of increased longevity are shared between those who benefit from a more generous State Pension and those people under 65 who provide the financial support to pensioners through taxation, so protecting the intergenerational fairness of the pay as you go pension system.

**Question 3: 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?**

## Next steps

27. The Government now invites individuals and organisations to submit evidence to help inform when the state pension age should increase to 66. It will publish its response to the evidence in the autumn.